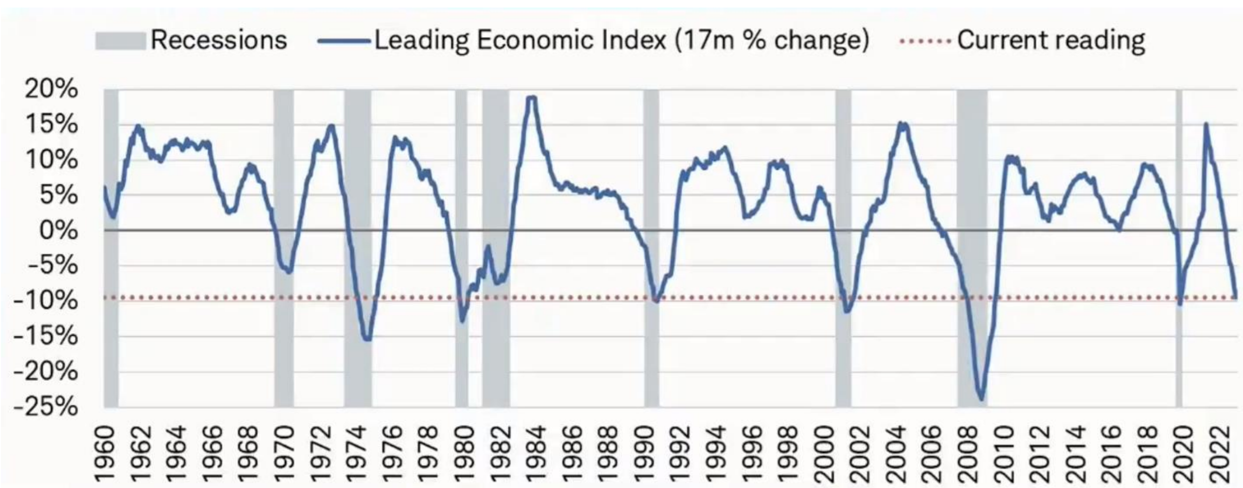
OYAT ADVISORS – QUARTERLY COMMENTARY

2Q 2023

Investment landscape

The global economy is slowing, with Europe already officially in a recession. Leading economic indicators increasingly point downward, pushing most to predict tougher times ahead. The U.S. Federal Reserve (FED), followed by other central banks, continues to raise interest rates, increasing financing costs and squeezing company profitability while making cheap financing a thing of the past. Inflation may be moderating, but major economies such as the U.S. continue to grapple with price increases well above targets. It's hard to blame central banks in Europe or the U.S. for persistent tightening when inflation of approximately 5.5% and 4% respectively continues to wreak havoc on the purchasing power of most consumers. But spiking interest rates also bring risk while providing no guarantee that potentially structural inflation won't simply reappear when the economic backdrop turns up once again. In fact, the powerful headwinds of rapidly increasing interest rates tend to be felt a year or more after the hiking starts, after a well-documented lag-effect. The FED started its hikes about 15 months ago, meaning the impact may just now start to truly be felt in the economy. Let's not forget that the U.S. is still reeling from multiple bank failures while the world wrestles with a lingering armed conflict on European soil. At the beginning of the second quarter of 2023, it did indeed seem that investors could expect challenging times.



Source: Charles Schwab, Bloomberg, The Conference Board, as of 31.05.2023

And yet, global stock indices rose impressively and relentlessly. The S&P 500 index gained approximately 16% in the first half of 2023, much of that coming in the second quarter. The tech-heavy Nasdaq Composite has gained over 31% this year, its best first half in 40 years. Even seemingly dormant Japanese stocks put smiles on investors' faces as they trounced the U.S. market with the Nikkei rising 27% in the first half of the year. Cheers for a productivity revolution driven by Artificial Intelligence (AI) pushed stocks such as chip designer Nvidia up nearly 200% in the year to a market capitalization above $1 trillion and a price to sales ratio exceeding 40x according to Refinitiv. Optimists desperately avoid using the words frothy or bubbly when describing the market these days. The impending impacts of higher interest rates, sinking economic indicators and unpredictable inflation, all looming over mountains of debt that will need refinancing, are glossed over, or ignored completely. Markets are up, and the fear of missing out is palpable.

But below the veneer of impressive market performance, cracks do appear. In fact, one cannot truly say that markets are up in 2023, but rather that market indices are up. The reality is that market indices such as the S&P 500 are being held up by a handful of large companies. The seven largest companies in the S&P 500, all generally tech companies, are up 86% on average in the first half of 2023. The other 493 companies have languished. Needless to say, this market rally lacks breadth. The "Magnificent Seven" stocks as they are dubbed (think Nvidia, Tesla, Meta, Apple, Amazon, Microsoft, and Alphabet) have contributed to what is one of the highest degrees of market concentration in history. As of late June, 2023, just the Magnificent Seven accounted for 27.7% of the S&P 500. Investors should certainly rejoice in the gains achieved so far in 2023 but should not ignore the echoes of past stock market bubbles and returns driven by just a handful of companies.

Variant Perception reminds us that, *'Today's AI surge, against a backdrop of 500bps of Fed hikes since March 2022, has some uncomfortable echoes with the lead-up to some major historical market tops. 1929, 1973 and the dot-com bubble all saw sustained monetary policy tightening and a clear divergence of surging bubble stocks vs the average stock moving sideways/falling.'* Indeed, investors in 1999 celebrated an 85%+ rise in the Nasdaq Composite while dismissing warnings from sceptics. When the party ended, those that quit their day jobs to become wealthy day traders found themselves unemployed and staring at account statements showing their beloved Nasdaq down nearly 77% from its peak.

Timing the market is, in general, a fool's errand. But that doesn't mean investors have to ignore risks when they are elevated or valuations when they are frothy. Portfolios can be diversified and adjusted to individual investment objectives and risk tolerances. In fact, avoiding too much market timing also means investors must stay largely invested, but that doesn't mean portfolios have to chase trendy stocks trading at eye-watering valuations or that portfolios need to get shattered when bubbles burst. Even in tough markets such as when the dot-com bubble burst, companies that had strong business models and solid financials either managed to survive to fight another day or even performed admirably through the crisis – a good example being Warren Buffett's Berkshire Hathaway which rose 30% between 2000 and the end of 2002 as the Nasdaq collapsed. Truly diversifying assets such as gold helped as well. Gold trickled down initially, but by early 2001 had started an impressive bull run that would see its value more than triple through the years preceding the Global Financial Crisis.

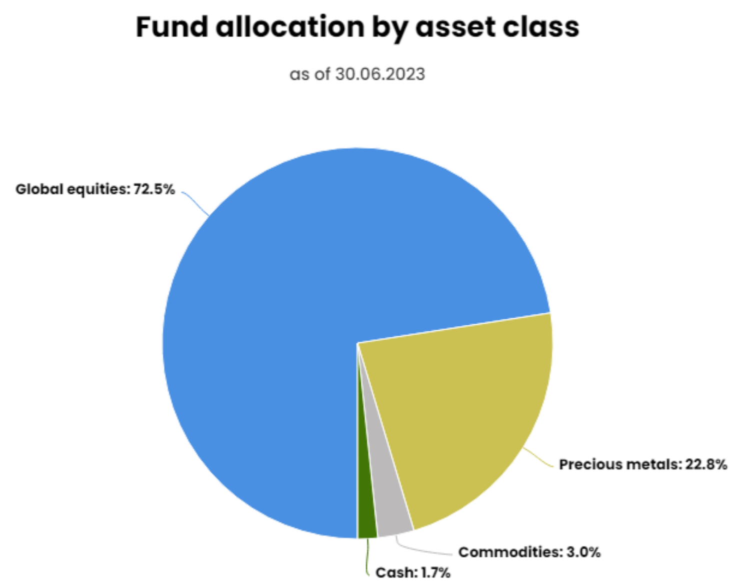
Currently, market performance seems out of sync with the pressures facing the global economy and the lagged effects sure to hit economic activity after one of the most aggressive central bank hiking programs in history. Perhaps most critical is to admit that the impressive market gains so far in 2023 do little to solve the truly important challenges we face in the forms of clearly unsustainable debt levels and ever concentrating economic systems which are desecrating the middle-class and leaving income inequality and the consequent social strife in their wake. The alarming trajectory of the financial situation underlying the global economy is evident when reading the Congressional Budget Office's own report stating that the US federal budget deficit reached [$1.1 trillion] in just the first six months of fiscal 2023, pushing the federal debt level past the [$32 trillion] mark (not including obligations from entitlement programs such as Medicare). With the Fed's most recent hike pushing its Fund rate above 5%, even simple math tells us that $32 trillion times 5% would mean the federal interest rate burden would approach $1.6 trillion and eat up a gigantic portion of tax revenues. It's ever more difficult to see how the U.S. economy or its currency can exit this unsustainable path of indebtedness unscathed or without curbing the type of optimism needed to push equity markets up as we have experienced in the first half of 2023.

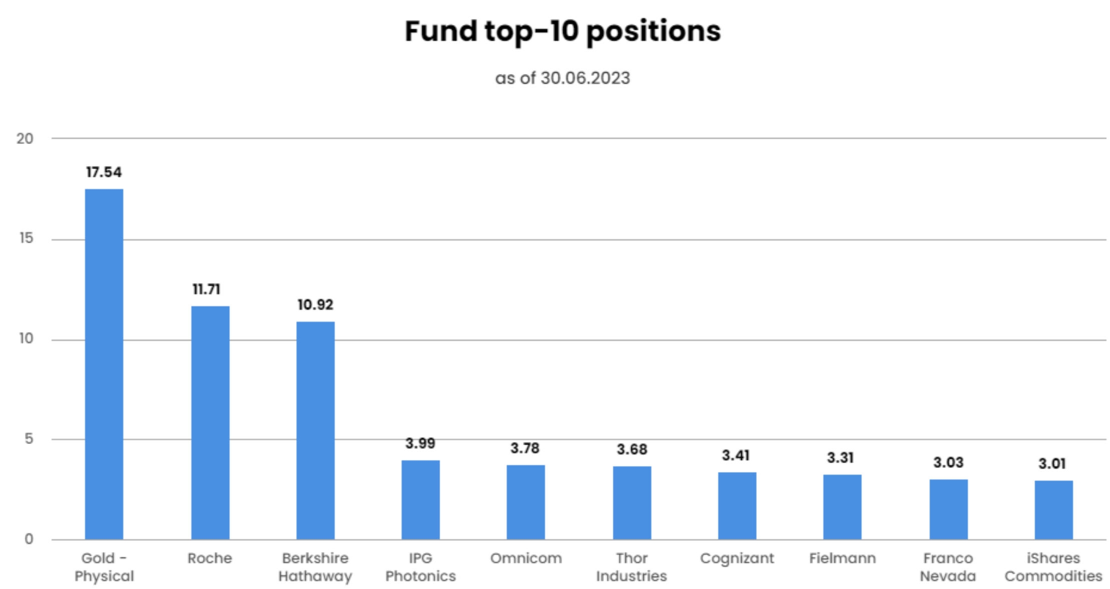
Despite the disconnect between economic indicators and stock performance, and despite the complicated web of risks and structural challenges faced by economies today, investors need not despair. Risks, stretched valuations and even recessions can be tackled through patience, process and targeted optimism. Diversified portfolios can take the heartache out of market downturns and prevent the worst of investing errors. Deep research can skew risk to the upside while an appropriate level of liquidity can provide option value exactly when it is needed most. For investors seeking to navigate today's complicated markets, focusing on financially strong companies with enduring market positions and attractive valuations can provide admirable performance even in the case of crumbling markets, as it has in the past when bubbles burst. Diversifying assets such as gold may help to insulate investors from currency devaluation (through inflation for example) as well as financial or geopolitical stress while providing a potential source of liquidity to pounce on truly attractive investment opportunities as they arise.

We are convinced that investors with a structured process and the appropriate discipline can find attractive idiosyncratic investment opportunities, as well as benefit from overall market volatility. Our investment process enables us to deploy capital in what we believe to be the best possible way to navigate the current investment environment - by focusing on owning scarce and productive assets, often in the form of high-quality companies, as well as maintaining a significant level of optionality by holding liquid reserves such as physical gold.

Asset allocation

The graphs below display the Oyat Investment Fund's allocation of capital across asset classes, as well as the Fund's top-10 positions:





Performance

Quarterly returns as of June 30, 2023, in CHF

	2Q23	YTD	1 Year	3 Year	5 Year	Since Inception*
Oyat Investment Fund	-0.78%	2.67%				0.19%
MSCI World	4.73%	11.80%				6.17%

Total returns presented for periods greater than one year are annualized.

**Inception Date: November 10, 2022*

In the second quarter of 2023, the Oyat Investment Fund returned -0.78% in CHF, versus 4.73% for the MSCI World Index. Since inception, the Fund's total return stands at 0.19% vs. 6.17% for the aforementioned reference index.

The Fund's stable performance in the past quarter was impacted by the lackluster trajectory of its large position in physical gold. While gold in CHF is still up marginally in 2023, a strong showing in the first quarter was essentially reversed in the second quarter as investors gradually shifted to riskier assets. The smaller yet related exposure to precious metals miners was also a drag on performance, as the price of gold declined. The continued stress on government finances, rising debt levels, and the elevating risk around the need for substantial refinancing at ever higher interest rates leaves us steadfast in our positive view on gold and its material weight in the Fund.

Gold's effect on performance was largely offset by strong performance from Berkshire Hathaway, the Fund's third largest position, as it moved up approximately 8% in CHF last quarter. Berkshire remains a diversified company with an exemplary track record of capital allocation and plenty of option value in the form of ample cash reserves. Interest rate hikes have gradually increased the return on Berkshire's cash reserves while the company has made investments in energy company Occidental Petroleum and a selection of Japanese trading companies which have performed well. Berkshire's substantial holding in Apple, which continued its strong move up in the quarter, likely helped the Berkshire share along with meaningful share repurchases and impressive operating earnings to start the year.

Thor Industries also supported Fund performance in the quarter. The producer of towable and motorized recreational vehicles once again proved its ability to manage difficult market conditions and maintain profitability even when revenue declines. The industry leader in what is essentially an oligopoly, experienced substantial revenue growth during the pandemic as people looked to recreational vehicles to take vacations with hotels closed and urban spaces under lockdown. Remote working made life on the road easier as well. As uncertainty around the sustainability of Thor's revenue and profitability pushed the stock down at the end of 2022, we were able to purchase the quality company at an attractive valuation. Recent reporting did show a meaningful drop in revenue, but the company's flexible cost base allowed Thor to keep profits higher than expected, and the stock price rebounded approximately 27% in CHF in the quarter.

Unfortunately, the quarter was not without weakness in some holdings. Notably, the position in athletic footwear retailer Foot Locker dropped more than 30% in CHF as the company struggled to implement its turnaround plan and efficiently implement improvements in its omnichannel platform. The company is attempting to reduce its overall exposure to supplier Nike while facing headwinds from weakness in consumer spending in its area of the market. Ultimately, the company's strong industry positioning and history of profitable and value-creative operations leave us confident that the share price will recover from heavily depressed levels, and we increased our position in the period. Foot Locker's weakness in the quarter also dragged down the share price of peer Hibbett Sports. We opportunistically added Hibbett to the portfolio with our valuation models showing substantial upside for long-term investors.

Additional changes in the quarter included the exit of the position in Klepierre as concerns around commercial real estate continue to increase, as well as the sale of our position in Spanish multinational clothing company Inditex which reached our fair value after strong price appreciation. This capital was used to make an incremental increase in the Roche position, which performed essentially in-line with positive global equity markets in the period, and the initiation of a position in Focusrite.

Focusrite is a global music and audio products group that develops and markets proprietary hardware and software products. Used by recording professionals and musicians alike, its solutions facilitate the high-quality production of recorded and live sound and are benefitting from structural growth in the podcast and amateur recording spaces. The Focusrite Group trades under a number of established brands including Focusrite, ADAM Audio, Novation, Ampify and Martin Audio. With a high-quality reputation and a rich heritage spanning decades, its brands are category leaders in the music-making and audio recording industries. Overall, Focusrite checks all the boxes on our investment checklist. It is competitively advantaged in providing products for which there is a real and growing demand. It does so profitably, and consistently so. It earns impressive levels of return on investment while making limited use of debt and maintaining a solid financial position. Its executive officers are experienced and reasonably remunerated, and their capital allocation decisions have proven to be in-line with the firm's overall strategy. Despite having a new CEO since 2017, there remains a strong link between ownership and management as Phil Dudderidge, who managed the company between 1989 and 2017, remains Chairman of the Board with a substantial strategic shareholding.

When looking at the Fund's performance relative to the MSCI World Index, one should note that large technology companies led the charge, and our relative underweight in the area proved to be a headwind as AI linked companies such as NVIDIA (up nearly 50% in the quarter) pulled global equity indices up. When looking at the top performance contributors of the MSCI World Index, we see exactly the aforementioned Magnificent Seven - Nvidia, Tesla, Meta, Apple, Amazon, Microsoft, and Alphabet. Some of the relative headwind was offset by our position in Alphabet/Google which performed well in the quarter. We remain wary of companies trading at valuations that hit levels as high as 40x revenue and stick to our investment process and positioning across an adequately diversified selection of high-quality companies trading at attractive valuations, as well as a significant allocation to physical gold. As always, capital preservation is our first priority, and a prerequisite to our second main objective of capital appreciation in real terms. We believe the Fund is well positioned to fulfil its long-term investment objectives.

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