Investment Strategy Prospectus for Pareto Asset Management

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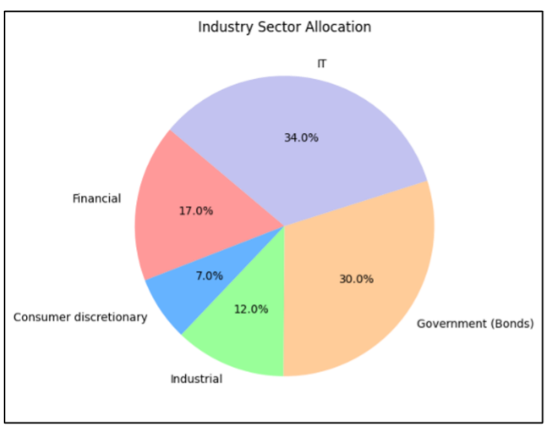
1 Portfolio Outline

1.1 Target clientele

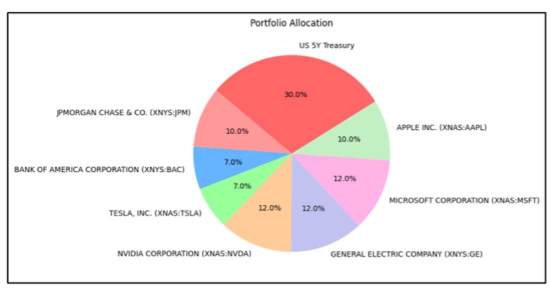
The following portfolio is targeted towards retail investors, who are typically characterised by a moderate risk tolerance. These investors priorities capital appreciation and steady growth over time, valuing investments that offer both growth potential and limited downside. As such, the portfolio places significant weight on large cap companies in high-growth sectors such as technology and financials, which provide steady long-term upside, while balancing risk with stable, defensive government securities. These investments are intended to ensure a well-rounded approach to growth and protection against volatility, appealing to retail investors seeking a diversified and manageable risk profile.

1.2 Portfolio Allocation Rule

Our strategy has been designed to respond to the macroeconomic implications following the U.S. presidential election, particularly under the Trump administration and the historical financial performance of our selected companies. The portfolio emphasises sector diversification as shown in figure 1a, reducing exposure to any single sector while maintaining the potential for capital appreciation. Macroeconomic indicators suggests that sectors such as technology and financials are positioned to benefit from existing rate cuts, deregulation, and economic policies that encourage business growth. These policy shifts are expected to return long-term capital accumulation through growth-focused equities. Our portfolio also includes more stable assets, such as Treasury bonds, to provide a hedge against potential inflationary pressures and geopolitical instability. Our portfolio illustrated in figure 1b aims to capture upside from favourable economic policies while managing risks from inflation and market volatility.



(a) Sector Allocation



(b) Portfolio Allocation

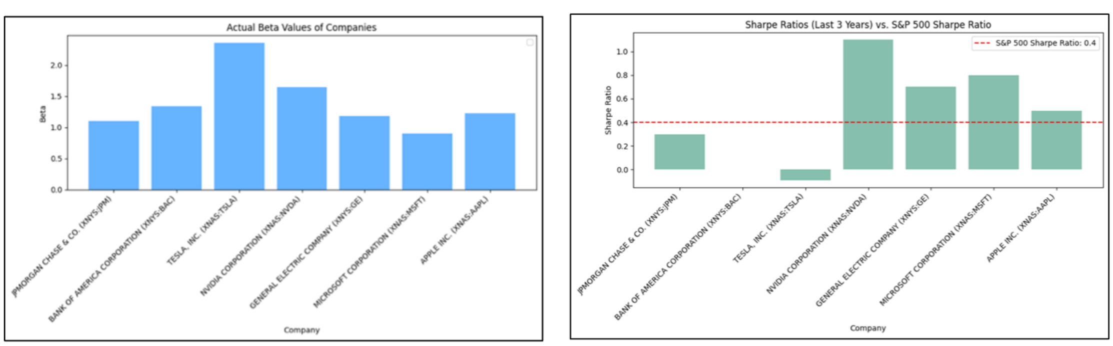
Figure 1: Overall Allocation

1.3 Underlying Assets

Given the portfolio composition to reflect both macroeconomic shifts and the specific needs of our target clientele. A considerable proportion of the equity allocation is focused on technology and financial sectors, as these are forecasted to benefit from existing rate cuts and the pro-business policies under the Trump administration. For the technology allocation, we have selected NVIDIA and Microsoft, which are leaders in the rapidly growing sectors of graphics processing units (GPUs) and AI-driven software and cloud solutions. These companies are well-positioned for long-term growth, with strong historical performance. NVIDA has dominated the technology sector with returns of up to 2441.33% over the last 5 years and Microsoft following with 175.13%. Considering their beta values as highlighted in Figure 2a — NVIDIA's at 1.65 and Microsoft's at 0.9 — help to balance the portfolio's overall market volatility, while their large market capitalisation provide earnings stability.

The financial sector is another key area of focus, as JPMorgan Chase and Bank of America stand to benefit from potential banking deregulation and favourable policy changes, increasing their profitability. These stocks are included in our portfolio as both companies offer strong financial performance with historical returns of 60.385% and 119.59% for BAC and JPM, respectively. Combining these strong returns with their large market caps, making them reliable long-term investments. Tesla has been included in the portfolio as a high-growth technology stock. Under the new Trump administration, Elon Musk's prominent role and his alignment with pro-business policies could lead to favourable outcomes for Tesla as demonstrated by the 39% return a week after the U.S election. Specifically, deregulation and tax incentives for electric vehicle (EV) manufacturers, and policies designed to bolster U.S. manufacturing and energy independence, may significantly benefit Tesla's growth prospects. While Tesla's beta value of 2.3 indicates higher volatility compared to other stocks in the portfolio, its growth potential, especially in the context of favourable policy under the Trump administration, justifies its inclusion as a growth-oriented equity

Given the concern over inflationary pressures, particularly due to the expected US tariffs and current geopolitical uncertainty, we have also included General Electric (GE) in the industrial sector. Over the last half decade GE seen a strong 224.71% historical return and a Sharpe ratio of 0.7 (over the last 3 years) as shown in Figure 2b. The company is well-positioned to manage inflation through its pricing power and diversified operations, offering both growth potential and a hedge against rising costs. Finally, the remainder of the portfolio we suggest allocating in 5-year Treasury bonds, which provide stability and predictable returns with minimal credit risk, especially in the face of potential market volatility. These bonds are less sensitive to rising rates compared to longer-term bonds, ensuring resilience in an inflationary environment. This diversified allocation ensures a balance between growth, stability, and income, making it an attractive choice for retail investors seeking both security and long-term capital appreciation.

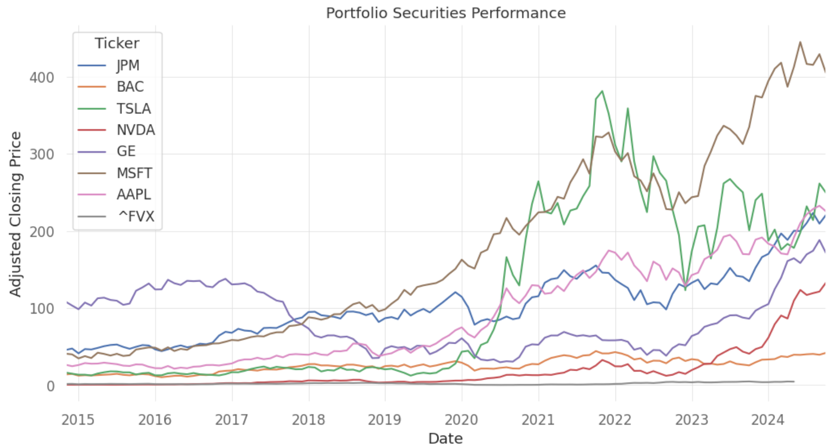


(a) Company Beta

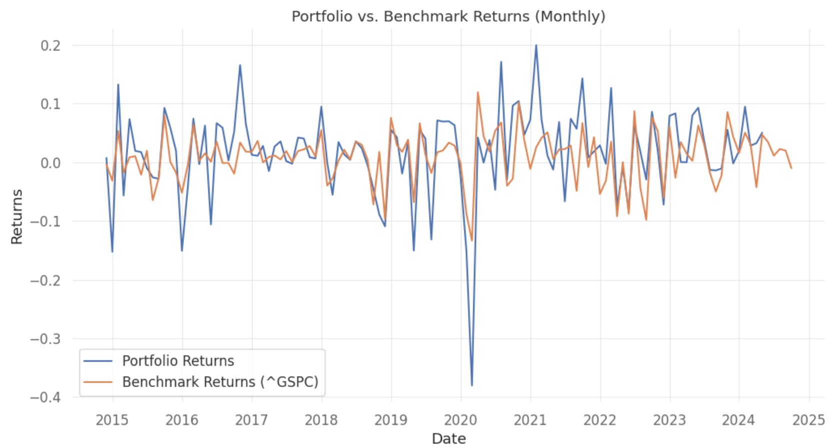
(b) Company Sharpe Ratio

Figure 2: Company Performance Metrics

2 Portfolio Performance



(a) Portfolio Securities Performance



(b) Portfolio: Benchmark Returns

Figure 3: Portfolio Performance Overview

Figure (3) presents the individual stock performance and monthly returns of our portfolio over the last five years compared to the S&P 500 benchmark, demonstrating the performance of our investment strategy. The first graph highlights the growth of key technology stocks like Tesla and NVIDIA, with all our selected securities exhibiting a positive upward trend over the period. The second graph compares the portfolio's monthly returns to the benchmark, showing periods of volatility but also consistent positive returns above the benchmark, particularly post-pandemic.

Building on this, Figure (4) illustrates the cumulative returns of the portfolio versus the S&P 500 from 2015 to 2024. The portfolio notably outperforms the benchmark, with exponential growth from 2020 onwards. While the S&P 500 demonstrates steady growth, the portfolio achieves over three times the cumulative return by 2024, reflecting the past capitalisation on market opportunities and deliver strong results through a focus on high-growth equities and risk management.

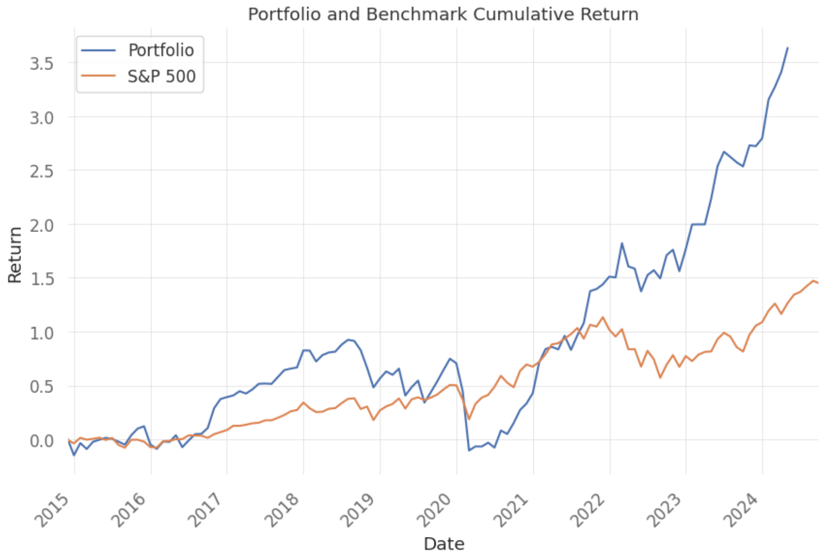


Figure 4: Cumulative Returns

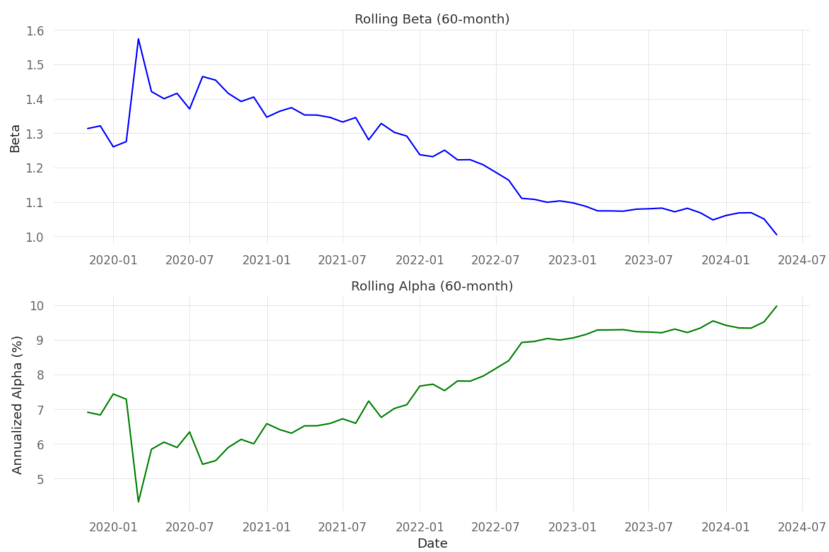


Figure 5: 60-month Rolling Beta

Our portfolio performance metrics highlighted in table 1 highlights the strengths and areas for improvement of our proposed portfolio. Considering first figure (5), over the past 60 months, our portfolio's beta had changed significantly, reflecting sensitivity to market volatility during and after COVID-19. Initially peaking at 1.6 during the pandemic, the beta value has since stabilised near 1 by 2024, indicating that the portfolio's movement towards the market while presenting reduced volatility. Additionally, our portfolio consistently generated a positive increasing alpha value, indicating potential to outperform the market and deliver an increasing trend in abnormal returns.

The Sharpe ratio indicated in Table 1 further highlights the proposed portfolio's strong performance, achieving 0.67 compared to the S&P 500's benchmark of 0.49. This demonstrates our portfolio's ability to generate higher returns for each unit of risk. Despite both Sharpe ratios being below 1—suggesting moderate compensation for risk—our portfolio still provides a more favourable risk-return trade-off. The Probabilistic Sharpe ratio (96.13% vs. 94.8% for the benchmark) provide further evidence in the portfolio's outperformance. Additionally, a higher Sortino ratio highlights effective downside risk management, supported by Treasury bonds that balance the portfolio's more volatile stocks, such as Tesla. Regarding the information ratio, we compute a value of 0.14 for our portfolio which indicates that our portfolio has outperformed the benchmark, but the excess return relative to the risk we have taken is modest. However, if we consider the other metrics presented, such as significant past cumulative returns and a solid Sharpe ratio above the benchmark it supports the overall strong performance of our portfolio.

Considering the strategy's heavy exposure to the IT sector (34%), it introduces significant tail risks and contributes to higher drawdowns. The portfolio experienced a maximum drawdown of -53.35%, nearly double that of the benchmark (-26.33%), and presents prolonged recovery periods, with a longest drawdown of 974 days. These vulnerabilities demonstrate the impact of certain concentrated sector allocation and the challenge of managing volatility, even with a 30% allocation to low-risk assets like Treasury bonds. Overall, while our strategy delivers strong returns and a risk-adjusted performance, managing sector-specific risks remains crucial for future optimisation.

3 Strategy Implementation

In light of the portfolio performance, we propose a dynamic re-balancing strategy in response to macroeconomic changes, particularly those stemming from events like the U.S. elections, while also leveraging the historical performance of individual stocks. This approach involves frequent adjustments to the portfolio, ensuring alignment with changing market conditions. By closely monitoring indicators such as interest rates, inflation, and unemployment, this will help control for certain levels of risk associated with economic slowdowns, rising inflation, or interest rate changes.

Dynamic re-balancing helps maintain the portfolio's risk-return objective for retail investors, even with high-volatility stocks like Tesla. Additionally, it capitalises on favourable economic conditions—such as periods of economic expansion or low interest rates—by increasing exposure to high-growth sectors like IT. For example, 34% of our portfolio is allocated to the IT sector, driven by developments in artificial intelligence and its growth potential. This strategy allows us to reorganise portfolios dynamically, target growth sectors, and optimise asset allocation.

However, dynamic re-balancing has certain limitations that include higher transaction costs and the need to time the market. To overcome some of these challenges, we propose a quarterly rebalance, closely monitoring macroeconomic events to activate dynamic adjustments only during significant shifts. Estimated transaction costs are approximately 0.1% per trade, resulting in an annualised minimum cost of 0.4%, with higher costs during periods of severe market changes. These are offset by the high liquidity of selected assets, ensuring smooth execution with minimal slippage. We also suggest a small cash reserve of 1–2% to cover transaction costs without disrupting portfolio composition.

Finally, the re-balancing process is supported by automated tools and Python scripts to monitor portfolio drift and optimise trades. This ensures the strategy remains efficient, cost-effective, and practical, particularly for retail investors, while continuing to deliver on its objectives of risk management and capital growth.

Table 1: Portfolio and Benchmark Performance Metrics

	Benchmark	Strategy
Start Period	2014-12-01	2014-12-01
End Period	2024-05-01	2024-05-01
Risk-Free Rate	2.36%	2.36%
Time in Market	100.0%	100.0%
Cumulative Return	127.62%	359.87%
CAGR%	6.21%	11.83%
Sharpe	0.49	0.67
Prob. Sharpe Ratio	94.8%	96.13%
Sortino	0.7	0.94
Sortino/$\sqrt{2}$	0.5	0.66
Omega	1.72	1.72
Max Drawdown	-26.33%	-53.35%
Longest DD Days	731	974
Gain/Pain Ratio	0.6	0.85
Gain/Pain (1M)	0.6	0.85
Payoff Ratio	0.72	0.76
Profit Factor	1.6	1.85
Common Sense Ratio	1.57	1.77
CPC Index	0.76	0.93
Tail Ratio	0.98	0.96
Outlier Win Ratio	4.1	2.5
Outlier Loss Ratio	3.04	2.14
MTD	4.69%	5.05%
3M	8.51%	22.11%
6M	24.82%	31.12%
YTD	10.22%	24.5%
1Y	25.04%	54.64%
3Y (ann.)	4.36%	24.48%
5Y (ann.)	8.26%	18.19%
10Y (ann.)	6.21%	11.83%
All-time (ann.)	6.21%	11.83%
Avg. Drawdown	-6.97%	-10.63%
Avg. Drawdown Days	123	158
Recovery Factor	3.58	3.54
Ulcer Index	0.08	0.17
Serenity Index	3.38	2.67