Monthly report – January 2024

FLORIN COURT CAPITAL FUND USD

Return and key figures[1)2)]

Return (after management and performance fees)	Florin Court (USD)	Société Générale CTA Index (local currency)	Société Générale Trend Index (local currency)	MSCI World NDTR index (local currency)[3)]
Last month, %[1)]	-1.82	1.02	1.19	1.79
Year to date, %[1)]	-1.82	1.02	1.19	1.79
Since inception Apr17 to date, %[1)]	95.70	31.46	48.13	96.51
Average annual return, %[1)]	10.32	4.08	5.92	10.39

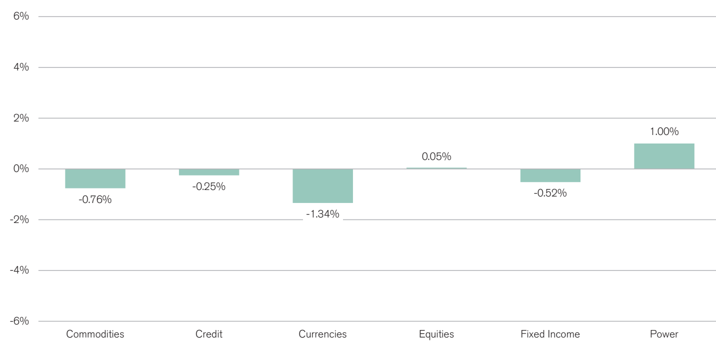
Risk ratios and other key figures				
Standard deviation, %[4)]	10.00	8.91	11.80	15.44
Sortino Ratio[4)]	1.46	0.39	0.53	0.83
Sharpe ratio[4)]	0.85	0.26	0.35	0.56
Correlation with Florin Court[4)]	–	0.65	0.65	-0.12

All returns and key figures are represented by trading performance of Florin Court Capital Fund, Class A-2 $USD Shares.

Assets

Master assets, millions of USD	1.794.3
Change in Master assets since previous month, %[5)]	-2.73
Manager Assets Under Management, millions of USD	2.071.0

Performance attribution by sector, %[6)]



Risk

Portfolio, %	
Highest VaR[7)]	1.33
Lowest VaR[7)]	0.90
Average VaR[7)]	1.07
VaR, 20240131[8)]	0.97

Component VaR, %[9)]	
Commodities	0.03
Credit	0.20
Currencies	0.01
Equities	0.05
Fixed Income	0.33
Power	0.35

Margin to Equity Ratio for the Master Fund, %	
Average Monthly Margin to Equity	34

Monthly returns (after management and performance fees), %[1)]

Year	Full or Part year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	**14.58**	–	–	–	0.26	0.18	-0.58	3.44	3.66	1.65	3.33	0.11	1.77
2018	**-2.77**	-0.27	-6.54	0.77	1.87	-0.79	-0.41	0.45	6.10	1.24	-3.68	-4.71	3.85
2019	**14.74**	-0.72	0.17	4.24	-0.41	1.58	5.56	0.74	2.25	-3.36	-1.07	0.97	4.23
2020	**2.60**	2.46	-2.27	1.79	-0.69	-0.25	-2.23	3.19	-1.97	-1.19	1.36	-3.05	5.81
2021	**28.79**	-1.20	-2.83	4.62	2.65	4.00	1.78	1.32	3.20	8.33	5.31	-0.61	-0.47
2022	**19.03**	0.67	3.62	4.90	2.80	-0.73	2.61	1.14	4.56	2.27	-0.66	-4.40	1.14
2023	**-0.85**	-0.13	0.00	-5.86	2.27	4.15	-0.63	0.40	-1.77	3.27	-3.00	-3.67	4.68
2024	**-1.82**	-1.82											

1) All returns and key figures shown are **represented by actual trading performance of Florin Court Capital Fund** from 1st of April 2017 when current Florin Court Capital Programme commenced. All returns and key figures shown are **subject to all fees and expenses of Florin Court Capital Fund Class A-2 $USD Shares** and are inclusive of 1.0% p.a. management fee and 20% incentive fee net of HWM with annual December crystallization. These returns will differ from the actual returns of a BMS Share Class investor because BMS Share Class incentive fee is subject to a Hurdle Rate and has monthly rather than annual crystallization. Actual incentive fee expense may also differ due to the timings of actual investments. **Please refer to the official monthly Investor NAV Statements produced by Citco. the Fund's Administrator for your actual BMS Share Class returns.**
2) The fund has no investments in hard-to-value assets for which no market pricing information is available, e.g. unlisted/private equity, or model priced instruments for which no industry standard software models are available, e.g. complex, structured, one-off contracts.
3) MSCI, www.msci.com, ©2024 MSCI Inc. All rights reserved.
4) Risk Ratios are calculated from the net monthly returns of the Florin Court Capital Programme which commenced on April 1st 2017. Fees include 1.0% p.a. management fee and 20% incentive fee net of HWM with annual crystallisation.
5) The Fund's capital activity Dealing Day is always the first calendar day of the month. Change in Master Fund's assets is calculated by comparing NAVs at the open of business on the first calendar days of the following month to the previous month and includes all capital activity.
6) Performance attribution is provided for the Florin Court Capital Programme which commenced on April 1st 2017. Fees include 1.0% p.a. management fee and 20% incentive fee net of HWM with annual crystallisation. FX Hedging, OTC charges and all non-trading fees and expenses are allocated pro-rata to all the sectors.
7) Highest, lowest, average of the daily parametric value at risk over the month, as percentage of AUM of the Florin Court Capital Master Fund.
8) Daily parametric value at risk at 95% level, as percentage of AUM of the Florin Court Capital Master Fund. The volatilities are computed using a half-life of 20 days.
9) Component VaR: contribution to the total VaR of the portfolio from all sectors, using individual market positions and correlations between sectors from the full markets correlation matrix. Note that sum of the sector component VaRs equals the total portfolio VaR on the last trading day of the month, as reported above. VaR figures are daily at 95% level.

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China's Debt Quagmire, America's Remarkable Resilience, and Global Conflict

The Florin Court Capital Programme[1] returned -1.82% in January, a choppy month in macro markets.

Chart 1 shows Florin Court's performance versus the benchmark SG Trend and SG CTA indices. We believe that our long-term outperformance reflects superior diversification and superior trends found in our huge set of alternative markets, markets such as electricity, freight, and EM fixed income. These operationally challenging markets are not commonly traded by systematic managers, but taking the path less travelled can make the difference (hat tip to Robert Frost).

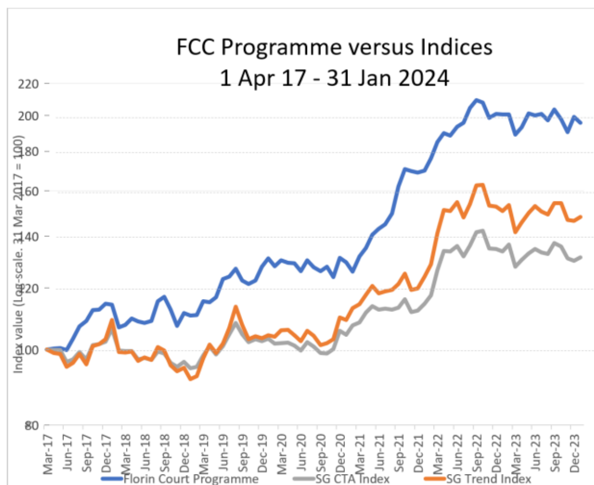

Chart 1: Florin Court Capital Programme Net Performance versus SG CTA Indices (log-scale) (Source: Florin Court & SG)

The architecture of Florin Court's Programme reflects the relentless pursuit of diversification, of new sources of return:

- ~500 alternative markets
- Emphasis on power and commodities
- Reactive trend signals: positive convexity
- Nimble fund size
- Minimal exposure to generic "risk premia" (e.g. equity beta, FX carry, short vol)
- New markets added every year (41 net additions in 2023)

[1] Represented by the trading performance of Florin Court Capital Master Fund, subject to fees and expenses of Florin Court Capital Fund Class A-2 shares. Fees include 1% p.a. management fee and 20% incentive fee subject to HWM and paid annually.

The first chart illustrates how this architecture has translated into performance: **a higher realised Sharpe ratio** and the **positive convexity** that investors want from a CTA.

PERFORMANCE ATTRIBUTION BY SECTOR

Sector	Return
Power	+1.00%
Equities	+0.05%
Credit.	-0.25%
Fixed Income	-0.52%
Commodities	-0.76%
Currencies	-1.34%

MACRO OVERVIEW FOR JANUARY

Macro markets were dominated by three big themes in the first month of the year: America's surprising economic and financial resilience, China's real estate quagmire, and international tensions in the Middle East and elsewhere.

Good news in the US (i.e., continued disinflation and decent growth) promoted a risk-on global macro tone. Chart 2 shows US inflation and growth over the past few years. Note that inflation rose and then fell, responding after lags to changing monetary conditions. Growth, however, has just ticked along, defying predictions for recession (modulo the supply shocks earlier in the pandemic). The Fed may indeed be achieving one of those elusive soft landings. And they are elusive - since 1954, there have been 13 tightening cycles and only 3 soft landings. See Chart 3 below.

Chart 2: US Growth, Recently Steady as Inflation Declines (Source: Bloomberg, FCC)

In Europe, its slow business, the doldrums, as usual. The downtrend in German manufacturing is particularly notable. The decline is certainly multi-factorial and probably structural, but higher energy costs in 2022 triggered a contraction (Chart 4) from which industry has never fully recovered. Germany leads the way in European corporate distress, as shown in Chart 5. This development is alarming, because German productivity and innovation, not French civil servants or Epicurean retirees on Mediterranean beaches, help anchor European prosperity.

Hard landings = 10

Soft landings = 3

Chart 3: Is 2024 The Elusive Soft Landing for the Fed? (Source: Game of Trades)

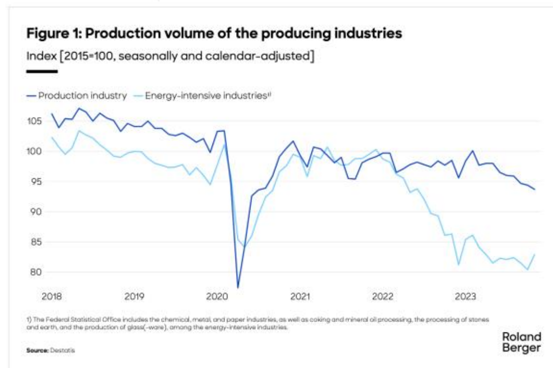

Chart 4: Ailing German Manufacturing (Source: Roland Berger)

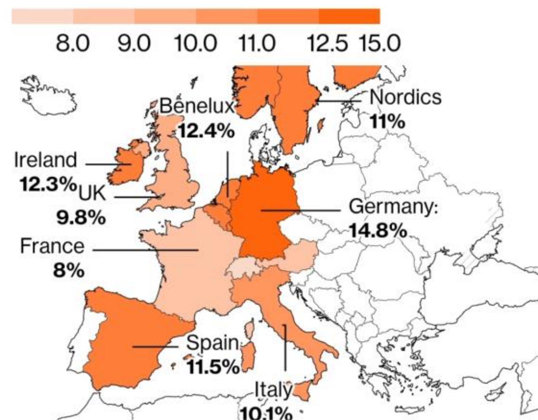

Chart 5: About 15% of German Firms Are Distressed (Source: Bloomberg)

China was the negative outlier in a positive month. Although global equities rallied, Chinese shares sank, with smaller cap names hit hardest. Global bond yields went higher, as US recession risks receded, but Chinese yields fell. Here were the changes in 10-year govies: US +3 bps; UK +26 bps; Hungary +17 bps; Mexico +21 bps; Japan +20 bps; New Zealand +24 bps; China *-13 bps.* Clearly, significant things are afoot in the Chinese economy… more below.

Petrochemicals, like crude oil (+5.86%), were generally firmer, while industrial commodities were mixed (e.g., copper and China onshore iron ore sideways) and freight prices were up sharply, reflecting the impact of the Red Sea shipping obstructions.

Let's delve into the main macro themes, starting with China. China has been one of the notable stories of the last year. A year ago, markets had expected a post-Covid boom, led by pent-up consumer demand. Some analysts had forecast 7%+ 2023 Chinese GDP growth. It didn't materialise because various factors bogged down the economy. Now China struggles with a real estate crisis, flagging confidence and incipient deflation.

The roots of the current problems lie in China's success over past decades. Do you realise that China accounted for more than a third of global nominal GDP growth over the last 15 years (IMF Dec 23)? Even in 2023, a disappointing year, the Chinese economy appeared to meet the 5% GDP target (Chart 6). But booms are mixed blessings, as James Grant wrote in his 1998 book, "The Trouble with Prosperity". Prosperity breeds overconfidence and rewards leveraged speculation.

Then, when diminishing returns inevitably kick in, disaster can ensue… as it has in the Chinese real estate market. Booms turn into busts, overconfidence is transmuted into fear, and fear and loathing (hat tip to HST) ripple across the economy. Chinese equities (Chart 7) and foreign direct investment (Chart 8) have been languishing.

Chart 6: China Real GDP Growth (Source: ING)

Chart 7: CSI 300 Index (Source: JPM Private Bank)

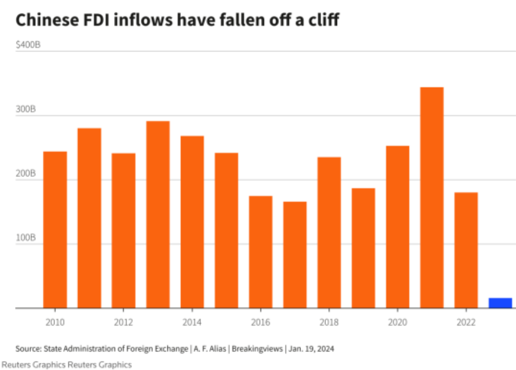

Chart 8: Chinese FDI Has Collapsed (Source: Reuters)

In the past 2 decades, real estate investment, and speculation, became a cornerstone of China's prosperity. Yuanchen Yang and Ken Rogoff estimated that real estate and related infrastructure accounted for almost 1/3 of China's surge in GDP. Fully 70% of family assets are in property, according to Bloomberg Economics, as cited in Fortune. So, those tall GDP bars in Chart 6 were 1/4 to 1/3 real estate related.

A decade ago everything was going swimmingly. Land values were rising, developers raking in big profits, and local governments earning revenues from infrastructure development projects. These projects were financed by special vehicles that borrowed from banks and issued bonds, many bought by individuals. Firms like Evergrande were borrowing, hand over fist, to build project after project. Evergrande, in the end, undertook about 1300 projects across ~300 cities, along with synergistic investments in football clubs, dairy farms, and garish theme parks (Chart 9).

Chart 9: Evergrande Corporate Structure Visualisation? (Source: Ideattack via leisureopportunities.co.uk)

By 2020, the central government had become freaked out by relentless construction, mounting leverage and crazy speculation by all the players. Property, the government averred, should represent a place to live, not a vehicle for gambling. Central authorities then enacted rules ("Three Red Lines") to control leverage and rolled out various regulations to deter speculation. But the brakes were applied too late. Evergrande had already become the most indebted property group in the world. As of 2023, we have no data on extra-terrestrial leverage, but SETI researchers hold out little hope for discovering anything as levered as Hui Ka Yan's Evergrande. Anything this levered will flash out of existence too quickly to be discovered by human astronomers, they argue. And Evergrande was not alone; most of China's leading developers strained under tons of debt.

Chinese home prices soon began to soften, sales dropped and some homebuyers even stopped making payments. In 2023, sales dropped by about a third versus the previous year (Chart 10). Many apartments, enough to house the entire population of Britain, according to some estimates, are now sitting vacant, leading Dominic Cummings to contemplate some strange, out-

of-the-box ideas. Meanwhile, other apartments have been paid for, but not completed by the developers. See Chart 11. This article has some good colour.

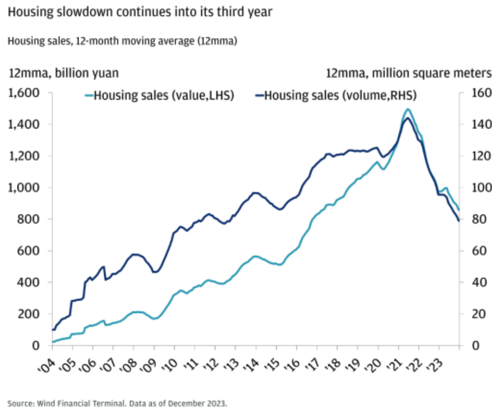

Chart 10: Declining Real Estate Sales in China (Source: JPM Private Bank)

Chart 11: Sales Race Ahead of Completions (Source: JPM Private Bank)

In recent news, Evergrande was ordered to liquidate by a Hong Kong court evidently not impressed by the restructuring plan.

In any case, the Chinese government tried to contain the contagion, and they have been successful…to a degree. 5% growth in 2023 looks like a miracle, but it is apparent that broader deflationary forces have been unleashed (Chart 12). Household balance sheets and consumer confidence have been seriously dented. Separately from these problems, the West has chosen to pull back from China and "nearshore" supply chains to some degree. This marginal de-globalisation has been a negative for the Chinese economy. At present, real estate is a big drag to growth, trade is sort of flat, and retail sales and credit are picking up. See Chart 13.

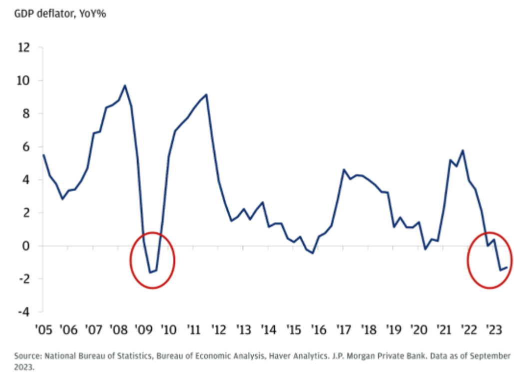

Chart 12: Deflationary Forces in China (Source: JPM Private Bank)

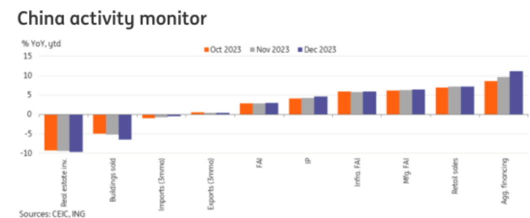

Chart 13: Real Estate (on the left) vs. Retail Sales and Credit Expansion (on the right). (Source: ING)

The Chinese situation, at its heart, is just a classic real estate debt crisis, the most common plot in Reinhart and Rogoff's landmark text: "This Time is Different: Eight Centuries of Financial Folly". Booms usually end in tears, and real estate booms are particularly lacrimatory. (I think that's a word). Property lasts for a long time; thus, the returns to construction inevitably decline, a bad circumstance when you've borrowed too much. The banking system is often a vehicle for contagion, and difficult "balance sheet recessions" are the result. The slumps can be sharp and deep (i.e. depressions) or can last for years (Japan being a good case in point). Here is some good background material on leverage cycles:

- Irving Fisher, "The Debt-Deflation Theory of Great Depressions" (1933)
- John Geanakoplos, "The Leverage Cycle" (full paper)
- Schularick and Taylor, "Credit Booms Gone Bust, Leverage Cycles and Financial Crises"
- Richard Koo, "The Holy Grail of Macroeconomics"

I'm particularly fond of the first and last references. Irving Fisher, of course, was a rock star economist, and I like Fisher's mixture of "classical" economics and monetarism, overlaid with the idea of leverage cycles. Koo, on the other hand, offers ideas for redemption after the sin. How do you get out of a balance

sheet quagmire? At the micro level, you do have to deal with the bad loans. Think of bad debt as a pathogen that can cause economic sepsis as the infection seeps through the system. It is best, if possible, to ringfence the problem...but that process involves tough choices and taking losses. On a macro level, countercyclical stimulus can be used to bolster the patient. Monetary monotherapy is mediocre medicine, however, because loan demand is suppressed by the debt overhang and low confidence, as Koo emphasised. Another macro tonic is government borrowing and spending, which will offset deficient private-sector loan demand and move the problem to public sector balance sheets. You buy time. If you have enough underlying growth, as China should, the society can grow its way out of trouble.

China's dilemma, then, centres on how to manage a declining real estate market and a mass of related debt…balancing the need to recognise losses against the erosion of confidence as dominos fall. Wisely, in my opinion, China has not over-relied on monetary policy. Free money and "pushing on strings" don't solve this problem. In the end, societies have to recognise and ringfence bad assets, allocating the pain…a political problem.

Let's now say a few words about the US economy and its improbable health. See Chart 14, which shows how growth sentiment has improved in the US versus China.

Chart 14: US GDP Expectations Rose While China's Fell (Source: JPM Private Bank)

Excess US liquidity (Chart 15) has disappeared, and inflation is falling to normal levels. Growth, meanwhile, has remained around 2-3% p.a., despite pockets of weakness and distress in the system. For example, commercial real estate and smaller banks are not doing well, and most families have depleted excess savings from the pandemic stimulus.

Should the resilience of US growth be puzzling? The "long and variable lags" narrative, which I have echoed, is getting a bit threadbare at this point. There is something to explain.

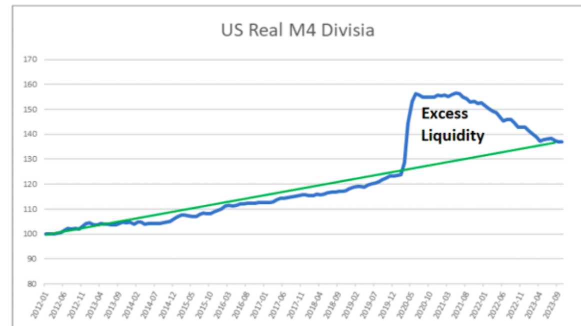

Chart 15: US Real M4 Money Supply (Source: FCC, CFS)

One explanation for this resilience focuses on the sources of growth. Where is recent growth coming from? And will it last? The answers are: "consumption and government spending" and "hard to say". On the consumer side, greying, affluent households are playing a disproportionate role. This should be no surprise – Boomers have a lot of dough from equity and real estate gains during recent decades. On to the government, where 8% deficits are like an adrenalin shot to a danced-out, raving economy. Somebody said: "The US has the best economy 8% deficits can buy." Fixed-rate mortgages have also helped buffer the impact of higher rates. The US economy of 2023 turns out to be far less interest-rate sensitive than decades ago. Of course, higher rates do place stress on levered balance sheets, but those bad balance sheets are now concentrated in the public sector. Despite a truly alarming outlook for public finances, the "bond market vigilantes", are absent, perhaps retired on some Florida beach.

Allow me to make another point, this one about our collective assumptions. We assume too much about the supposed linkages between growth and inflation. In the Keynesian world where prices are sticky and wages basically don't go down, more money / liquidity implies more real growth (Zimbabwe and Weimar notwithstanding). But classical and neoclassical economists take a different view…sharply separating the nominal from the real. Prices are flexible, in their view, monetary policy determines inflation, and real supply-side factors determine growth. *"You can't print your way to prosperity".* Indeed, US inflation and growth (Chart 16) seem to have had next to nothing to do with each other in recent years. Inflation went up (and back down) in lagged response to monetary fluctuations. Growth rapidly zig-zagged from pandemic shocks; then just ticked along at its usual rate independently of inflation.

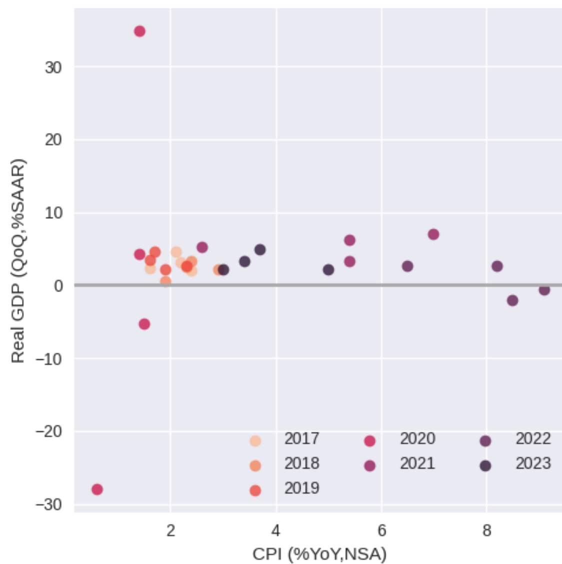

Chart 16: Growth Is Real, Inflation Is Monetary, and Roses Are Red (Source: FCC, Bloomberg)

While Keynes clearly had useful things to say about the early 20th century economy, do we believe that prices and wages are really that sticky these days? And without Keynesian rigidities, inflation and growth can go their separate ways in many circumstances. You can have disinflation and growth, like recently, or the opposite. It's a world Irving Fisher would recognise. Fisher would, of course, warn investors to beware of potential debt-deflation leverage cycles, as in China.

Speaking of the supply side, the US stock market is expressing optimism that a productivity revolution may be underway, with a handful of tech firms driving innovation and extracting profits via market power. The resulting wealth effects from higher valuations are influencing the real economy, encouraging growth. We'll have to see whether the optimism is overdone.

Now on to international affairs…Markets are obsessed with, yet curiously unflustered by, "geopolitics" at the moment. Whether we are talking about the disruption of maritime traffic, the apparent crumbling of NATO's hopes in Ukraine, or the fresh obstacles to peace in the Middle East, the US-dominated global order is uncomfortably wobbling. Yet little alarm from global investors is evident. Charts 17 through 19 show calm option markets in oil, US stocks and US Treasuries. To be sure, the military actions we've been seeing (e.g. US strikes against militants in Iraq and Syria) often seem theatrical and performative, evidently not aimed at battlefield or strategic victory. Escalations have been controlled, so far.

Chart 17: CBOE Crude Oil Volatility Index (Source: Google Finance)

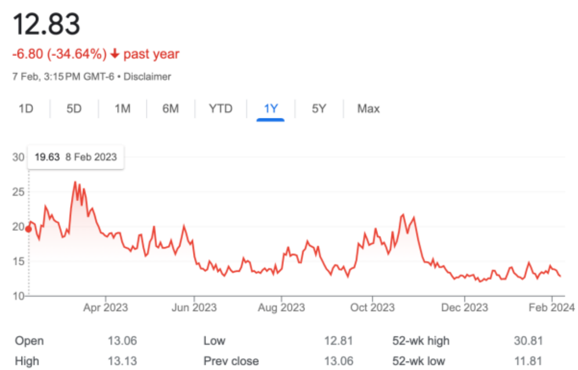

Chart 18: VIX Index (Source: Google Finance)

Chart 19: MOVE Index (UST implied vols) (Source: Google Finance)

We are now living in a "flatter world" (to borrow Friedman's expression) economically and militarily, and the US should be cognizant of its limits. Warfare has changed, and smaller states, even non-state actors, can now "punch above their weight" with drones and high-speed missiles. Recall last month's discussion of this matter: Vice Admiral Mulloy warned about vulnerable

surface ships, and we related the story of the shambolic US Littoral Combat Ship programme. Now, we're seeing these points illustrated in real time, as Operation Prosperity Guardian (https://en.wikipedia.org/wiki/Operation_Prosperity_Guardian) has so far failed to restore free navigation in the Red Sea, Bab al-Mandeb, and the Gulf of Aden. N.B. using multi-million dollar missiles to shoot down $10,000 drones just isn't a sustainable strategy.

https://www.hellenicshippingnews.com/red-sea-shipping-disruption-rages-on-and-the-impact-will-continue-well-into-2024/

Taiwan's highly anticipated elections in January were essentially a non-event, with the DPP, who lean toward Taiwan independence, holding on to the Presidency but losing its legislative majority. The mixed outcome is a recipe for a continuation of the status quo and, hopefully, calm across the Taiwan Strait.

In the Middle East, the shock of 7 October and the horrors of the ensuing Gaza war continue to reverberate. Yet markets seem to focus on the idea that *most* key players prioritise regional stability and growth. Israel is difficult to read because strategic realities, economic costs, and domestic politics pose major challenges. Military analysts think the IDF is pivoting to a slower-paced military operation in Gaza, while some resources are being redeployed toward the Lebanese border. Hezbollah, analysts say, is a formidable force with a large array of missiles and experienced fighters. Leaving aside the Ansarullah's disruption of Red Sea shipping traffic, a major story, the Gazan war has not yet spread into a major regional conflict. Observers are carefully watching the Lebanese border and US-Iran tensions in general.

POWER

Power was our best sector, contributing a percent to returns this month. European electricity was the best subsector, as prices continued to trend lower on ample gas supplies and weak industrial demand. On the other hand, we lost some money in US electricity, which reversed up from the lows on colder weather. See Charts 20 to 22.

Chart 20: Nordic yearly electricity (Source: Bloomberg)

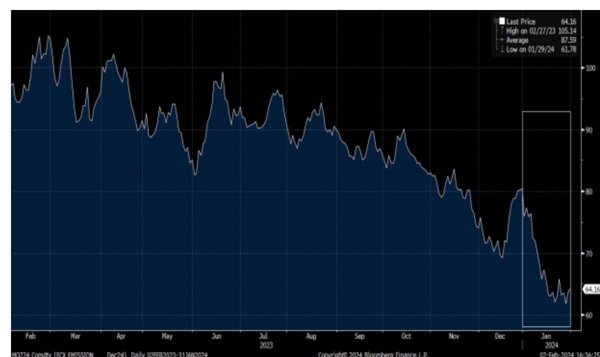

Chart 21: European carbon emissions (Source: Bloomberg)

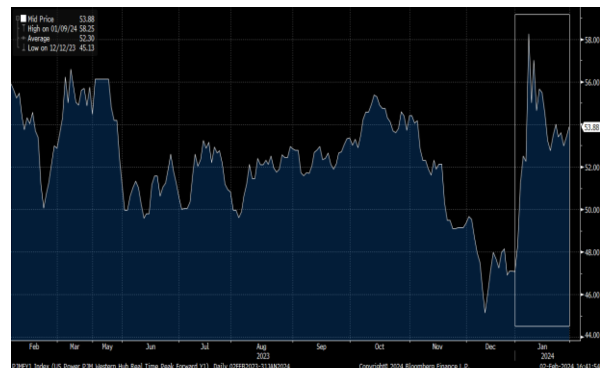

Chart 22: PJM ISO Yearly baseload (Source: Bloomberg)

CREDIT AND EQUITIES

We were not far from flat in credit and equities. The rally of US risk assets led to gains in our longs in CDX High Yield and Investment Grade. However, the spread tightening did not spill over either to European or EM credit, where economic conditions are more problematic, as discussed earlier. Please see Charts 23 through 25.

We would also like to inform you about an allocation change in the Programme. Individual cash equities (in peripheral and emerging markets) account for about 3% of our portfolio risk.

Performance has been lacklustre over the years (slightly positive in Latin America and Eastern Europe, but slightly negative in Emerging Asia). So, we have decided to de-allocate from them and re-allocate this small amount of risk to other systems in various sectors, including equity futures and ETFs. Why have quant equity factors (like “Earnings Quality”) and factor momentum become less productive signals, even in emerging markets? The cause is probably a gradual improvement in equity market efficiency. In any case, we’ve achieved remarkable portfolio diversification with our trend systems in ~500 markets, and it makes sense to concentrate portfolio risk on more productive areas.

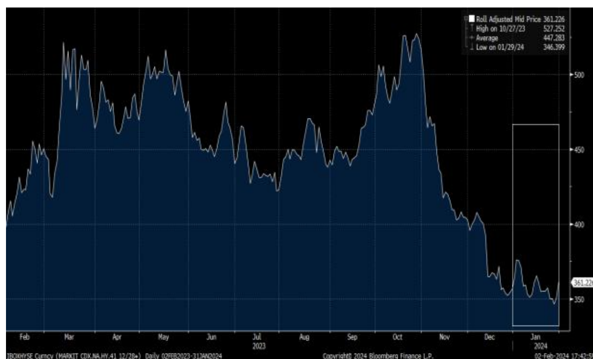

Chart 23: CDX HY spread (Source: Bloomberg)

Chart 24: iTraxx Crossover spread (Source: Bloomberg)

Chart 25: CDX EM spread (Source: Bloomberg)

CURRENCIES

In January, FX was our worst sector, down 134bps. As US yields climbed, the US dollar strengthened against most currencies. The greenback gained versus both G10 (DXY, Chart 26 below) and EM currencies. Our losses came mostly from long positions in various currencies against the dollar, especially Asian currencies. The weak Chinese economy is having an impact on regional sentiment. See Charts 27 and 28. We gained from shorting the Indonesian rupiah (Chart 29), which was our best FX market.

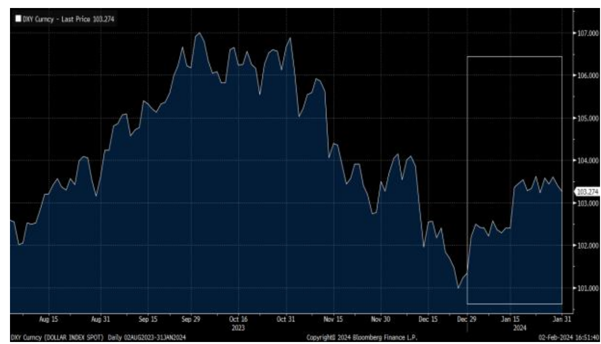

Chart 26: DXY US dollar index (Source: Bloomberg)

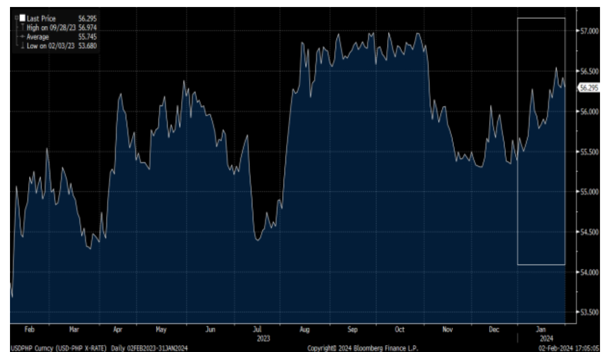

Chart 27: Philippine peso (Source: Bloomberg)

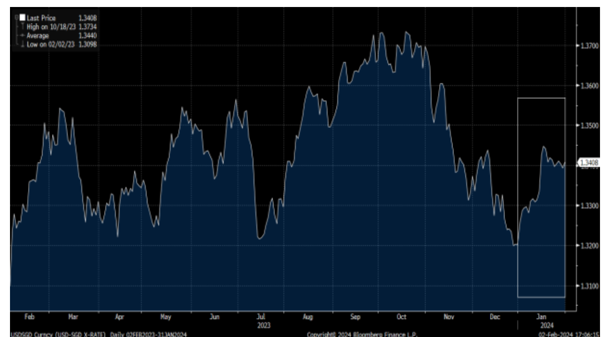

Chart 28: Singaporean dollar (Source: Bloomberg)

Chart 29: Indonesia rupiah (Source: Bloomberg)

FIXED INCOME

The Programme had modest losses in fixed income in January. With yields moving higher globally, losses came mainly from receiving positions, especially in Asia. China was the exception, of course, since Chinese yields continued to grind lower from the weak economy and looser monetary policies. There were some gains from receivers in Latin America, including Chile where the easing cycle is well underway. See Charts 30-32.

Chart 30: Singaporean 2-year interest rate swaps (Source: Bloomberg)

Chart 31: Chinese 2-year interest rate swaps (Source: Bloomberg)

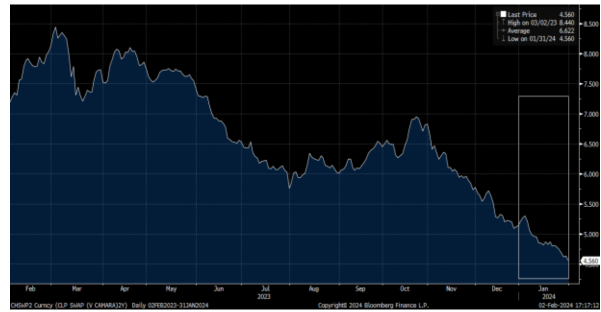

Chart 32: Chilean 2-year interest rate swaps (Source: Bloomberg)

COMMODITIES

Commodities had modest losses during the month. On one hand, the Programme had good gains from shorts in Chinese grains and long positions in various freight contracts. Freight continued to surge as Operation Prosperity Guardian failed to re-open the Red Sea to shipping traffic. Regarding grains, Chinese soybean prices collapsed in January on oversupply. Please see Charts 33 through 35. On the other hand, we had some losses from Chinese base metals, with the negative sentiment in the region weighing on prices. Aluminium is shown in Chart 36.

Chart 33: Soybean No2 futures on Dalian exchange (Source: Bloomberg)

Chart 34: Milling wheat futures (Source: Bloomberg)

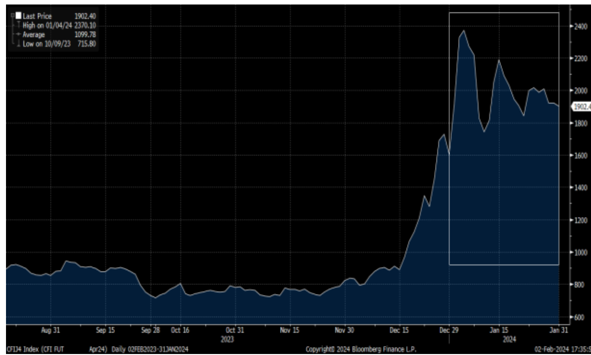

Chart 35: Containerized freight futures (Source: Bloomberg)

Chart 36: Aluminium on Shanghai Exchange (Source: Bloomberg)

CONCLUDING COMMENTS

It is useful to look at prior commentaries and see where I ought to update my views. Last month, I wrote:

> *As December rolled off, the economic picture became clearer. Global growth is softening and inflation continues to decline in most countries. The downside tail risks, however, seem less frightening now. In the US, affluent consumers and expansionary fiscal policies continue to help growth. In China, policymakers won't let growth go too low, even if it means covering every inch of ground with high-speed rail. And Europe will just continue to stagnate. The magnitude of the debt burden and bad government balance sheets will eventually force central banks into another episode of financial repression…but that will take some time.*

I more-or-less agree with myself…but the magnitude of the Chinese real estate problem, the septic shock of bad debt on confidence, may indeed test policymakers' abilities.

I also wrote:

> *The geopolitical risks loom large, and mistakes can have serious consequences. The US misjudges itself; I think. America continues to style itself as the "indispensable nation", the global policeman and security guarantor in key regions like the Middle East and East Asia. It spends close to $1tr a year on its military, far more than any other nation. Yet, the US military is apparently insufficient for this ambitious mission, according to…many military experts. The problem is not only that the US has some political, economic, and governmental deficits. Technology has put power in other hands. Vice-Admiral Mulloy, quoted earlier, said it well: "every crappy country will be able to launch high-speed missiles at you" (and at others!). It's just a more difficult environment for would-be regional or global "policemen".*

Having seen another month of Red Sea maritime disruption, I stand by last month's remarks.

My biggest update, then, relates to the increased likelihood of a soft landing in America. The monetary contraction has been considerable, but it has been showing up as disinflation, not real output drops. The US economy now has a "classical"/flexible-price feel, and real activity has evidently been rather insensitive to monetary variables. Affluent, greying consumers and spendthrift politicians are holding things up, though problems remain in CRE and community banking. Things do seem to be slowing gradually, but not in the manner of the car crash that had been predicted.

The longer term macro issues are alive and kicking - multipolarity, the changing military balance, mountains of sovereign debt, populism and polarisation, etc. Most analysts think that China can navigate these rough waters…but what if? There are solid arguments for having some systematic trend following in allocator portfolios, and we believe that our time-tested, globe-spanning programme is one of the best.

Please give us a ring if you have questions or comments.

Best regards,

Doug Greenig, CEO

FLORIN COURT
CAPITAL

EXECUTIVE SUMMARY

Strategy	Diversified systematic macro
Approach	Systematic/algorithmic Instruments Currencies, stocks, fixed income, credit, commodities, power, volatility
Targets	Volatility: 10% p.a. before fees Return: High risk-adjusted returns Correlation: Low long term correlations with stocks, bonds and commodities
Investor and business partner	Brummer & Partners, a leading Nordic hedge fund group

Florin Court Capital is a diversified systematic asset manager. The investment methodology is evidence-based and process driven. The portfolio is constructed using proprietary mathematical models implemented on computer systems. A particular focus is extracting the benefits of diversification through market selection from over 400 financial securities across all major asset classes including currencies, stocks, fixed income, credit, commodities, power and volatility.

The model signals are also diverse, encompassing technical signals with a range of holding periods, yield and value signals, cross market signals and many others.

Trade execution is automated whenever appropriate and transaction costs are carefully measured. Rigorous real-time risk controls are built into the systematic process.

The Florin Court Capital fund is designed to have no long-term correlations with major asset classes and most hedge fund styles.

Florin Court Capital is committed to research and a disciplined programme for model improvement and development to exploit opportunities and to adapt to changing markets.

WHY INVEST IN FLORIN COURT?

- "Diversified by design" – over 400 markets, diverse signals
- Experienced investment team
- Partnership and support from Brummer & Partners
- Low correlation with stocks, bonds and commodities

PORTFOLIO MANAGERS

Douglas Greenig, CEO and CIO

Doug Greenig has over 29 years of experience in investment management. From 2012 to 2014, he was Chief Risk Officer of Man/AHL and also headed the Portfolio Management Group, beginning in 2013. Doug was jointly responsible (with the CIO) for the evaluation and approval of all investment strategies and trading systems.

Prior to AHL, Doug was a Managing Director working as a quantitative portfolio manager at the Fortress Investment Group beginning in 2006. From 2001 to 2006, Doug was Head of Agency Mortgage Trading at RBS Greenwich Capital. He also managed an eight person quant prop desk at the firm, beginning in 2000. From 1993 to 1999, Doug worked at Goldman Sachs in New York, as a fixed-income proprietary trader. Prior to Goldman, Doug was a Senior Consultant at BARRA. Doug earned a Ph.D. and an M.S. in Mathematics from the University of California at Berkeley in 1993. He graduated from Princeton University in 1986 with an A.B. in Economics, Summa Cum Laude. He was awarded the Wilson Prize for his thesis, which influenced Fischer Black's late work on general equilibrium theory. Doug taught Portfolio and Risk Management at the Courant Institute at NYU in 2010.

David Denison, Deputy CIO

David Denison has over 20 years of hedge fund experience, following his earlier academic career. Prior to joining FCC, David was the Head of FX at Man/AHL, which he had joined in 2008 as a senior quantitative researcher. As Head of FX, he was responsible for the modelling and investment management of AHL's multi-billion dollar FX portfolio. Prior to AHL, David worked at IV Capital (2006–2008) and Gloucester Research (2002–2006) focusing on quantitative research in equities. Prior to joining Gloucester Research, David lectured in Statistics for five years at Imperial College, London, focusing on modern computational statistical methods.

David holds a Ph.D. from Imperial College, London, and his 1997 dissertation won the Savage Award. He gained a first-class mathematics degree from Oxford University in 1994. He is the author of Bayesian Methods for Nonlinear Classification and Regression, Wiley, 2002.

PRODUCT STRUCTURE (BMS SHARE CLASS)

ISIN	KYG3643B1059
Structure	Cayman Master Feeder Structure
Management Fee	1 %
Performance Fee	20 % over hurdle rate (high watermark)
Liquidity	Monthly (5 business days' notice)
Minimum investment	USD 1,000,000 / SEK 10,000,000 / GBP 1,000,000
Minimum additional investment	USD 100,000 / SEK 1,000,000 / GBP 100,000
Lock-up/gate	None
Prime Broker	JP Morgan. Merrill Lynch International
Administrator	Citco (Cayman Islands)
Auditor	KPMG

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0 % of the Fund's assets are subject to special arrangements such as side pockets or gates, arising from their illiquid nature.
There have been no changes to the Risk management systems of the AIF, and no risk limits have been exceeded.
There have been no changes to the leverage arrangements of the AIF, nor to the right to reuse of collateral.

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