

**2021
AND
BEYOND
STRIKING A
NEW BALANCE**



L Y N X

SUMMARY

The Lynx Program generated a positive return of 1.3% in 2021 as gains in commodities and equities offset losses in fixed income and foreign exchange. Entering the year, optimism that the COVID-19 pandemic would soon be under control as vaccines became increasingly available across the globe was confounded by the emergence of new variants as the year progressed. Although the reaction to each consecutive wave of the virus was less severe relative to the first, the periodic pullbacks were rather challenging to navigate. Meanwhile, rising inflation created significantly more interesting opportunities, particularly in the commodities, as manufacturing accelerated and the demand for energies and industrial metals outpaced supply growth. Inflationary pressures remained high as the year came to a close. Medium and long-term trend-following models generated solid gains, although shorter-term timeframes were flat. Conversely, short-term diversifying models yielded positive results, whereas medium and long-term counterparts detracted from the return.

The research team was active developing new and innovative concepts to employ in the Lynx Program during the year and five new models were added to the portfolio. All five additions are part of the diversifying cluster, and each employs a unique methodology designed to bolster the potential sources of return for the program. Meanwhile, the risk allocated to model families changed marginally from the end of 2020, reflecting an increasing adaptivity of the portfolio to shifting market conditions. Lynx ended 2021 with approximately US \$6.3 billion under management and 77 employees located in offices in Stockholm, Sweden, and New York, New York, USA.



YEAR IN REVIEW

Has the extraordinary become ordinary? Rising global COVID-19 cases, political upheavals around the world, elevated geopolitical tensions and the highest developed market inflation readings in a generation had little lasting impact on investor sentiment in 2021.

The year began with a surge of coronavirus infections across the globe, but also the hope that newly developed vaccines would soon end the plague that had gripped the world over the prior year. However, the emergence of highly contagious variants extended the life of the pandemic as delta instigated another round of lockdowns and travel restrictions in the spring while omicron spread wildly across the globe late in the fourth quarter. Despite record high infection rates and the declining efficacy of vaccines given the virus' mutations, market reactions to these developments were distinctly different than the initial response in 2020. Pullbacks were reasonably short-lived as investors quickly shrugged off bad news, rather envisioning the future post-COVID.

On the political front, there were multiple leadership changes during the year and not all transfers of power were peaceful. Following a speech by Donald Trump at a rally on January 6th, thousands of his supporters advanced on the US Capitol, storming the building and sending members of Congress

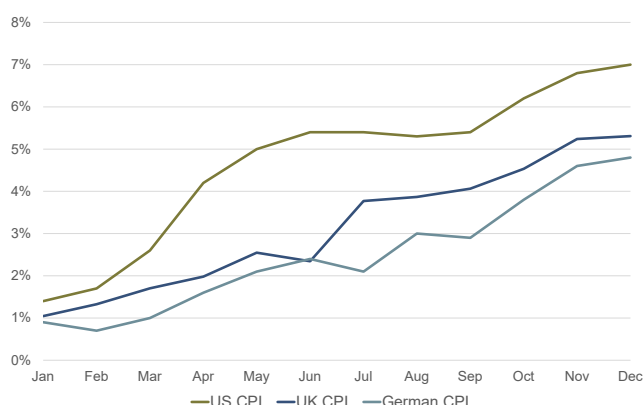
into lockdown to prevent the certification of Joe Biden's presidential election. A military coup in Myanmar in early February toppled the popularly elected government of Aung San Suu Kyi – a former Nobel Prize winner. In June, Israel's longest-serving prime minister, Benjamin Netanyahu, was ousted from his position for the second time in his career amid corruption charges. Later in the year, Angela Merkel stepped down after 16 years as German Chancellor, while Magdalena Andersson resigned hours after being voted Sweden's first female Prime Minister; Andersson ultimately took office 4 days later.

Perhaps unsurprisingly, geopolitical pressures remained elevated across much of the globe. After amassing troops on their border with the Ukraine, Russia warned western nations against getting involved in any dispute claiming their moves were in response to a building NATO influence in the region. Russian forces stayed in place as the year came to an end and tensions remained high. In August, the Taliban captured Kabul and the Afghan government surrendered control of the nation to them ending 20 years of US involvement in the country. Continued territorial disputes in Asia between China and their neighbors and the resulting military exercises and other displays of force had many in the region on edge, concerned about an escalation.



On the economic front, after remaining relatively subdued for a generation, inflation numbers increased dramatically in 2021. Unlike some other similar periods historically, supply chain disruptions and work force shortages created by the pandemic were initially cited as the primary causes. As a result, many global central bankers considered the pressures to be transitory. However, as economies continued to reopen following widespread lockdowns in 2020, reflationary pressures built. Expansionary monetary policy remained in place and fiscal spending increased across much of the globe. Consumer prices climbed at their fastest pace in decades. CPI in the US exceeded 7% for the first time since 1982, while numbers in Germany and the Great Britain rose at 5.3% and 4.8%, respectively; readings were even higher in the European periphery.

Consumer Price Index - 12-month percent change

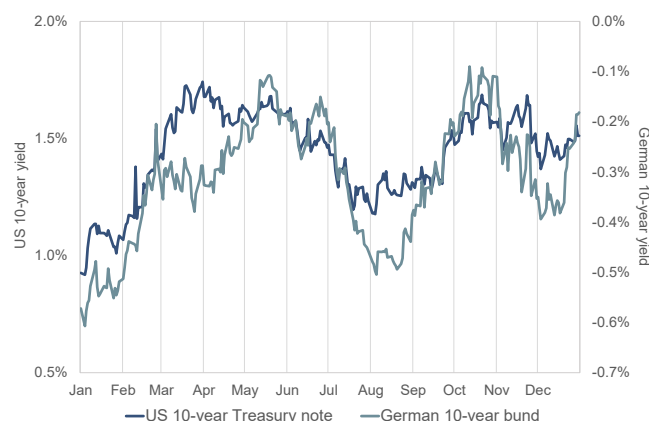


Source: U.S. Bureau of Labor Statistics, UK Office for National Statistics, German Federal Statistical Office

Policy makers ultimately needed to address persistently high inflation in Europe and North America, despite concern over the coronavirus. Although policy remained accommodative, central banks began to accelerate the move towards normalization as the year came to an end. The Bank of England and Norges Bank each hiked interest rates in December, while the Fed indicated they were on track to raise rates multiple times in 2022 and suggested they would likely quicken the tapering of asset purchases. Foreign exchange and fixed income markets reacted to these moves and the changing macro-

economic landscape. Rates climbed across much of the globe with the German bund yields rising 39 basis points to end the year at -0.18% and US 10-year Treasury notes surging nearly 60 basis points to 1.51%.

US 10-year Treasury and German 10-year bund yields



Source: Bloomberg

Despite rising yields and expectation of normalizing conditions in 2022, asset prices increased; commodities were one of the primary beneficiaries, particularly energies. Early in the year, Saudi Arabia's voluntarily production cut – beyond levels previously negotiated within OPEC – and widespread refinery shutdowns in Texas resulted in a sharp appreciation of the crude oil complex. As the year progressed, increasing demand and tight supply supported even higher prices. Natural gas prices similarly surged as producers were relatively slow to ramp up production due to skepticism that industrial demand would remain robust in light of the emergence of new variants of COVID-19. As autumn arrived, European natural gas supply was at a seasonal record low and prices rocketed higher. European shortages due largely to anemic Russian supply had nations on the continent competing with Asia for liquid natural gas shipments. The geopolitical strife over Ukrainian membership in the EU and the delayed certification and approval by European regulators of Nord Stream 2 – the controversial natural gas pipeline to Western Europe – each contributed to Russia's reluctance to increase deliveries.

Industrial metals similarly climbed on the reflation trade. Increased Chinese imports and decreased South American production, particularly in the first quarter, were supported by rising copper demand for electrical wiring and battery production. Agricultural commodities also appreciated early in the year on rising demand and concern that inventories would continue to dwindle due to unfavorable growing conditions in the US and South America; by April, corn and soybean prices eclipsed their highest levels in almost a decade. However, beneficial weather in the midwestern United States in the late spring resulted in dramatic price reversals. Grain and bean prices gave back previous gains and were trading lower on the year until a late December price spike.

2021 Performance of Brent crude and copper



Source: Bloomberg

Outside of commodities, equity markets across much of the globe again delivered exceptional results in 2021. Despite lofty valuations, accommodative monetary policy and increasing fiscal stimulus around the globe created a ripe environment for stocks to flourish. Better-than-expected earnings, accelerating manufacturing growth and strong performance from energy and property-related stocks further bolstered gains, particularly in large cap indices. The identification of new COVID-19 variants over the course of the year created some interim volatility and rising inflationary pressures had many forecasting more challenging conditions

ahead in 2022, but most major global market indices delivered positive results. The one notable exception was China where relatively tighter monetary policy, increasing governmental oversight of private companies, and generally lower vaccination rates than in the West contributed to relatively poor results. While the S&P 500, EuroStoxx and TOPIX indices ended the year up 27.0%, 21.0% and 10.4%, respectively, the China 50 index closed down 11.3%, while the Hang Seng index in Hong Kong dropped 14.1%.

2021 Equity index performance

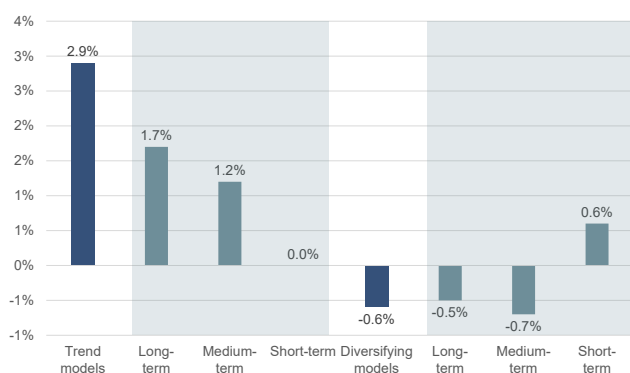


Source: Bloomberg

PERFORMANCE ATTRIBUTION

The Lynx Program generated a positive return of 1.3% in 2021, bringing annualized performance since inception to 9.1% with an annualized standard deviation of 14.6%. During the year, gains in commodities and equities outweighed losses in fixed income and foreign exchange. Overall, medium and long-term trend-following models generated solid gains, although shorter-term peers were flat. Conversely, short-term diversifying models yielded positive results, whereas medium and long-term models detracted from the return. In aggregate, diversifying models designed to be explicitly long volatility and those utilizing machine learning techniques underperformed while those employing systematic macro concepts were profitable.

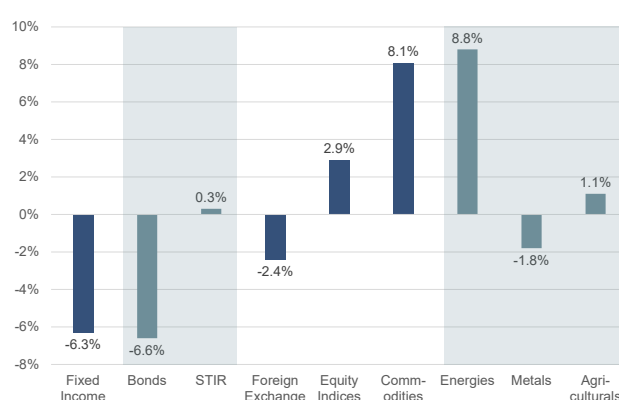
Contribution to performance by model type during 2021



Commodities were particularly profitable, generating a gain of 8.1% primarily due to long positions in the energy sector. Crude oil and natural gas prices rose dramatically on increasing demand and declining inventories. The imbalance was especially stark in Europe as Russian supply was insufficient to keep up with rising consumption, although Asia was similarly in deficit. Agriculture markets and base metals also generated gains, while precious metals were the lone detractor in the asset class as prices fluctuated on shifting expectations of US monetary policy. Profits were generated by both trend-following and diversifying models across timeframes as the opportunity set was strong for most methodol-

ogies. On an absolute basis, trend-following models outperformed diversifying counterparts, although based on the risk budgeted to each, the latter were generally more efficient.

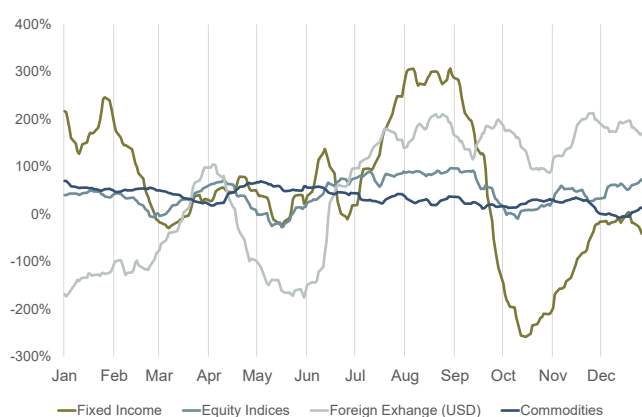
Contribution to performance by asset class during 2021



Although the asset class contributed a positive 2.9% as a whole, equity performance was mixed by region as gains in Asia/Pacific and North America overshadowed a small loss in Europe. Exposure vacillated broadly over the course of 2021 ranging between approximately 95% net long and 27% net short as models reacted relatively quickly to shifting price action, particularly when markets declined sharply on coronavirus concerns or inflationary fears in the spring and early fall. Largest gains were realized in the S&P 500, Dow and Canada 60 indices in North America and the Kospi, Hang Seng and China H-Share indices in Asia; notably, profits in China were the result of short positions while long exposure drove positive results elsewhere. Medium and long-term trend-following models were particularly profitable, while short-term timeframes had difficulty navigating the market environment; given how quickly markets recovered from periodic pullbacks during the year, longer holding periods generally outperformed faster models. Meanwhile, all diversifying timeframes produced positive results – albeit to a lesser degree than trend.

Foreign exchange was a challenging asset class to trade in 2021, particularly in the first half of the year, generating a loss of 2.4%. As was the case with equities, net exposure fluctuated widely with net US dollar positioning ranging between approximately 223% long and 177% short. The program entered 2021 with significant short exposure in the greenback which suffered as the US currency rose early in the first quarter on increasing rate expectations; while the Fed remained highly accommodative, indications of rising inflation resulted in an increasingly hawkish tone from many Federal Reserve governors. As the year progressed, rising inflation numbers across much of the globe had other central banks similarly shifting away from crisis-era rhetoric and towards a focus on policy normalization. Exchange rates moved around dramatically, and sometimes unpredictably. While strong gains were generated in the asset class over the final few weeks of the year, they were insufficient to cover early declines. Trend-following models were unprofitable across timeframes, with losses relatively commensurate with the risk budgeted. Meanwhile, long-term diversifying models generated a solid gain which more than offset a loss from medium-term counterparts.

Net exposure by asset class in 2021

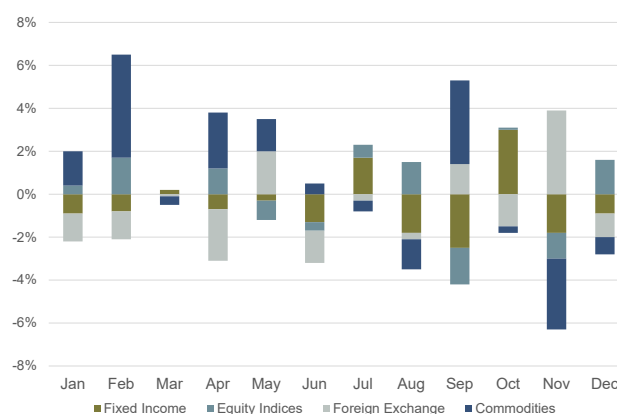


Fixed income was the worst performing asset class for Lynx in 2021 contributing a negative 6.3% exclusively due to trading in global bonds; short-term interest rates were modestly profitable. Trading in

Europe was particularly challenging as the models had difficulty navigating the changing market dynamics, particularly in the second half of the year. After fluctuating between long and short positions through June, the program built significant long exposure in the French notional bond (OAT), German bund and UK gilt in the early summer months as a resurgence of COVID-19 infections created concern that the nascent recovery might be stifled by a new wave of lockdowns and restrictions. When exposures were at their peak, Eurozone inflation readings surged due largely to rising food and energy prices resulting in a spike in yield expectations. By the end of the year, those three markets were responsible for over half of the overall loss in the asset class. Amongst the trend-following cluster, medium- to long-term models generated losses, while the shorter-term holding periods were faster to adapt to the quickly changing environment and produced a modest gain. Meanwhile, diversifying models were negative contributors in the asset class across holding period, with long-term timeframes having particular difficulty.

The chart below illustrates a summary of returns by asset class on a monthly basis.

Contribution to performance by asset class during 2021



OUTLOOK

Global growth was exceptionally strong in 2021 fueled by a combination of increased fiscal and monetary stimulus and the positive impact of economies reopening as governments eased pandemic restrictions. Inflation also climbed reaching levels not seen in most countries in a generation or more, and central banks took note. Many initially speculated that the inflationary pressures were likely transitory, primarily due to short-term supply chain disruptions and a sudden shift in manufacturing activity. However, as inflation remained elevated throughout the year, that opinion began to change.

As the year was coming to a close, governments began announcing the end of asset purchase programs – some dating from the global financial crisis and others introduced in the midst of the COVID-19 pandemic – and central banks began tightening monetary policy. As these inflationary pressures continue into 2022, this trend towards policy normalization could persist and the tailwind created by cheap liquidity and relatively low volatility may turn. The resulting environment for long-only equity and bond investors could be challenging, while the opportunity set for Lynx could improve markedly.

With our focus on ESG and sustainability, we also took note when Joe Biden signaled the US's return to the Paris Accord almost immediately after

taking office. The significance of this decision was evidenced by multiple weather-related natural disasters occurring during the year across the globe. Arguably one of the most significant changes likely to take place over the coming decade will be the “green transition.” As the world shifts from the old “brown” economy in to the new sustainable “green” one, the supply/demand dynamics of global markets will be impacted. As markets reset from one level of equilibrium to the next, significant trends could emerge.

We have discussed in prior letters that we are not in the business of predicting the distant future, but rather how markets will move tomorrow. However, shifts in the macroeconomic environment and changes in the way producers and consumers behave create opportunities for our strategy. Given the magnitude of the adjustments that will likely take place over the coming years – from monetary policy to sustainable investing – we are excited about the possibilities.

As always, Lynx remains committed to managing your capital responsibly and profitably. We are invested alongside our clients in every program we manage, aligning our interests directly with our investors. We hope to reward your confidence in us with differentiated, positive returns in 2022 and beyond.



SUSTAINABILITY AT LYNX

2021 saw the official formation of the Lynx Sustainability Forum. The Forum sets and updates Lynx's sustainability framework, direction and project prioritizations and ensures that resources are leveraged across the firm to drive these initiatives. During the year, we increased our engagement with derivatives exchanges and industry organizations to help facilitate the development of standards, practices and new products designed to enable the green transition. Liaising with these groups has enabled us to increase our understanding of ESG risks relating to our investment universe and opened us up to potentially including new ESG-related investments. Members of the Sustainability Forum also participated in roundtables and working groups sponsored by external organizations such as the Alternative Investment Management Association (AIMA) and the Standards Board for Alternative Investments (SBAI). Additionally, members of the Forum regularly participated in conferences, seminars and panels and produced independent research on the challenges and opportunities CTAs face when implementing responsible investment.

With more capital flowing into ESG strategies, global exchanges – including the Nasdaq, Eurex and CME Group – have launched a series of equity index futures tied to ESG benchmarks. Considering our commitment to responsible investing and our aspiration to be early adopters, Lynx started trading three of these derivatives in 2021 and we are monitoring and evaluating a long list of similar instruments for potential inclusion in our investment universe in the future.

Finally, as the EU Sustainable Finance Disclosure Regulation (SFDR) came into effect in March 2021, significant progress has been made, and even more work underway, in achieving compliance with the disclosure requirements and being able to report accordingly. More information can be found on our website.

COLLABORATIONS

Where our interests and approaches are aligned, we engage with other market participants to apply the concept of responsible investments and to improve standards for the industry.

Signatory of:



COMMUNITY ENGAGEMENT

As a financial market participant, we are an integrated part of society. Lynx actively supports the 17 sustainable development goals (SDG's) adopted in 2013 by the United Nations as part of the 2030 Sustainable Development Agenda. We support a number of organizations and initiatives that have links to one or more of the SDG's global objectives. For more information please visit our website: www.lynxhedge.se.

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