KTS
CAPITAL
MANAGEMENT

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The COP26 summit

- KTS is trying to “triage” the most important information, but it looks like there is no real major impact coming from the summit.
- One interesting subject is the newly founded Financial Alliance for net zero (GFANZ), a coalition co-chaired by Mark Carney, a former governor of Bank of England. Its members, which include asset owners, asset managers, banks and insurers, hold about USD 130 trillion of assets. They will try to cut emissions produced from their lending and investing to net zero by 2050. The financial industry cannot possibly save the world alone, but the pressure on companies to adapt will be enormous. Therefore, traditional fossil producers will be forced to improve their ESG score, which is in our view already under way. According to the magazine “The Economist” and others, by 2030 around USD 4 trillion of investment in clean energy will be needed each year, a tripling from current levels. Thus, we are not entirely sure that spending on fossil fuels is going to decline as much as everyone expects. But, from an investment point of view, **KTS going to focus on partnerships with energy specialists in traditional fossil fuel producers, which plan to commit to the green transition and improve their ESG scores.**
- The Economist further rightly explains that a major dilemma is presented by the state-controlled companies, such as Coal India, or Saudi Aramco, the world’s biggest oil producer. These institutions do not operate under the sway of institutional fund managers and private-sector bankers. Apparently, non state-owned fossil producers represent only 14-32% of the world’s emissions. We would argue that the Aramco IPO is aimed at raising funds in order to invest into greener energies. Therefore, there is also commitment from such companies. India is probably more of a dilemma, however.
- Another dilemma mentioned in The Economist concerns the accurate measurement of emissions. KTS fully agrees and, for this reason, we like the company GEVO US. They are attempting to certificate emission measurements with blockchain accessible to everyone. Gevo is a kind of pioneer in this sense.

The COP26 summit

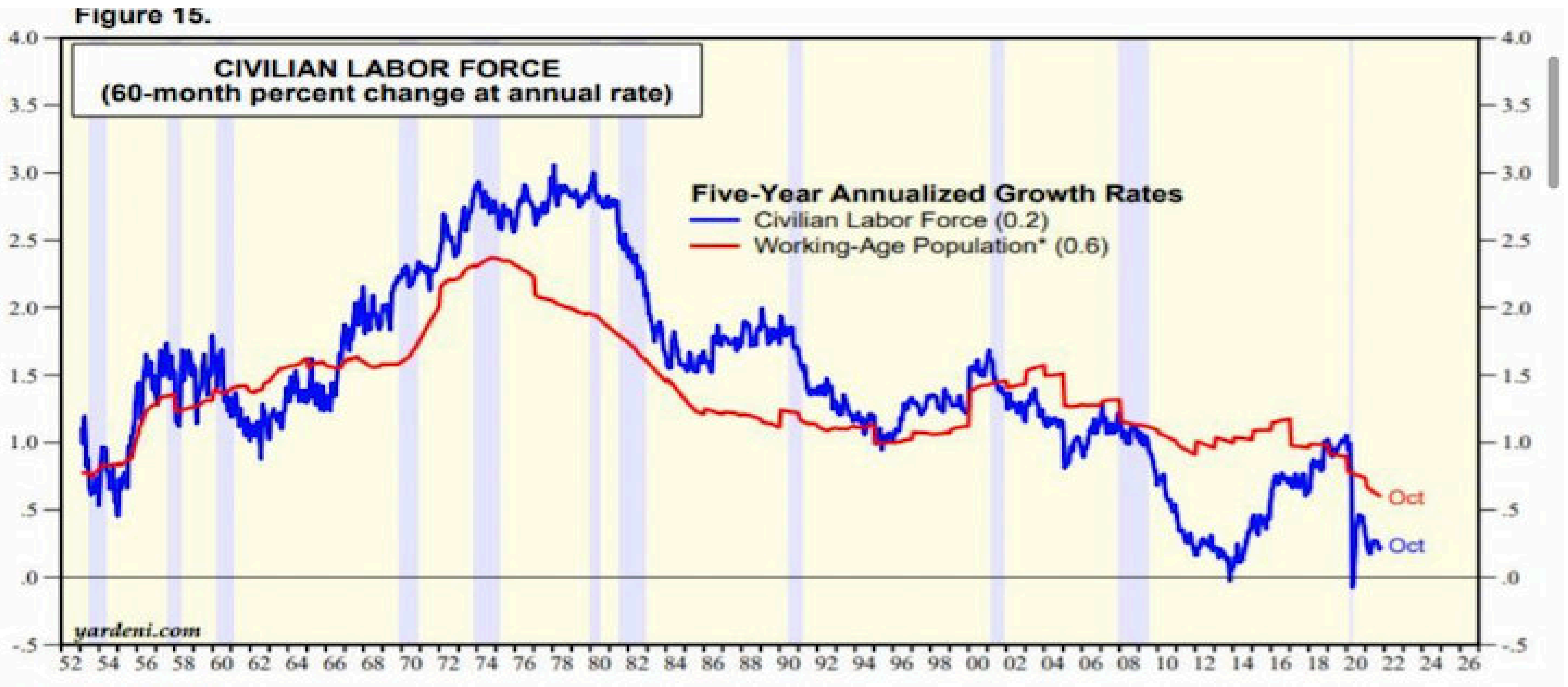
- At the summit, US and China jointly declared their intention to enhance climate action in the 2020s. Basically, re confirming the goals of the COP in Paris 6 years ago, to keep the increase in the earth's mean surface temperature to well below 2 C, ideally to no more than 1.5 C . This is a major event, because the ex US president, Mr. Donal Trump, actually terminated The Paris Agreement.
- The transport sector accounts for about 17% of the global greenhouse-gas emission and most of that comes from cars. Therefore, the roll out of electric vehicles is extremely important and, nowadays, the sale of battery-powered electric vehicles accounts for about 5% of total car sales. Plug-in hybrids made up another 2%. **According to the magazine "The Economist", in order to reach the COP26 commitments, the share of light duty electric vehicles (including plug-in hybrids) needs to grow to at least 75% by 2030. Therefore, KTS feels very comfortable and confident with our investment in the excellent and prestigious Croatian EV car manufacturer Rimac.**
- In addition, we would like to mention that the electric vehicle start up Rivian (RIVN), backed by Amazon, jumped 29% at its first trading day on the Nasdaq, closing with a market cap of USD 85 billion. Rivian expects to lose up to USD 1.3 bio during Q4 2021 and revenues estimated to be around USD 1 million. The valuation of Rivian is as high as General Motors and higher than Ford, Nio and Lucid Group. We would assert that KTS's exposure to the innovative Croatian EV company Rimac is much more solid than all such EV start ups. And, observing the valuation of these new IPOs, it looks like the sky is the limit for the valuation of Rimac.

US Labor market

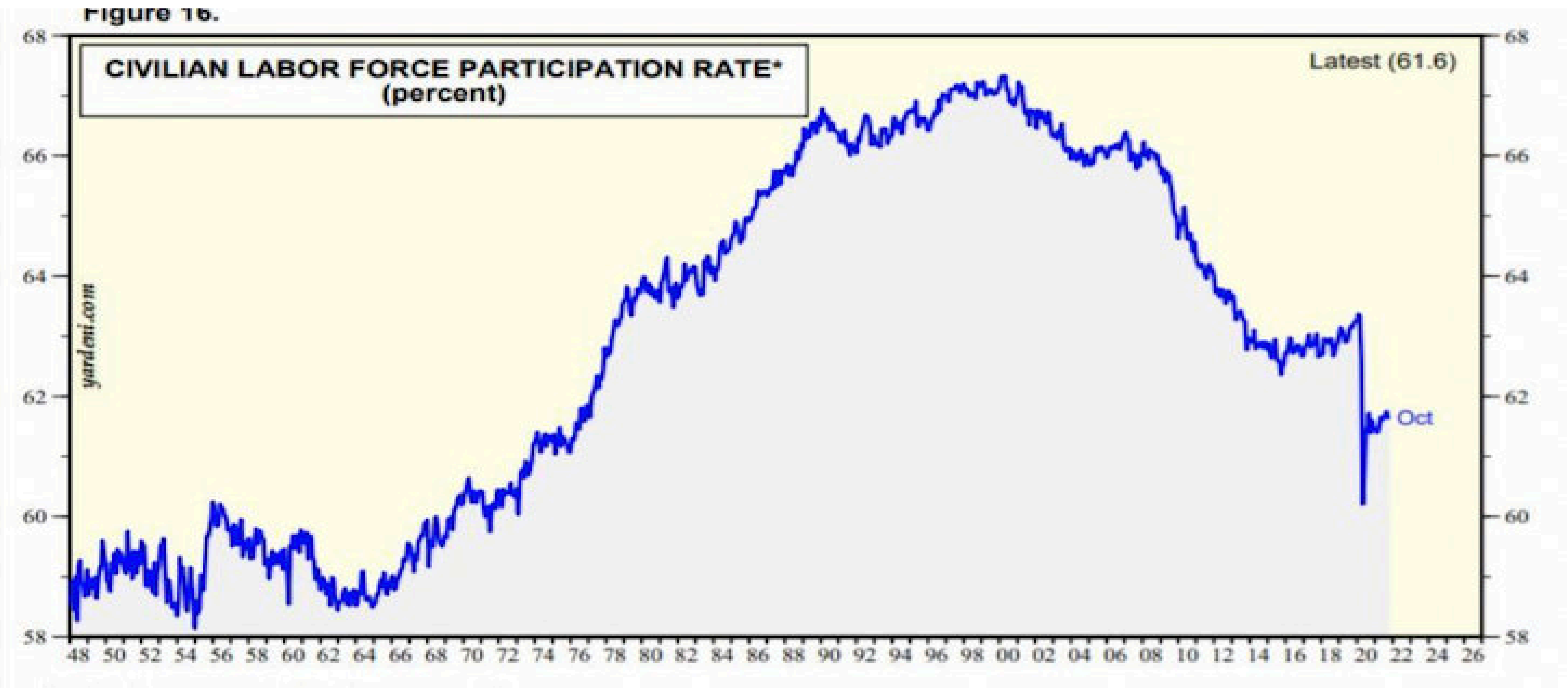
- The latest Census Bureau data confirms that caregiving is a major factor, with over 4.6 million respondents indicating that they either have symptoms from the coronavirus or they are a caregiver. This explains the main problems in the labor market and the huge gap between open job availability and unemployment! The path to full immunization should help to gradually close this gap.
- Meanwhile, the service sector is making gradual progress in bringing workers back, although restaurant and travel sectors continue to be challenged by consumer hesitancy to engage in close contact activities. But, the latest October's ADP numbers showed a big boost in hospitality adding 571k jobs instead of an earlier 395k estimate. In a chart, courtesy Mr. Jurrien Timmer of Fidelity, we can see that October's ADP data basically shows that the economy is back at full capacity.
- The expiration of the USD 300 weekly federal unemployment subsidy should be helpful in bringing workers back into the labor force.
- On a longer term view, Mr. Edward Yardeni points out that the labor shortage problem is not transitory or temporary, but permanent and companies realize this. Consequently, they are steadily increasing their capital spending, particularly on technology, to boost the manual and mental productivity of the available labor force. **Basically Mr. Yardeni is asserting, that automatization is needed and is not a threat for labor market, on the contrary.** The main reason for such an assessment is the analysis of historical data on the 60-month percentage change of the annual change in the civilian population, which is down to 0.4% through December. The working-age civilian population (16 years and older) has been growing a bit more quickly because seniors are living longer, but it was down to 0.6% through October. This number used to be at a peak of 3 back in the 70's , constantly falling to 1.5 in the 90' to 0 in 2012. The statistic had a spike from 2012 to 2020 at 1 and now are at lowest levels again.

US Labor market

- The main reason for this trend is, of course, the retirement of baby boomers. They are retiring at a faster pace now that the eldest in this cohort turned 75 years old this year.
- Young new entrants into the labor force are barely replacing them.
- Mr. Yardeni adds that he also observes a significant slowdown in the working-age population in the labor force participation rate!
- The additional consequence of this trend is the rise of wages, but he does not foresee permanent high inflation, rather a persistent level. An assessment in line with our best in class fund Flossbach, which also sees moderately higher inflation than the last economic cycle. Technological innovation will increase productivity and there is no risk of hyperinflation. Higher wages combined with higher inflation is the best scenario, which is translated into higher consumption and monetization of the high gov indebtedness.



Falling rate of civilian labor force, basically we have less people working



Falling rate of people willing to work

Gold - robust demand from jewelry

- Gold could finally break the resistance of USD 1'836, after frustrating months of trading in a sideways range. As argued in the past, fundamentals (negative real yields, higher inflation, QE, central banks liquidity injections, stimulus packages, fragile fiat money system, high government indebtedness, etc.) should strongly support the case for gold. Even more so for the gold miners, which provide the most attractive valuations in the whole equity universe.
- Gold consumption demand in Q3 2021 was down 7% yoy, but market participants noticed that jewelry consumption accounted for 53% of the total gold consumption demand, which was actually up 33%. China and India together accounted for 57% of the global jewelry consumption in Q3 2021, which was an increase of 6% yoy. As argued in the past, the Asian population still love gold and demand is still increasing.
- We often ask ourselves why the price of gold is currently undervalued, if backed from such strong fundamentals? The only plausible answer for KTS is the fact that, not only the younger generation, but also other generations, prefer to invest into crypto currencies as a hedge against inflation. Is this situation going to persist forever? We can not answer this question, but we like to keep at least 5% invested in the sector, because the downside risk for gold miners at such valuations is limited, whereas the possible upside potential is huge. If the investing community is not going to re-discover the sector, major gold miners will eventually do so. They will start M&A activities, which would be translated in higher multiples for the gold miners sector.
- Meanwhile, the asset manager De Pury Pictet Turrettini is launching an innovative ESG fund called Swiss Positive Gold Fund, investing in top ESG precious metal producers. Our best in class fund Baker Steel expanded the ESG criteria used in the investment process and we feel confident that the asset manager is doing a responsible and reliable job. But, we welcome the initiative of the asset manager De Pury, which could trigger new investments in the underinvested gold miners sector.

Focus on the downside risk

- With equity markets again testing their highs, many investors are asking themselves if it makes sense to constantly deploy capital into strategies which aim to protect the portfolio.
- With experience, we know that most of so called “tail risk” strategies eventually, over a longer period of time, are losing money. Even though last year during the Covid19 pandemic these strategies made more than 100% return. However, in the past 10 years such strategies lost over 2/3 of their value; therefore, the performance of the majority of “tail risk” funds is still negative by at least -40%. Meanwhile, funds like our best in class Flossbach achieved a constant 7% p.a., successfully riding out the severest market corrections.
- Attached, we post a link to very interesting research from the fund manager Tramondo, which is on KTS’s radar screen for the selection of our top dynamic asset allocation fund. They explain perfectly the importance of managing effectively downside risk and to be in the position to react in the right manner in market corrections.
- KTS fully agrees with the findings of the research and has invested substantial capital and know how into improving the down side risk with external risk managers, constant fund research, constant monitoring of new strategies and increasing over years the database on funds and strategies results, analysis, which strategies are really reaching the desired result.
- Link to the research of the fund manager Tramondo “Spotlight on drawdown management”:

https://tramondo.ch/en/publications-en/spotlight-on-drawdown-management/

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