THYMOS CAPITAL

GLOBAL EQUITIES LONG ONLY
DECEMBER 2021

Returns (AUD)	1 month	2 months	3 months	1 year	
Fund	**0.87**	**5.37**	**6.37**		
MSCI World Index	1.61	5.16	5.50		
Active return	**(0.74)**	**0.20**	**0.87**		

NAV: A$1.7158
up: 0.87%

MSCI World Index
up: 1.61%

Thymos Capital

Thymos is an Australian fund manager specialising in global equities. Funds are managed though unique blend of macroeconomic modelling and bottom-up stock quantitative analysis.

Global Equities Long Only

The Fund gives investors a broad exposure to global equities in developed markets. The portfolio is actively managed and aims to achieve above benchmark returns.

LAST MONTH

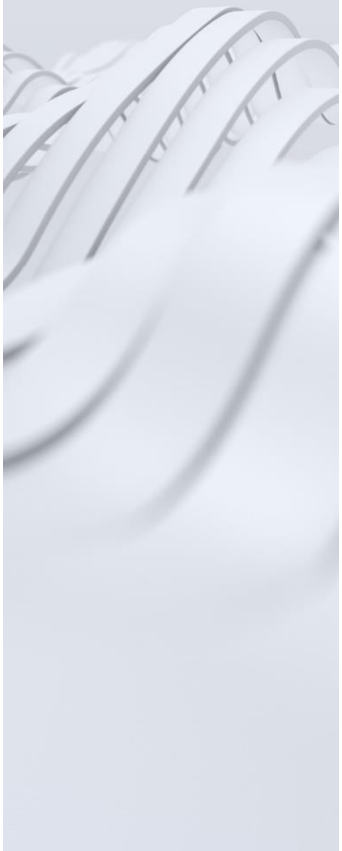
For the month of December, the fund was up 0.87%. This was 0.74% behind the benchmark owing to strong value stock performance that we missed out on being largely exposed to quality stocks.

If November was all about the worst of Omicron, then December was all about the best of it. Investors started to embrace the possibilities that perhaps the new variant was not as severe as first thought, that it could be dealt with using existing health measures, and that it may even mark the beginning of the end of the pandemic.

As investors took on board more positive narratives about Omicron, stocks rallied sharply. Interestingly, central bankers continued on their merry way, virtually undeterred by previous market concerns about Omicron. Fed Chair Powell appeared to endorse a more hawkish trajectory for policy, hinting at rapid tapering and rate hikes to follow. This led to a renewed bout of volatility in bond markets, taking yields higher and penalizing long-duration quality exposures within the stock market. On the flipside, short-duration value stocks performed very well.

Our portfolio had negligible exposure to value in December, and so noticeably underperformed the benchmark. But for context, this underperformance followed outperformance in November resulting from the initial risk-off phase from Omicron. Therefore, we have merely witnessed heightened volatility from Omicron, which has temporarily taken market attention off the main themes of inflation and the normalization of central bank policy.

LOOKING AHEAD



While Omicron is creating a lot of volatility, it changes nothing when it comes to our portfolio positioning.

Investors are facing unusual inflation and asset allocation dynamics. The conventional wisdom is that inflation and policy tightening risks should be causing bonds to sell off. They should also be causing equity market volatility to increase. Long-duration quality exposures should therefore be underperforming short-duration value exposures as the market discount rate rises. However, whenever equities wobble, we tend to see investors seek safety and price in Fed flexibility, causing bonds to subsequently rally and quality to reassert its dominance. For some time, we believe that investors have been caught in this feedback loop, in turn requiring a major macro shock to break it. Interestingly, US 10-year bond yields are seemingly struggling to rise to the 2% mark, despite obviously high CPI inflation of close to 7% and concerns about transitory inflation becoming permanent amid evolving inflation expectations and tightening spare capacity.

Short-term, the prospect of continued world growth, coupled with a glass half-full view of Omicron, could support cyclical exposures. Indeed, a popular narrative is that the first rate hike from the Fed is a sign of good news. But we remain of the view that ultimately, elevated inflation brings more uncertainty about the Fed's reaction function, which favours quality over anything else.

Portfolio	
Number of stocks	300
Largest stock*	2,812,289
Smallest stock*	10,387
Average Daily Turnover*	268

Sectors	Holding
Consumer Discretionary	14.5
Consumer Staple	5.7
Energy	0.2
Financials	9.1
Healthcare	14.7
Industrial Services	0.2
Commercial Services	4.5
Manufacturing	5.6
Materials	0.4
Real Estate	0.5
Technology	43.2
Utilities	1.4

Regions	Holding
Asia Pac	7.0
EMEA	14.5
Americas	78.6

Segment	Holding
Mega Cap	8.0
Large Cap	8.9
Mid Cap	(4.0)
Small Cap	(12.8)

Holding as a % of portfolio, * in USL

Disclosure:

There were no material changes to Thymos staff, investment strategy or risk / return profile of the fund. There we no material changes to service providers.

Important information:

The Fund invests in global stocks whose share prices are denominated in many different currencies such as USD, EUR, JPY, CHF, GBP to name a few. The stocks themselves are often global companies operating in many countries.

NAV is calculated using month end share prices of The Fund's holdings, converted to AUD at the month end exchange rates. The benchmark is quoted in USD but then converted to AUD returns such that it can be compared to NAV returns on a like for like basis. Overweight and underweight positions are in relation to the universe of global stocks Thymos invests in.

The purpose of this report is to summarise and highlight the main drivers of performance and current portfolio positioning. This report cannot be relied upon for accuracy or completeness. The past returns are not indication of future returns. This report is not an invitation to invest in The Fund. This report is not a financial advice. This report cannot be relied upon as a forecast. You should consult your investment adviser before investing.

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