BRUMMER & PARTNERS

Brummer Multi-Strategy commentary 2024

As we reflect on a year marked by macro and micro dispersion, geopolitical tensions and numerous elections, our multi-strategy fund continues to evolve. Adaptation and innovation remain crucial in our quest for alpha within a competitive and dynamic market environment. In this commentary, **the Portfolio Management team** reflects on the transformative developments of 2024 for Brummer, outlines the major changes to the portfolio, and delves into the performance drivers of the year's results. The PM team explains how a shift towards a more nuanced, micro-level analysis became essential in 2024 and shares the team's strategies for navigating future challenges. They also highlight the opportunities they see for Brummer Multi-Strategy to sustain robust absolute returns.

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Our primary objective is to build a well-balanced portfolio that is robust and performs consistently across a wide range of scenarios. We are pleased to see that in 2024 we have delivered on our objectives. BMS finished the year up at 9.3 %[1)] in USD. Further, we are also happy with the quality and characteristics of the returns, as most of our performance can be attributed to alpha or idiosyncratic sources of risk (details further down). Maximum drawdown for BMS was one per cent, a testament to the resilience of the portfolio. Before we deep dive into the return drivers of 2024 and the market outlook, here's a brief market overview.


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1) Yearly performance is for a part of 2024 calculated using the BMS AIF SEK class adjusted for currency hedging. This is due to the fact that the BMS AIF USD share class was launched in August 2024.

Brummer Multi-Strategy

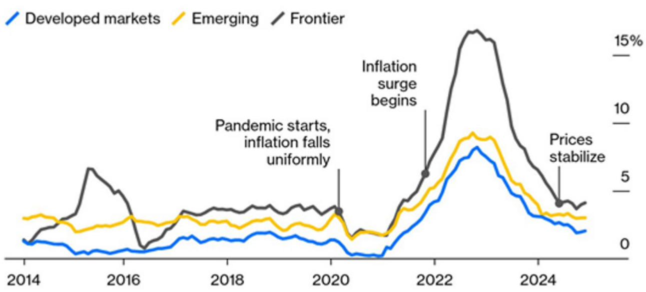
Generating alpha is, and always has been, our primary objective. Our multi-manager programme combines disciplined risk management with a diverse array of alpha sources which requires constant evolution in talent, technology and mindset. We aim for Brummer Multi-Strategy to be a cornerstone in any informed investor's portfolio where alpha counts.

Brief market overview

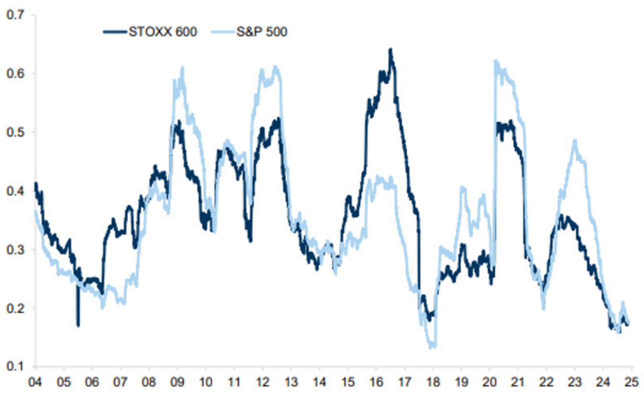
2024 can broadly be characterised as a year of macroeconomic consolidation with conditions continuing to move toward equilibrium after the disequilibrium and dislocations caused by both the pandemic and the monetary tightening cycle.

2024 IN BRIEF

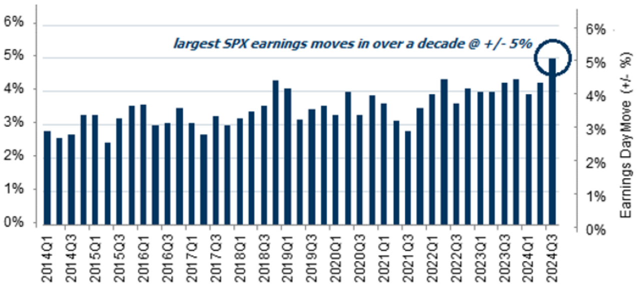
There were in general few disruptive economic surprises. Inflation generally moderated to more modest levels in line with expectations, and global growth slowed down but varied across regions, with Europe being the laggard. Most asset classes, except for equities and credits, were relatively directionless with contending crosscurrents creating choppy market conditions. 2024 was a great year for stock-picking, with substantial dispersion in the cross-section of stock returns and earnings volatility at historically high levels. The third quarter earnings season marked the largest S&P 500 earnings day moves in over a decade. The opportunity set was further compounded by equity capital market activity starting to pick up and several themes like AI, GLP-1 and deregulation creating winners and losers.



Average headline inflation. Source: Bloomberg



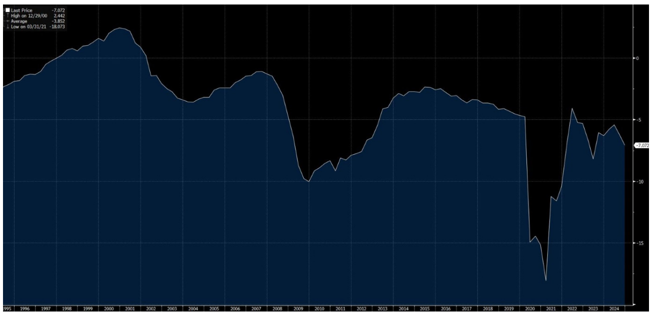
Average pairwise correlations, 12-month rolling basis.
Source: Goldman Sachs Investment Research



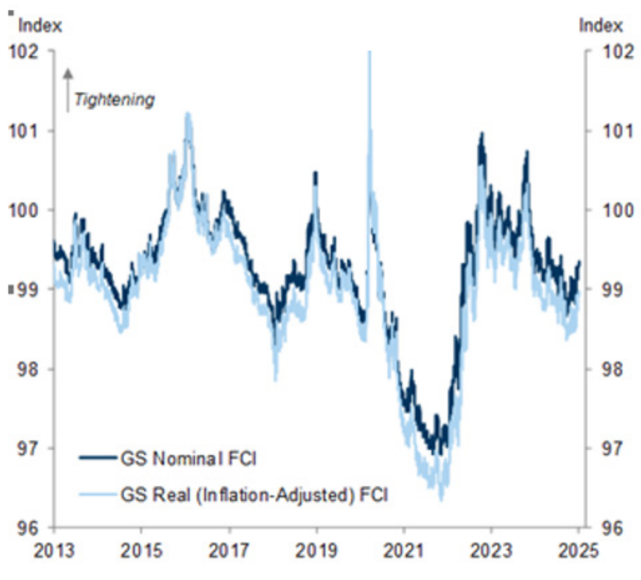
Realised earnings moves (like for like) by quarter, S&P 500.
Source: Goldman Sachs Investment Research

US

US growth slowed but remained relatively robust at around 2.5 %, powered by a) loose fiscal policies (astonishing budget deficit around 7 % of GDP with the economy running at almost full employment!) and b) easing financial conditions at historically loose levels. The labour market remained strong but cooled somewhat with labour market conditions currently looser than pre-pandemic levels.



US budget deficit. Source: Bloomberg



US Financial Conditions Indices.
Source: Goldman Sachs Investment Research

Although inflation continued its trend lower in line with our expectations, the trajectory going forward seems more uncertain for a few reasons. First off, from a bottom-up perspective, apart from a few spots, there currently seem to be no material signs of weakness in the economy. Secondly, the Fed is easing monetary conditions into a booming economy and strong risk-on environment (which creates positive wealth effects) with loose fiscal policy and easy financial conditions. Thirdly, the Republican sweep is expected to bring animal spirits with de-regulation and a more business friendly administration as President-elect Trump is expected to prioritise a) economic growth and cutting taxes,

b) tariffs (and potential trade wars) that on the margin are inflationary and c) less immigration (high immigration has accelerated growth without causing material wage inflation).

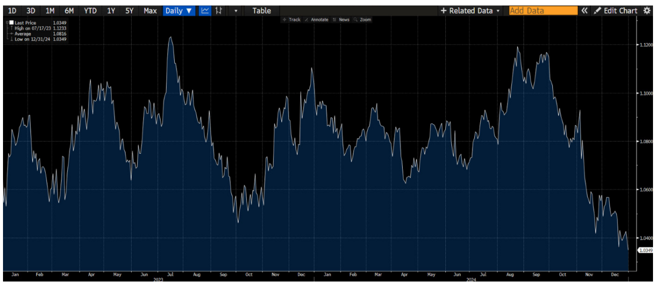
Real time inflation estimate. Source: Truflation

The combination of these factors creates an uncertain path for inflation going forward, with reflationary risks increasing. The real-time data of inflation is tracking around 3 %. US equity market concentration and valuations are at historically elevated levels. Concerns around a multi-year US debt sustainability crisis with elevated and rising debt levels and unsustainable fiscal policies are creating upward risks on yields and inflation.

EUROPE

Europe faces serious economic and political problems with sluggish growth, competitiveness issues, fiscal problems, poor demographics, and "paralysed" political systems with two key economies, France and Germany, in a political gridlock. The manufacturing sector has continued to be weak with Germany particularly vulnerable to a slowing and increasingly competitive China. Concerns around sovereign debt sustainability are increasing given elevated debt levels, high budget deficits and tepid growth. The European economy has stagnated and potential across-the-board US tariffs may perhaps be the final tipping point that pushes Europe into a recession.

Europe's political system struggles to deliver the growth required to deal with these fiscal issues and instead focuses on taxation and austerity measures. European yields have been diverging from US yields given the bifurcated macro backdrop and the Euro has weakened … for good reasons.



EUR/USD, 2023-2024. Source: Bloomberg

CHINA

China continues to be difficult to assess given the tug of war between deteriorating fundamentals and easing monetary and fiscal conditions to support the economy. Consumer confidence and spending remain weak, and China has been flirting with deflation. China loosened its monetary policy stance for the first time since 2008 to boost consumption and improve domestic demand. The Chinese 10-year yield dropped to record low levels, below 1.7 %.

China is also expected to increase its fiscal deficit target to 4 % of GDP in 2025, up from 3 %, maintaining its growth target of around 5 %. Despite its many structural issues, China is expected to deliver around 4.5 % to 5 % growth and has kept some dry powder partly to be able to deal with the economic conflict that is expected to increase under the Trump administration. However, longer term concerns linger around increasing budget deficits and debt levels, the property slump, and the process of transitioning from an investment-driven growth model to a consumption-driven one.

Chinese 10 year bond yield. Source: Bloomberg

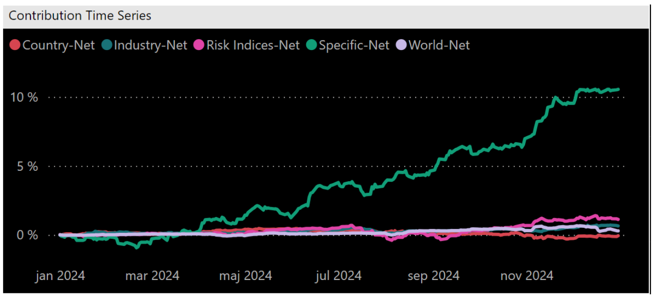
Performance analysis

The following section gives more details on return drivers per sub-strategy type, and the alpha contribution.

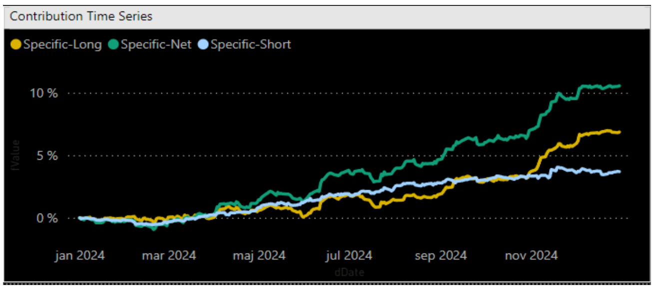
Strategy type	2024 YTD gross contribution[2]
Market-neutral L/S Equity	11.2 %
Systematic Macro	-0.8 %
Systematic Trend	-1.8 %

LONG/SHORT EQUITY

Long/short equity represents the core of our portfolio, typically accounting for 60 % to 70 % of total risk and was also the main contributor to Brummer Multi-Strategy's strong 2024 performance. We are pleased that the vast majority of the returns in our long/short equity book can be attributed to alpha or stock-specific sources of risk. Short alpha has also been an important driver of performance during the year. Please see performance attribution in the tables below.



Mainly stock-specific performance in 2024, ie. alpha[2]



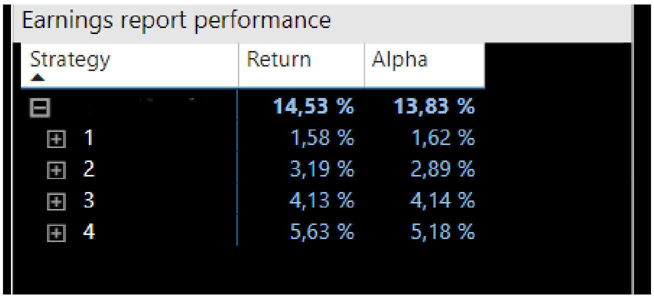
Long and short alpha[2]

The long/short equity book has behaved as intended, proving to be relatively robust and consistently generating alpha throughout the year. It was resilient during periods of more violent sector and factor rotations and deleveraging episodes such as in July, which was the most severe deleveraging episode for European equities over the last 10 years.

It has been a conducive environment for stock-picking, with average pairwise correlations between stocks near historically low levels and cross-sectional stock volatility at a decent level, indicating significant dispersion between stocks. Idiosyncratic factors, rather than macroeconomic factors, have dominated the variance in stock returns.

2) The data refers to BMS AIF (the unlevered fund).

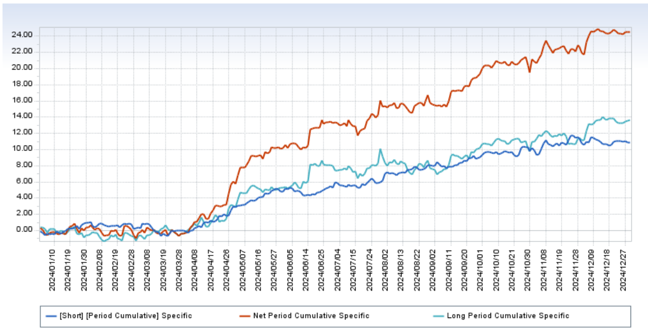
Within our market-neutral long/short equity book, a few sectors stand out. Our US TMT strategy had a great year. The majority of the returns were driven by stock-specific/idiosyncratic profits, with 2/3 long alpha and 1/3 short alpha. The team was able to capitalise on the historically high earnings volatility and generated around 15 % return on earnings days alone. This is consistent with their process focused on revisions to consensus estimates around earnings. We were further encouraged by the causality and the correlation between the process and results. It improved our already high confidence in the team's stock-picking skill set.


Earnings report performance

Strategy	Return	Alpha
	14,53 %	13,83 %
1	1,58 %	1,62 %
2	3,19 %	2,89 %
3	4,13 %	4,14 %
4	5,63 %	5,18 %

Performance contribution from earnings days alone for the US TMT strategy

Our exposure to European financials has been profitable across all subsectors with banks and diversified financials dominating returns, but insurance also contributing positively. Performance has been robust throughout the year with several different themes and names contributing. Performance has mainly been driven by alpha with a roughly 50/50 split between long and short alpha.

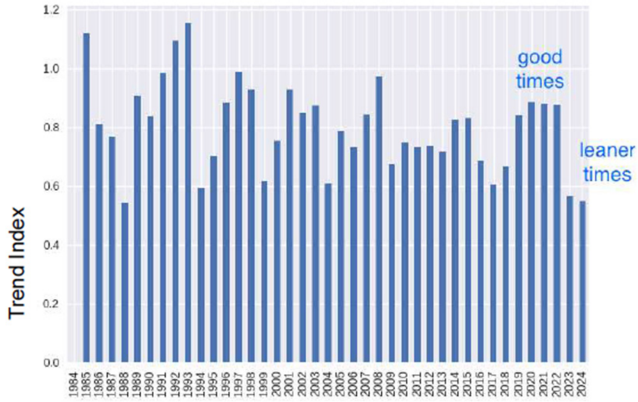


Long and short alpha for the European financials L/S equity strategy

We have also had a decent year within European healthcare, generating alpha particularly in the biotech and pharma subsectors.

SYSTEMATIC TREND-FOLLOWING

Systematic trend-following detracted our returns a bit. As explained above, 2024 was a year of macroeconomic consolidation with few economic surprises and mixed signals creating choppy market conditions across most asset classes except equities and credits. As such, trends have been weak, unusually so in alternative markets looking at trend strength dating back to the 90s.



Trend index for 200 alternative markets, 1984-2024.
Source: Florin Court Capital

Our trend-followers typically run slightly faster models compared to peers and hence tend to be longer volatility and gamma on average, which we think is a desirable feature from a diversification and portfolio construction perspective. The relatively high speed provides positive convexity and improves adaptivity around regime shifts and crises but can be costly in a choppy market environment like 2024. We see these losses akin to paying insurance premia.

Looking at the major asset classes, fixed income was the worst performing sector for trend-following with markets (exemplified by the US 10-year note below) generally trading in a wide range. Currency trading was profitable thanks to strong USD momentum in the fourth quarter. Performance in equities and credit was more muted whereas commodities included some of the best (Cocoa and Coffee) and worst (Crude Oil and Silver) performing markets.

US 10-year Treasury yield. Source: Bloomberg

US dollar index. Source: Bloomberg

Crude oil. Source: Bloomberg

Cocoa. Source: Bloomberg

SYSTEMATIC MACRO

The systematic macro space is a relatively new addition to our portfolio and thus represents the smallest part of our total risk. We were profitable in our systematic macro strategy trading developed markets (0.7 % contribution) across all asset classes. This was however more than offset by losses in our systematic macro strategy trading alternative markets (-1.4 % contribution). Losses in the latter were broadly distributed across markets and signal types. This was partly due to that the niche market idiosyncrasies which the strategy attempts to capture were “drowned out” by noise created by broader major macro themes, like the US dollar momentum mentioned above.

Enhancements to Brummer Multi-Strategy

The average lifespan of a hedge fund has been estimated to be less than five years. Brummer Multi-Strategy has not only survived but thrived for more than 20 years, much thanks to our ability to identify, attract, and retain talented risk-takers, and implement their strategies within an efficient operational and risk-management framework. In the past couple of years, Brummer & Partners has made meaningful investments in the organisation and infrastructure, to strengthen our investment process. We have continued to build on our partnership model and our long-term focus, qualities that have set us apart among multi-strategy peers, but also added some of the advantageous features of the so called “pod-shop” model.

In 2020, BMS UCITS was launched, built on a new managed account infrastructure that allowed us to run the portfolio on a single balance sheet. In 2024, we further improved how we implement our investment programme with the launch of Brummer Multi-Manager Fund Ltd. This new entity enables us to more efficiently onboard new investment teams as ’pods’, allowing us to add a greater number of strategies, including some with capacity constraints.

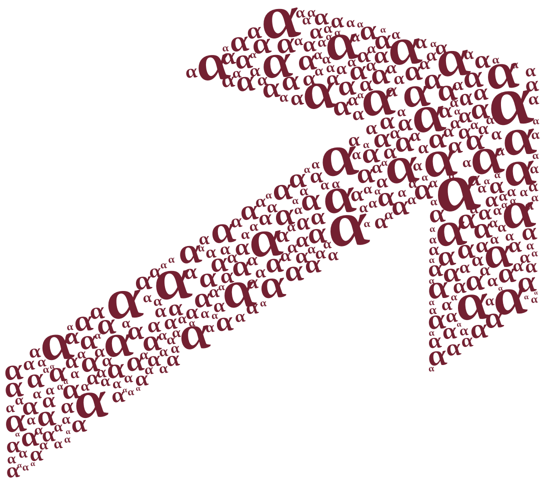
We have also strengthened Brummer Multi-Strategy’s organisation by adding two new senior partners: **Adrian Brummer** and **Wilhelm Kleman**. Adrian has a background as portfolio manager at the hedge fund Alcur, where he was also a board member and partner in the fund management company. Wilhelm spent eight years at Citadel, a leading multi-strategy firm, most recently as a portfolio manager within long/short equities with a focus on financial companies. Adrian and Wilhelm add valuable experience and capability in our effort of identifying and develop talent, especially within long/short equity, as well as supporting our allocation and portfolio management activities. Together with Patrik Brummer and Kerim Celebi, Adrian and Wilhelm constitute the Portfolio Management team of Brummer Multi-Strategy.

With increased research capacity and a more flexible infrastructure to onboard new teams, our ambition is to further diversify the portfolio by increasing the number of underlying strategies from a historical average of around 10 to closer to 15. By doing so, we believe we can create an even more stable and slightly higher base of return while maintaining the same level of volatility and risk/return characteristics i.e. being long volatility and able to deliver crisis alpha.

The war on talent within the multi-strategy space has been much debated in recent years. We have however been very pleased with our ability to attract talented and complementing investment teams. Brummer Multi-Strategy offers talent something beyond the typical “pod-shop”; we take a long-term, partnership-oriented approach, we tailor-make each risk mandate based on each team’s skill set and investment style and, where suitable, allow the team to take on external capital alongside Brummer Multi-Strategy’s allocation. These pretty unique features are especially appreciated by more seasoned risk-takers looking to spin out of other multi-strategy platforms. In 2024 we have, in fierce competition, been able to attract four top-tier investment teams. The two most recent additions include a Fixed Income strategy and a market-neutral listed Real Estate equity strategy.

The Fixed Income strategy is adding a new vertical (strategy type) alongside the equity long/short, systematic macro and trend-following exposure. The new strategy exploits market inefficiencies in a repeatable and highly diversified fashion. The strategy has historically delivered strong risk-adjusted returns with limited drawdowns and characteristics that complement e.g. trend-following strategies. In particular, the approach tends to perform better in range-bound markets and less well in strongly trending environments.

The new market-neutral long/short listed Real Estate strategy will focus primarily on Europe. Given the breadth and depth of the sector it is a capacity constrained strategy that can trade around 600-700mn USD in gross market value. The sector is hence an example where we can take advantage of our somewhat smaller size versus some platforms to capture less crowded alpha. The primacy for the allocation is however the quality and the skill of the investment team. As usual, there is a combination of many different factors underpinning our conviction in the strategy, but in particular the risk-taker’s ability to oscillate between the short term (often sentiment and flow-driven) and the long term (more structural or value-driven).

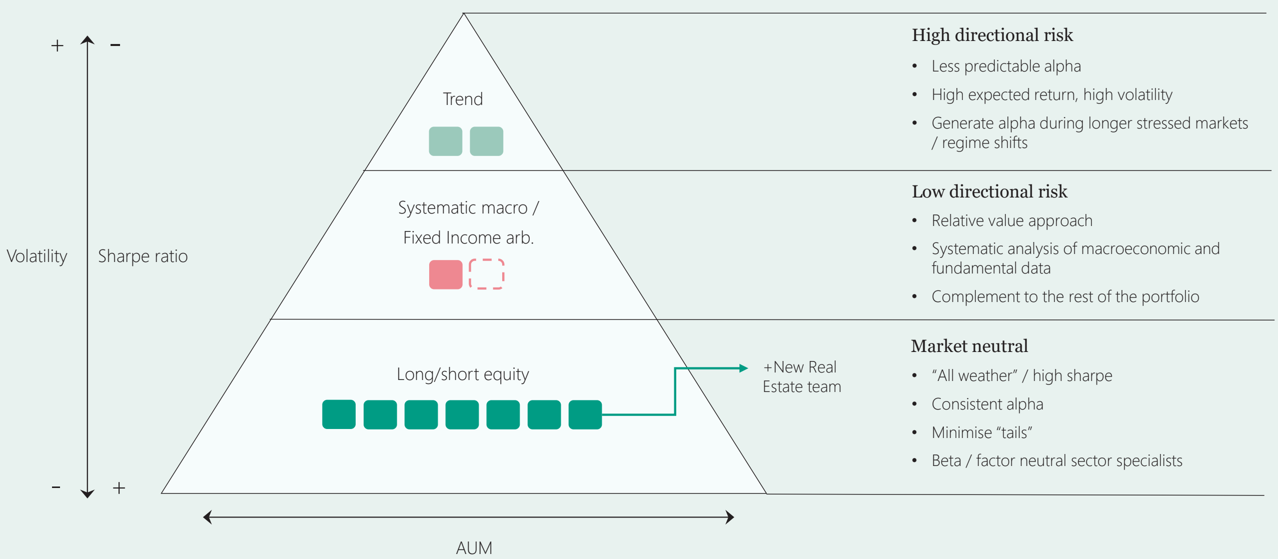


Looking forward, we are opportunistic in terms of talent selection. The primacy for us is the quality of the talent rather than necessarily needing to add a certain strategy type for the sake of filling a blind spot. We do however have a “wish list”:

1. Directional risk with low correlation to systematic trend, which for example could be a discretionary commodity strategy.
2. A strategy with positive exposure to short-term volatility as a complement to trend-followers, which tend to perform better during more prolonged periods of market stress. We are reviewing strategies that can deliver small but positive return in a rather uneventful year but excel in periods of sharp bursts of volatility.

In addition to diversifying our portfolio and adding new return drivers through the integration of new investment teams, we have also implemented a structure that enables a central "best ideas" and an "overlay" book. The purpose of these two books is to further improve the portfolio construction and "all-weatherness" of the overall BMS portfolio. The amount of risk taken by these books is expected to vary over time, and be driven by both underlying opportunity set at each point in time, as well as the overall prevailing risk characteristics in the market and as represented in the overall BMS portfolio. The best ideas book will initially focus on long/ short equity and allows us to more efficiently monetise our proprieatary intellectual property stemming from the fundamental research processes of our investment teams. The overlay book will primarily be a hedging tool designated to mitigate unwanted or unintended risks in a targeted fashion. Such risks include e.g. systematic risk sources of our long/short equity book (any unintended equity style factor, market, sector or country-related risks), and unwanted market risk across all asset classes stemming from the strategies that take directional risks.

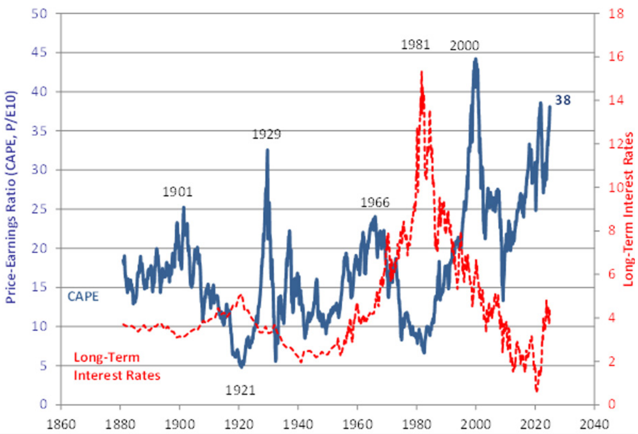
PORTFOLIO STRUCTURE



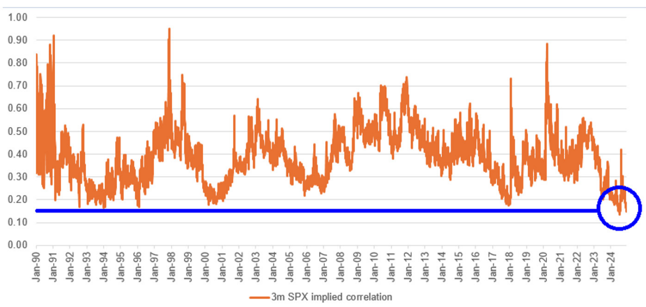
Looking ahead

Investors and corporates alike are becoming increasingly positive and excited about 2025. Mergers and acquisitions activity is expected to pick under the Trump administration (with de-regulation) and lower rates. A lot of the good news, however, seem already priced in. Valuations for US stocks and long-term expected returns look elevated. The CAPE (cyclically adjusted price/earnings) for US equities is currently at high levels not seen since the height of the dot-com bubble. Survey-based data suggests that both positioning in the US and expectations for continued US stock performance are at multi-year highs. Neither valuations nor positioning alone can catalyse a shift in the direction of equity markets. However, they indicate that the margin for error is small, making markets increasingly vulnerable to potential negative economic or geopolitical surprises, as well as the 'unknown unknowns'.

Going forward, the trajectory for inflation is more uncertain and reflationary risks seem underappreciated (for reasons outlined earlier). Inflation and rates are getting increasingly important to monitor for equities. According to PB data, hedge funds' gross exposure is at historically elevated levels in the US implying increasing deleveraging risks. S&P 500 three month implied correlation is at all time low levels, suggesting an increase in the velocity of potential rotational risks, see graph below. It will be increasingly important to manage deleveraging, rotational and headline risks.



CAPE ratio and long term interest rates. Source: Shillerdata.com



3-Month S&P 500 Implied Correlation.
Source: Goldman Sachs Investment Research

There are as usual many different scenarios that can play out in the future depending on both fiscal and monetary policy decisions. Our job is to create a portfolio that is all-weather and can generate alpha consistently across all sorts of scenarios.

As we stated at the end of 2023, our hypothesis entering 2024 was that the opportunity set for stock-picking would improve, as concerns around inflation were likely going to abate and the forward distribution for inflation and rates to narrow. Our thesis was that market participants would shift focus from having had more of a macro lens, to more of a micro lens, and to focus more on stock-specific fundamentals, which is precisely what we saw in 2024.

For 2025, there is a long list of uncertainties and tail-risks to be aware of, including the possibility of a reflationary scenario where central banks may need to hike rates again, geopolitical tensions, political crises, and many developed economies wrestling with high debt burdens and budget deficits, which could limit the potential for fiscal policy stimulus going forward.

In light of these uncertainties and tail risks, we believe it is crucial to maintain a robust portfolio that is market-neutral and well-diversified across different strategies, sectors and geographies. Additionally, having a highly liquid and nimble portfolio while continuing to be long the tails remains essential.

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The Portfolio Management team, Brummer Multi-Strategy

Concluding

As we have closed 2024 and Brummer Multi-Strategy is in its 23rd year, we affirm the strong performance, a direct result of significant product enhancements amidst macro and micro dispersion. With a strengthened portfolio management team and a robust infrastructure, we have deepened our expertise and refined our long-term direction.

We thank you for your continued trust and welcome any questions you may have.
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