



LYNX PROGRAM 2024 MIDYEAR REVIEW

LYNX

Overview

The Lynx Program ended the first half of 2024 up 6.07% net of fees as gains in equity indices, currencies and commodities outpaced losses in fixed income.¹ The first quarter was particularly profitable as stronger-than-expected economic readings resulted in revised expectations of monetary policy. A dovish shift in rhetoric from the Fed and relatively weaker inflation numbers in May and June contributed to a modest pullback in performance later in the period. With only a few exceptions, global equity markets climbed with major indices in the US, Europe and Japan hitting record highs during the period. While yields rose, particularly on the longer end of the curve due to expectations of higher rates for longer, sentiment remained reasonably strong. The US dollar generally appreciated as global central bank policy began to diverge, while opportunities in agricultural commodities arose in part due to the El Niño weather phenomenon.

In aggregate, both the trend-following and diversifying components of the portfolio were profitable, although results differed across timeframe as gains in medium and long-term models outpaced losses in short-term counterparts. Short-term models, which tend to perform best when volatility expands and markets begin to trend, had particular difficulty with rangebound price action in fixed income and industrial commodities. The result brings annualized performance since inception to 9.47% net of fees with an annualized standard deviation of 14.82%.¹ Performance in the first half of the year modestly lagged the Société Générale CTA Index which ended the period up 7.26%. Results of traditional investments were mixed as the MSCI World NDTR Index (local currency) ended up 13.43% in the first half of the year, while the JPM Global Government Bond Index (local currency) was down 1.52%.²

Midyear result¹

6.1%

Lynx Program
total assets

6.6 bn USD

Annualized performance
since inception¹

9.5%

Annualized standard
deviation¹

14.8%

¹ The net performance figures include interest, costs and fees and reflect the standard leverage Lynx Program with a 1% management fee and a 18% (20% up until 1 July 2018) performance fee for a USD investment. For the period 1 May 2000 up until 31 March 2004 pro forma numbers have been calculated based on a SEK investment and thereafter an equivalent investment in USD. Please read more information on pro forma numbers on page 12.

² Index figures are based on available data at the time of publication and are subject to revision.

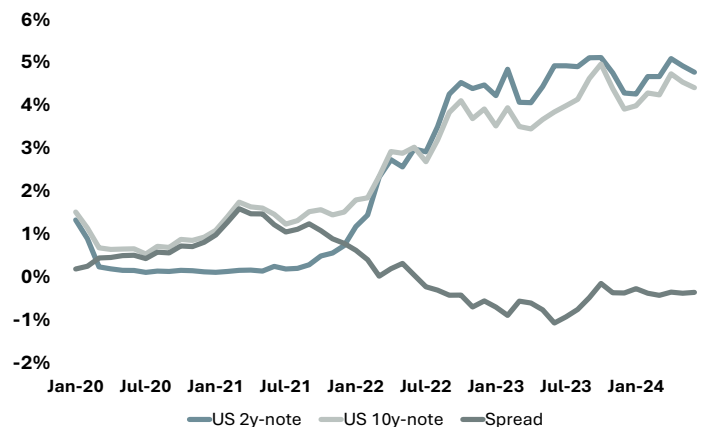


Market developments

When major global central banks indicate that monetary policy is “data dependent,” every new piece of relevant information has significance. This was the case throughout the first half of 2024. Inflation remained stubbornly high despite tighter financial conditions, and policy forecasts from 2023, particularly in the US, were proven to be overly optimistic. However, shifting rhetoric from central bankers and conflicting economic reports resulted in occasional reversals in policy expectations, particularly in May and June. While interest rates ultimately climbed, the path higher was far from a straight line.

The spread between US 2-year and 10-year Treasuries remained inverted, eclipsing the longest consecutive period that shorter-term yields have exceeded longer-term ones. While historically an indicator of impending recession, the US economy continued to grow driven by increased consumer spending. Across the globe, there was the ongoing expectation that rates would soon come down, thereby easing financial conditions and lowering borrowing costs. Even as yields rose, investors generally remained optimistic as unemployment remarkably remained under control, wages increased, and asset prices climbed. As global economies moved closer to the soft landing that few had expected possible, investor sentiment improved.

Yield Spread Between US 10-Year and US 2-Year Treasury Notes



Source: Bloomberg

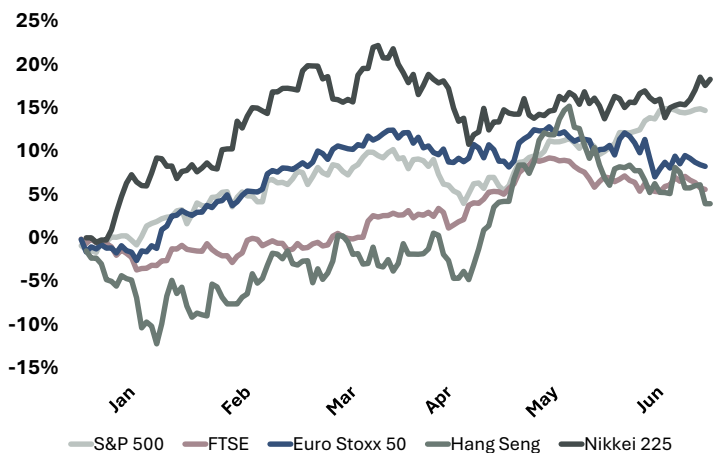
Equities

Equities were the strongest performing asset class for the Lynx Program, as the rebound from 2023 continued into 2024 with many global indices reaching record highs. The AI frenzy was behind some of the appreciation as companies with connections to technology were again in high demand. Chip producer NVIDIA rocketed nearly 150% through the end of June and for a brief time had the highest market capitalization of any publicly traded company in the world (over US \$3 trillion). Alone, the company accounted for approximately a third of the overall performance of the S&P 500 in the first half of the year. In fact, large cap technology stocks were the best performing sector in the S&P 500, generating a gain of 28.2%, while the Magnificent 7 were up 37.0%. The NASDAQ and S&P generated the strongest returns in North America in the Lynx Program in the first half.

Stocks also rose in Europe due to easing inflationary pressures, better-than-expected earnings and signs of economic growth. The first rate cut from the ECB since 2019 contributed to the positive result, as well, and fresh records were hit across the continent. However, the performance trailed that of the NASDAQ and S&P 500 as unexpected national and European parliamentary election results and heightened geopolitical risk in the Middle East weighed on investor sentiment late in the period. The French CAC 40 index became the only major European bourse to end the first half of the year down after equities collapsed over 9% from their peak due in large part to Emmanuel Macron’s unexpected decision to call for snap elections. While European indices contributed positively to the return, performance was mixed with losses in France and the UK offsetting some of the gains elsewhere.

Meanwhile, Asian stock indices generated the highest returns from any region. Taiwan’s capitalization weighted stock index, the Taiex, climbed over 28%, making it the strongest performing major index in the world driven mainly by semiconductor companies and other firms contributing to the artificial intelligence boom. Japanese stock returns followed closely as the Nikkei 225 index reached a record high for the first time since 1989. Stock prices rose due largely to investor-friendly corporate reforms, exceptionally low interest rates and strong earnings. Long positions in the Nikkei and TOPIX indices in Japan were particularly profitable, followed by gains in Taiwan. In China, anemic domestic demand, concern surrounding the housing market and a weakening currency all weighed on investor appetite, particularly in the first quarter. After cutting their key mortgage reference rate in February to offset a collapse in real estate, the People’s Bank of China unveiled a national program in May to allow local governments to buy unsold finished homes from distressed developers. Equity markets rebounded on the moves and expectations for further government stimulus in the second half of the year. The models had some difficulty forecasting the market moves, generating losses in China/Hong Kong.

Global stock index performance during first six months of 2024



Source: Bloomberg

Foreign Exchange

Through the end of June, the Fed had yet to ease interest rates and current expectations are not until the September meeting of the FOMC. Meanwhile, five of the other G10 central banks already began easing monetary policy and the divergence resulted in relatively significant shifts in foreign exchange rates. The US dollar appreciated against most developed market counterparts, the most notable increase coming versus the Japanese yen which weakened over 12% to a 38-year low against the greenback. While the Bank of Japan took a step towards normalizing monetary policy in May by ending their negative interest rate policy and lifting yield curve controls, the economy remained less robust than much of the Western world.

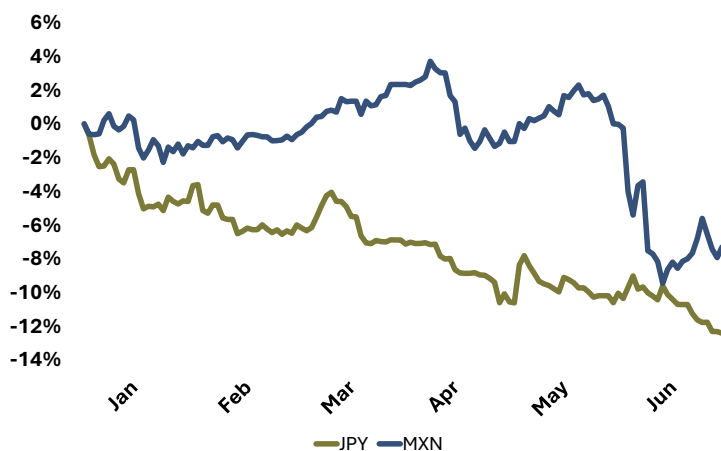
some of the gains in the peso. Conversely, trading in the British pound detracted from performance, as did positions in the Canadian and New Zealand dollars.

Fixed income

The World Bank forecast that global growth would hold steady at 2.6% in 2024 after upgrading their estimate of US growth from 1.6% in January to 2.5% in June. Meanwhile, emerging economies – which historically have been greater contributors to growth figures – fell short of perhaps lofty expectations. While Chinese GDP growth in the first half of the year was largely in line with expectations due to increased exports, the long-anticipated rebound from the country's zero-COVID policy continued to fall short of expectations. While increasing stimulus has begun to have the affect the Chinese government expected growth levels remain well below longer-term expectations. Further, other emerging market economies – particularly those with external debt – have felt the weight of higher interest rates on their cost of financing. The World Bank projected developing economies will ultimately grow 4% in 2024, down a percent from last year.³

Fixed income was the lone negative asset class in the first half for the Lynx Program. Bonds and short-term interest rates were each unprofitable, as the price action was quite challenging for the models. In bonds, positioning in Europe was particularly hard to predict, as losses accrued in Germany, the UK, Italy and France. However, small gains were generated in the US as positive results in the 2, 3, 5 and 10-year Treasury notes outweighed losses in longer-dated bonds. While trading in short rates yielded losses across the globe, positions in the US SOFR detracted the most. Trend-following models underperformed diversifying models in the asset class due primarily to losses in bonds where the latter group generated modest gains.

Foreign exchange rates during first six months of 2024 against the US dollar



Source: Bloomberg

Foreign exchange produced a gain in the first six months of the year as the program remained net long the US dollar, increasing a relatively modest position markedly as the year progressed. Largest gains were realized in the Japanese yen and Chinese renminbi, both of which declined precipitously against the greenback. Short positions in the Nordic currencies, euro and Swiss franc also contributed positively as did a long position in the Mexican peso, although presidential election results in early June mitigated

³ World Bank – www.worldbank.org

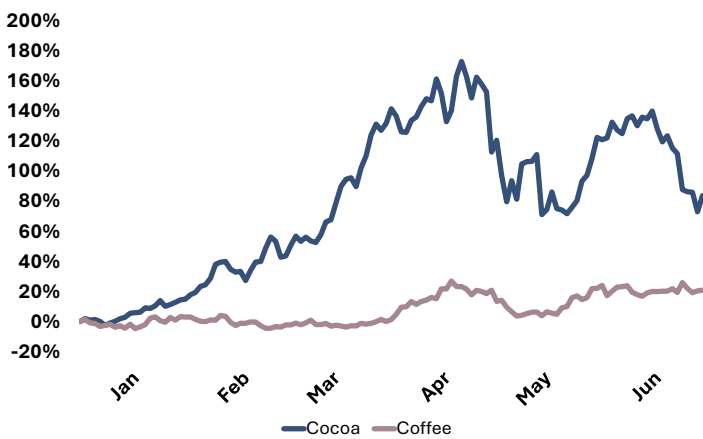


Commodities

Commodities contributed positively to the midyear return, although results varied widely by sector. A solid gain in agricultural markets was mitigated by losses in both metals and energies. In the agricultural sector, the strongest performing markets were in the soft commodities with a long position in cocoa driving a good portion of the return. An El Niño weather phenomenon developed in the summer of 2023 and peaked early in 2024 resulting in changing weather patterns across the main cocoa growing regions in Western Africa, Southeast Asia and India. Starting the year at approximately US \$4,200 per metric ton, cocoa prices spiked by over 170% at the peak in mid-April. While other factors beyond weather influenced prices – from both the supply and demand side – El Niño-related dryness was largely noted as the most significant. Prices subsequently declined as El Niño dissipated in June and the supply/demand balance was restored, although the commodity ended the period over 80% higher than where it began. In other agricultural markets, gains were realized in short positions in corn and soybeans, while losses accrued in the meats.

Meanwhile, losses in energies were driven by a short

US cocoa and coffee price developments during first six months of 2024



position in natural gas and distillates as modest gains were generated in crude oil. After falling by over 40% in 2023, natural gas began to see signs

of life in early 2024. Declining production in the spring and heat waves across much of the US in the early summer drove prices into positive territory on the year. The potential for increased conversion into liquefied natural gas (LNG) later in 2024 and into 2025 also contributed to the reversal as liquefaction capacity in the US has increased markedly in recent years and export demand is expected to rise. Crude oil prices were largely rangebound in the first half, settling higher on expectations that global demand would outpace supply through the end of the year. Prices vacillated during the period on a combination of supply/demand factors and geopolitical conflict in the Middle East but rallied after OPEC+ nations surprisingly extended production cuts through late 2025 in early June.

In other commodities, trading in both base and precious metals was unprofitable due primarily to positioning in silver and copper. Expectations of increasing demand to support the energy transition and from China as their economy emerged from the pandemic resulted in higher copper prices early in the year. Speculation that global central banks would start cutting rates to ease relatively tight financial conditions also contributed to the rally. However, the highest Chinese inventory levels since 2020 and stronger-than-expected economic data, particularly in the US, contradicted some of that narrative and LME copper prices fell over 12% from the peak in late May through the end of June. Precious metals similarly rallied through the first five months of the year on a combination of central bank purchases, expectations of looser monetary policy around the globe and elevated geopolitical risk. Gold prices hit multiple records during the period, peaking at around US \$2,450 a troy ounce, before easing modestly in June. A short silver position in the first quarter was responsible for a majority of the loss in the sector.



National elections and geopolitics

National elections and geopolitical conflict had wide ranging impact across asset classes. In Mexico, Claudia Sheinbaum won the presidential election in June, collecting approximately 60% of the vote. Her left-wing Morena party similarly won decisive victories in the lower house and Senate generating concern that they could together pass legislation without much opposition. In India, Narendra Modi was sworn in for his third term as prime minister, although his Bharatiya Janata party unexpectedly failed to achieve a majority forcing them to accept coalition partners. Elections in France and the United Kingdom at the beginning of the 3rd quarter (ironically, on July 4th in the UK – the day the United States celebrates independence from the colonies) also had an impact on those nations’ economies. Meanwhile, European parliamentary elections took place in June with right-wing nationalist party groups gaining considerable ground. The continent’s newest political group, Patriots for Europe, won the third most seats in the parliament while European Conservatives and Reformists (ECR) trailed only slightly in fourth.

In the US, Joe Biden and Donald Trump were expected to become their respective party’s candidate for the presidential election in November. While Trump officially accepted the Republican nomination in July, he did so just days after an attempted assassination at a political rally in Pennsylvania. Meanwhile, Joe Biden unexpectedly decided to drop out of the race after Trump’s nomination following a widely criticized debate performance in late June which heightened concerns about his age. Biden subsequently endorsed his current vice president, Kamala Harris, who is expected to accept the nomination at the Democratic National Convention in August. Given the vastly different agendas of the Republicans and Democrats – from the economy to social issues to international relations – the outcome of the election could have significance across a wide swathe of issues.

The Israel-Hamas war persisted despite calls from international organizations and other world leaders for a permanent cease fire. Public opinion regarding the war became increasingly divided and protests across the globe intensified. Concern that the conflict would escalate beyond the borders of Israel were intensified after violence escalated with Hezbollah in Lebanon and the direct and indirect involvement of Iran increased. The war in Ukraine entered its third year with no apparent end in sight. As with the Israel-Hamas war, the conflict with Russia became a more divisive issue in 2024 as political parties in Europe and the US used support of Ukraine as a defining point of their agenda.

Outlook

As we mention every year, the Lynx Program is not dependent on any specific macroeconomic environment emerging to prosper. Rather, markets moving from one level of equilibrium to the next in a relatively predictable manner offer the strongest opportunities. Having said this, the program is dependent on events or developments that could prompt these market trends. Below are some potential market-moving catalysts that we believe could offer profit opportunities in the second half of the year.

Divergent monetary policy has already created opportunities in 2024 as there have been some exceptional currency movements based in part on changing interest rate differentials. Different economies are at decidedly different places as we enter the second half of the year. While some developed market central banks have begun easing policy, others – including the Fed – have not, while still others may need to tighten conditions in the near future. Normalizing policy across the globe based on country-specific macroeconomic factors rather than overwhelming risk on/risk off pressures could lead to further opportunities in both foreign exchange and across global yield curves as we move forward.

Every inflationary cycle is different. Historically, war has been one of the main catalysts as deficit spending, supply shortages, and increased consumer demand once the fighting has ceased have all contributed to rising prices. While the conflict in Ukraine at the beginning of 2022 somewhat coincided with the sudden rise in inflation, extraordinary fiscal and

monetary stimulus beginning with the global financial crisis and culminating with the COVID-19 pandemic were largely behind the current cycle. Tighter financial conditions have seemingly begun to have an impact on consumer behavior in recent months, although robust employment and expectations of lower rates in the near future have kept sentiment high. How and when this cycle ultimately ends remain unknowns although opportunities could arise should expectations fall short of reality.

And finally, while the El Niño phenomenon is gone, the US Climate Prediction Center (CPC) recently placed a high probability of a La Niña weather pattern developing in the late summer. We saw the impact of El Niño on commodities earlier in the year and could now be faced with another anomaly that could affect agricultural markets in the second half. Additionally, forecasters are calling for an unusually active hurricane season in the Atlantic which could have an impact on energy production and distribution, potentially exacerbating supply concerns stemming from OPEC+ production cuts.

As always, Lynx is committed to managing your capital responsibly and profitably. We are invested alongside our clients in every program we manage, aligning our interests directly with yours. We are excited about the opportunities that may develop in the second half of 2024 and look forward to rewarding your faith in us with positive, differentiated returns.

Lynx Asset Management

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