INVESTMENT
STRATEGY

NOVEMBER 2024

Prepared by
AURORA CAPITAL MANAGEMENT

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PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

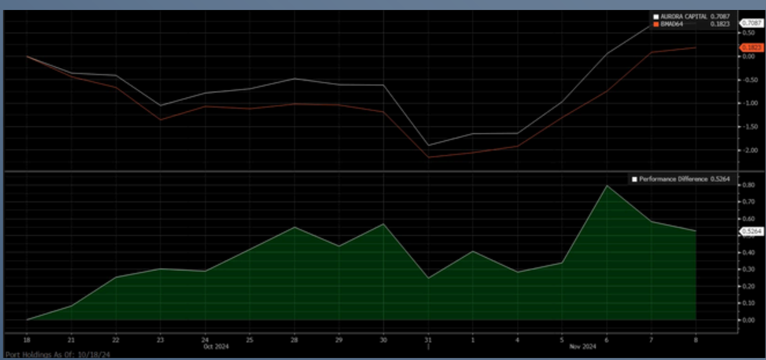
Portfolio vs. Benchmark Performance Analysis

The performance of the Aurora Capital portfolio between the 18th of October and 8th of November highlights its resilience and ability to **outperform the benchmark**, BMADM64, particularly in the face of **market volatility**. Starting on October 18, 2024, both Aurora Capital and BMADM64 were aligned at a baseline return of 0.00%. However, as the market faced challenges, Aurora Capital demonstrated a capacity to recover faster and with more strength than the benchmark.

From October 21 through October 31, both the portfolio and the benchmark encountered negative returns, reflecting a volatile market environment. While the portfolio recorded a series of daily losses, reaching a low of **-1.9019%** on October 31, the benchmark also suffered, with its deepest loss recorded at **-2.1496%** on the same day. During this challenging period, Aurora Capital's losses, while significant, remained more contained compared to the benchmark. This suggests that the **portfolio managed risk effectively**, minimizing its drawdown relative to the benchmark during the downturn.

Starting in early November, Aurora Capital showcased its ability to **capitalize on the market's recovery phase**. On November 6, the portfolio was able to turn positive, achieving a return of **0.0533%** while the **benchmark** still lagged at **-0.7420%**. This early shift back into positive territory was a turning point, as it signaled **Aurora Capital's superior recovery trajectory**. By November 8, the portfolio had achieved a return of **0.7087%**, significantly ahead of the benchmark, which stood at 0.1823%. This final performance resulted in a **clear outperformance margin of 0.5264%** in favor of Aurora Capital.

Throughout the period, Aurora Capital not only **mirrored the general trends of the benchmark** but **consistently** demonstrated an **ability to navigate and recover from market dips more effectively**. The portfolio's performance relative to the benchmark indicates a disciplined approach to managing risk while also positioning itself to capture gains during recovery phases. This strategic balance between risk management and opportunistic recovery allowed Aurora Capital to close the period well above the benchmark, reinforcing its potential as a resilient and growth-oriented investment.



Day of Week	Date	AURORA CAPITAL	BMAD64
Fri	10/18/24	0.0000	0.0000
Mon	10/21/24	-0.3535	-0.4353
Tue	10/22/24	-0.4113	-0.6647
Wed	10/23/24	-1.0533	-1.3542
Thu	10/24/24	-0.7784	-1.0675
Fri	10/25/24	-0.6963	-1.1137
Mon	10/28/24	-0.4723	-1.0211
Tue	10/29/24	-0.6039	-1.0420
Wed	10/30/24	-0.6179	-1.1861
Thu	10/31/24	-1.9019	-2.1496
Fri	11/01/24	-1.6472	-2.0526
Mon	11/04/24	-1.6402	-1.9220
Tue	11/05/24	-0.9702	-1.3092
Wed	11/06/24	0.0533	-0.7420
Thu	11/07/24	0.6656	0.0828
Fri	11/08/24	0.7087	0.1823

PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

Key metrics and Risk-Adjusted Returns

The Aurora Capital portfolio demonstrated a highly effective balance of risk and return over the period, successfully managing risk while delivering superior returns compared to its benchmark, BMADM64. This performance is evident across multiple risk metrics, highlighting the portfolio's disciplined approach to volatility, downside risk, and overall risk-adjusted performance.

The portfolio's **annualized standard deviation** was **8.96%**, slightly above the benchmark's 7.77%. This indicates a higher level of volatility but remains within a controlled range, especially considering the portfolio's outperformance in returns. The additional volatility Aurora Capital took on was well-compensated by returns, as evidenced by its risk-adjusted performance metrics. **Downside risk**, which reflects potential for loss, was measured at **6.81%** for Aurora Capital, closely aligned with the benchmark's 5.74%. This **near-parity in downside risk** suggests that the portfolio managed to achieve higher returns without substantially increasing its exposure to negative returns.

The **Value at Risk (VaR)** at a 95% confidence level for Aurora Capital was **-0.84%**, close to the benchmark's VaR of -0.78%. This metric provides a probabilistic view of the potential worst-case loss in typical market conditions. The fact that Aurora Capital's VaR remains so close to the benchmark's indicates that the **portfolio did not take on undue risk to achieve its outperformance**. This controlled VaR underscores the portfolio's conservative approach to extreme risk scenarios, ensuring that even with an active strategy, exposure to significant losses was effectively limited.

One of the most critical measures of Aurora Capital's success in balancing risk and return is its **tracking error**, which was **3.11%.** Tracking error reflects the extent to which the portfolio deviated from the benchmark's performance. This **moderate level** of tracking error shows that the portfolio pursued active management strategies to enhance returns while maintaining alignment with the benchmark's risk profile. By limiting deviations, Aurora Capital maintained consistency with market movements while still achieving excess returns, striking a prudent balance between active management and risk control.

The portfolio's **Sharpe Ratio of 0.97**, compared to the benchmark's negative -0.16, highlights its efficient risk-adjusted performance. The Sharpe Ratio measures returns per unit of risk taken, and Aurora Capital's positive Sharpe Ratio suggests that it **delivered a substantial return for each unit of volatility endured**. In contrast, the benchmark's negative Sharpe Ratio reflects an inability to generate adequate returns relative to its risk. This distinction indicates that Aurora Capital's approach to volatility was well-compensated, positioning the portfolio as an efficient generator of returns for the level of risk assumed.

Portfolio Statistics	Port	Bmrk
Return		
Total Return	0.71	0.18
Maximum Return	1.03	0.83
Minimum Return	-1.29	-0.98
Mean Return (Annualized)	19.37	4.95
Mean Excess Return (Annualized)	13.75	

PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

Key metrics and Risk-Adjusted Returns

Another critical measure of risk-adjusted performance is **Jensen Alpha**, which was **12.03** for Aurora Capital. This positive alpha demonstrates that the portfolio **consistently generated returns above** what would be **expected** based on its exposure to market risk, adjusting for the benchmark's performance. Positive alpha is a direct indicator of effective active management, as it shows returns generated beyond passive exposure to the market. Aurora Capital's high alpha reflects its capacity to add value independently of market movements, underscoring the success of its asset selection and strategic allocation decisions.

The **Information Ratio** for Aurora Capital was **3.19**, emphasizing the portfolio's ability to generate excess returns per unit of tracking error. This high Information Ratio signifies that the **active management decisions driving deviations from the benchmark were consistently profitable**. The Information Ratio is particularly valuable for evaluating portfolios with an active management approach, as it measures the quality of active returns relative to the degree of benchmark divergence. Aurora Capital's strong Information Ratio underscores its ability to **capture gains from active positions without incurring excessive risk relative to its benchmark**.

The portfolio's **Treynor Measure** was **0.08**, which assesses returns relative to systematic, market-wide risk. This measure confirms that Aurora Capital delivered **returns** that were effectively **proportional to its beta-adjusted market exposure**. With a beta (ex-post) of 1.09, Aurora Capital exhibited a slightly higher sensitivity to overall market movements compared to the benchmark. This slight increase in beta reflects the portfolio's ability to capitalize on market trends, benefiting from upward movements while managing exposure to downturns effectively. The Treynor Measure highlights that Aurora Capital's returns were sufficient to justify its market sensitivity, indicating an effective management of systematic risk.

Correlation between Aurora Capital and the benchmark was strong at **0.9444**, suggesting that while the portfolio engaged in active management, it remained aligned with general market trends. This high correlation shows that the **portfolio did not stray significantly from the benchmark's direction**, providing **stability in tracking market performance** while still achieving excess returns. Finally, Aurora Capital's **capture ratio** of **1.26** reveals that the portfolio captured a higher proportion of the benchmark's positive returns. A capture ratio above 1 is a sign of a portfolio's ability to benefit from favorable market conditions more effectively than the benchmark, highlighting Aurora Capital's capability to enhance returns during up-market periods without incurring excessive additional risk.

Risk/Return		
Sharpe Ratio	0.97	-0.16
Jensen Alpha	12.03	
Information Ratio	3.19	
Treynor Measure	0.08	
Beta (ex-post)	1.09	
Correlation	0.9444	
Capture Ratio	1.26	

Risk		
Standard Deviation (Annualized)	8.96	7.77
Downside Risk (Annualized)	6.81	5.74
Skewness	-0.55	-0.27
VaR 95% (ex-post)	-0.84	-0.78
Tracking Error (Annualized)	3.11	

PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

Individual Position Performance Analysis

The Aurora Capital portfolio's performance was shaped by a range of individual positions, with each ETF contributing differently based on sectoral trends, regional performance, and economic conditions. Here's an analysis of all twelve positions, highlighting the key drivers behind each asset's performance over the period.

MLPX US emerged as the top-performing position with a return of 5.26%. This ETF focuses on midstream energy infrastructure, benefiting from **favorable conditions in the energy sector**, such as high commodity prices and rising global energy demand. As midstream companies handle storage and transportation, they are well-positioned to profit during periods of high production and consumption, which contributed to MLPX's positive return.

ARGT US, an Argentina-focused ETF, delivered a return of 3.61%. This performance reflects **positive developments in emerging markets**, especially in South America. Argentina may have benefited from favorable economic policies, political stability, and strong sectoral growth in areas like agriculture, energy, and mining, driving investor interest and boosting ARGT's performance.

XZMU LN, which provided a 3.30% return, likely benefited from its **diversified exposure across sectors** that experienced stable growth. The ETF's holdings in high-growth or resilient industries likely contributed to its gains, as it capitalized on underlying growth trends within its focus sectors or regions.

DYNF US posted a return of 2.45%. As a dynamic allocation ETF, DYNF frequently adjusts its holdings to **capture short-term market opportunities**. Its performance reflects the success of its tactical allocation strategy, which likely enabled it to shift assets toward high-performing sectors or defensive positions, supporting its gains during the period.

QDVE GR targets prominent tech giants, including Apple, NVIDIA, and Microsoft, making it attractive for investors seeking growth potential in the rapidly advancing technology sector. Its performance has been bolstered by these industry leaders, which comprise a substantial part of the portfolio.

Security	ID	Position	Price	PCS	FX Rate	Principal
<Search>						
Totals						100,000,000.29
Cash		0.0000				
006208 TT	TW00000...	1,395,185.4000	115.90	EXCH	0.03120	5,044,831.62
ARGT US	ARGT	64,858.4600	71.71	EXCH	1.00000	4,651,000.17
DGRW US	DGRW	175,976.1800	84.71	EXCH	1.00000	14,906,942.21
DXJ US	DXJ	6,689.9470	108.82	EXCH	1.00000	728,000.03
DYNF US	DYNF	265,900.8300	51.05	EXCH	1.00000	13,574,237.37
FNDX US	FNDX	419,404.2800	24.29	EXCH	1.00000	10,187,329.96
INR FP	FR00103...	82,413.1614	32.10	EXCH	1.08670	2,874,734.52
LVHI US	LVHI	575,673.0000	31.57	EXCH	1.00000	18,173,996.61
MLPX US	MLPX	28,514.0560	57.27	EXCH	1.00000	1,632,999.99
QDVE GR	IE00B3W...	86,032.1380	30.42	EXCH	1.08670	2,844,000.00
SGLD LN	IE00B57...	58,111.5650	261.91	EXCH	1.00000	15,219,999.99
XZMU LN	IE00BFM...	159,829.0000	63.58	EXCH	1.00000	10,161,927.82

Portfolio Position at 18/10/24

Security	ID	Position	Price	PCS	FX Rate	Principal
<Search>						
Totals						100,652,836.17
Cash		0.0000				
006208 TT	TW00000...	1,395,185.4000	116.45	EXCH	0.03113	5,058,356.11
ARGT US	ARGT	64,858.4600	74.30	EXCH	1.00000	4,818,983.58
DGRW US	DGRW	175,976.1800	85.66	EXCH	1.00000	15,074,119.58
DXJ US	DXJ	6,689.9470	109.58	EXCH	1.00000	733,084.39
DYNF US	DYNF	265,900.8300	52.30	EXCH	1.00000	13,906,613.41
FNDX US	FNDX	419,404.2800	24.71	EXCH	1.00000	10,363,479.76
INR FP	FR00103...	82,413.1614	30.69	EXCH	1.07090	2,708,584.40
LVHI US	LVHI	575,673.0000	30.96	EXCH	1.00000	17,822,836.08
MLPX US	MLPX	28,514.0560	60.28	EXCH	1.00000	1,718,827.30
QDVE GR	IE00B3W...	86,032.1380	31.49	EXCH	1.07090	2,901,230.85
SGLD LN	IE00B57...	58,111.5650	258.97	EXCH	1.00000	15,049,151.99
XZMU LN	IE00BFM...	159,829.0000	65.68	EXCH	1.00000	10,497,568.72

Portfolio Position at 08/11/24

PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

Individual Position Performance Analysis

FNDX US returned 1.73%, driven by its focus on large-cap US equities. The ETF, which excludes traditional weighting by market cap, instead allocates based on fundamentals, allowing it to capture value from strong companies. The US equity market remained resilient, supporting FNDX's stable performance as it capitalized on blue-chip stocks' stability.

SGLD LN declined by 1.12% over the period. As a gold-focused ETF, SGLD's performance is closely tied to the price of gold, which can fluctuate based on safe-haven demand and currency strength. During this period, reduced demand for gold as a defensive asset and **US dollar strength** may have contributed to SGLD's slight underperformance.

LVHI US, a high-dividend ETF, experienced a return of -1.93%. This ETF may have faced challenges due to declining interest rates, which tend to diminish the appeal of dividend-focused investments as investors shift to higher-growth stocks. Concerns about dividend sustainability could have further weighed on the ETF's performance, resulting in a small decline.

DGRW US, a dividend-growth ETF, recorded a return of -0.50%. Dividend-growth stocks can underperform when markets favor higher-growth sectors. With rising interest rates putting pressure on income-focused investments, DGRW may have experienced outflows as **investors moved towards sectors with better growth prospects**.

DXJ US, which targets Japanese equities, saw a slight decline of 0.25%. Japanese equities often face unique economic challenges, including currency fluctuations, slower growth, and mixed corporate earnings. The ETF's small underperformance may reflect these **broader economic issues** in Japan, which limited its gains during this period.

INR FP, an Indian market ETF, was one of the underperformers, with a decline of 5.79%. Asian markets, including India, faced macroeconomic headwinds such as **inflationary pressures**, **slower growth**, and **geopolitical concerns**, which may have negatively impacted Indian equities. This environment affected investor confidence and weighed on INR FP's performance.

006208 TT, a Taiwan-focused ETF, was relatively **flat** with minimal movement over the period. Taiwanese equities may have experienced mixed conditions, balancing strong technology sector performance with broader regional challenges. Taiwan's semiconductor industry often drives its economy, but geopolitical tensions and supply chain issues may have limited this ETF's returns.

PORTFOLIO PERFORMANCE OVERVIEW: FIRST ROUND

Individual Position Performance Analysis

The final analysis of the Aurora Capital portfolio highlights the specific contributions of individual positions to the portfolio's overall outperformance relative to the benchmark. According to the attribution analysis, the portfolio achieved a **total outperformance of +0.53%** over the benchmark, with the primary driver being security selection, which contributed 0.59% to the outperformance. Asset allocation did not contribute to the performance difference, indicating that the **choice of individual securities**, rather than sector or asset class weightings, was the **key factor behind the portfolio's success**.

The top-performing positions contributing to outperformance included X MSCI USA ESG ETF (+0.32%) and ISHARES FTSE US (+0.31%). These ETFs likely benefited from **strong performance** in the **U.S. marke**t and ESG-focused assets, which may have been favored by investors during the period. Other notable contributors included GLOBAL X MSCI ARGENTINA (+0.16%) and SHANDA FIN UTS LG (+0.16%), reflecting **gains in emerging market**s and specific **high-growth stocks**. The positive returns from these assets underscore the portfolio's strength in security selection, particularly in regions and sectors experiencing growth.

On the other hand, several positions detracted from performance, notably INVESCO PHYSICAL GOLD (-0.19%) and FRANKLIN INTERNATIONAL (-0.39%). The underperformance of physical gold suggests a decline in demand for safe-haven assets during this period, as **market sentiment may have leaned towards riskier, growth-oriented investments**. Similarly, FRANKLIN INTERNATIONAL's underperformance likely reflects challenges in international equities, possibly due to slower economic growth or currency impacts affecting non-U.S. markets.

This attribution analysis reveals that the portfolio's outperformance was driven by effective selection within specific securities, allowing it to capture gains in high-performing assets while managing the impact of underperforming positions. The strategic focus on U.S. equities, ESG factors, and emerging markets proved beneficial, while exposure to safe-haven assets like gold and international equities posed some challenges. Overall, Aurora Capital's security selection approach **played a pivotal role in achieving its performance advantage over the benchmark**.

MARKET OVERVIEW

Market Overview - November 2024

In November 2024, global markets are contending with a difficult environment influenced by geopolitical concerns, changing central bank policies, and varied company profits. Ongoing conflicts in Ukraine and the Middle East, together with recent political shifts in Germany, contribute to economic instability, driving up energy costs and exacerbating inflationary pressures. Global central banks are responding prudently, attempting to reconcile inflation management with growth facilitation.

U.S. Economy and Markets

The U.S. economy continues to exhibit resilience, propelled by consumer expenditure and corporate investment, with GDP growth anticipated at 2.7% for 2024, followed by a forecast deceleration in 2025. The Federal Reserve is expected to reduce interest rates by 0.25%, resulting in a benchmark rate of 4.5%, while ongoing wage growth and high services inflation may constrain any reductions. Treasury rates have climbed to 4.47%, indicating inflationary fears and a solid labour market. Following President Donald Trump's re-election, US equities achieved historic highs, fuelled by anticipation of pro-business measures. However, Trump's planned 10% tax on US imports increases fears about inflation and possible trade disputes, notably with China.

European Markets

European equities posted modest gains, supported by rate cuts from the ECB (European Central Bank) and BOE (Bank of England). However, recent political shifts, especially in Germany, and a mixed economic outlook introduce caution. Proactive ECB rate cuts aim to support growth, while UK gilts are benefiting from anticipated BOE rate reductions.

Energy and Commodities

Middle Eastern and Ukraine-Russia conflicts are driving oil prices higher, adding to inflation risks globally. Metals prices remain volatile amid a strong dollar and fluctuating demand, while investors are increasingly turning to safe-haven assets like gold.

Sector and Market Performance

Growth stocks surged, led by Tesla (+25%), while small-cap value stocks gained as investors responded to Trump’s re-election with increased risk appetite. Defensive sectors like Utilities lagged, while Financials and Consumer Discretionary stocks outperformed on expectations of deregulation and tax cuts. Bitcoin reached a new high above $76,000, boosted by anticipated crypto-friendly policies.

Source: Financial Market Global
Source: Financial Market U.S & EU

ACTIVE PORTFOLIO

The selection process

In constructing our active portfolio, we began with a comprehensive stock selection process using the Bloomberg Terminal. This initial phase involved implementing specific quantitative filters to narrow down a broad universe of potential investments to those stocks that best meet our criteria for value, growth, and financial stability.

Our screening criteria were carefully chosen to identify companies with both growth potential and a stable financial footing. First, we filtered for stocks with a price-to-earnings (P/E) ratio between 5 and 50, aiming to exclude overvalued stocks while avoiding those potentially facing significant financial distress. Additionally, we focused on companies with a market capitalization exceeding $1 billion, ensuring a certain level of liquidity and market presence. We then applied further refinement by selecting companies with a last fiscal (LF) diluted earnings per share (EPS) between 5 and 15, a range that we believe indicates steady profitability without excessive volatility. Lastly, we filtered for a Price-to-Free Cash Flow (FCF) ratio between 10 and 20, an indicator that the stocks are trading at reasonable valuations relative to their ability to generate cash flows.

Following this rigorous screening, we conducted in-depth research on Bloomberg to assess the health, intrinsic value, and future growth potential of the selected stocks. This stage involved analyzing qualitative factors, such as analyst recommendations and projections, to understand each company's prospects and competitive positioning. By evaluating the health of these companies and their projected growth trajectories, we could identify stocks with strong fundamentals that aligned with our portfolio's strategy.

At this stage, we transitioned to a quantitative approach, using Excel to model the potential undervaluation of each stock. We implemented a two-stage Discounted Cash Flow (DCF) model to calculate intrinsic values by projecting cash flows and discounting them to the present value. The two-stage model allowed us to account for different growth phases, providing a more comprehensive valuation. By comparing these intrinsic values with market prices, we could calculate each stock's alpha, an indicator of potential undervaluation and excess return over the market.

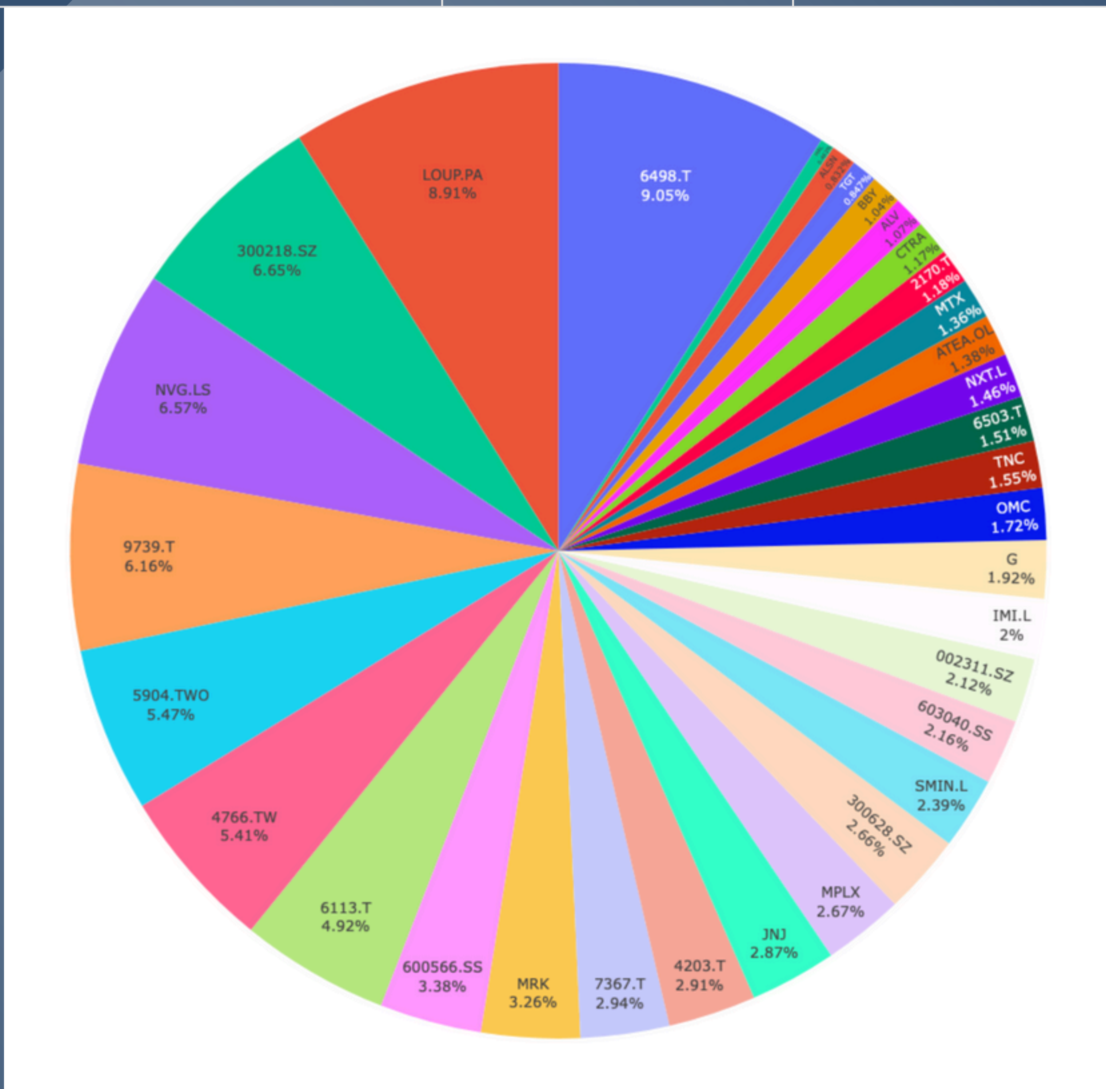
Finally, to determine the optimal allocation within our active portfolio, we utilized the Treynor-Black model. This model incorporates the alpha of each stock, adjusted for residual variance, to construct a portfolio that maximizes the return-to-risk ratio. By focusing on stocks with the highest alpha-to-residual variance ratio, we were able to identify those with the most favorable risk-adjusted return potential, achieving a portfolio allocation that aligns with our objective of beating the benchmark index through a discretionary equity investment strategy.

ACTIVE PORTFOLIO

Active Portfolio Weights

The resulting active portfolio allocation is structured as follows:

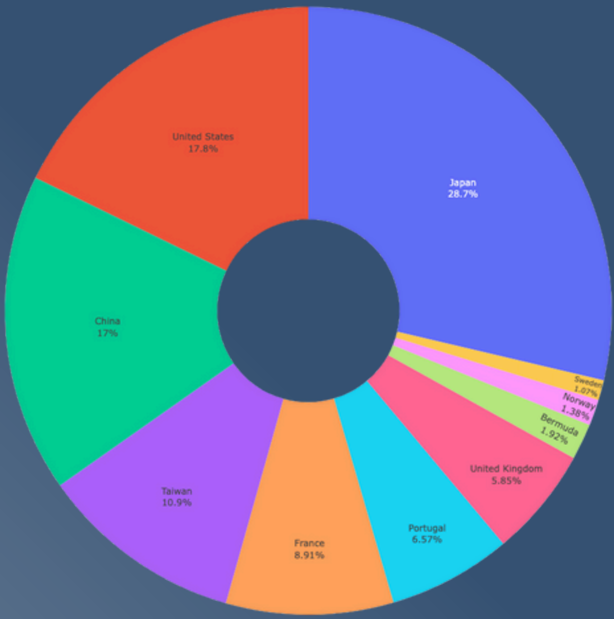
Ticker	Alpha	Weight
6498.T	0,1115	9,05%
LOUP.PA	0,141	8,91%
300218.SZ	0,1194	6,65%
NVG.LS	0,1051	6,57%
9739.T	0,0658	6,16%
See the excel file for full coverage		....



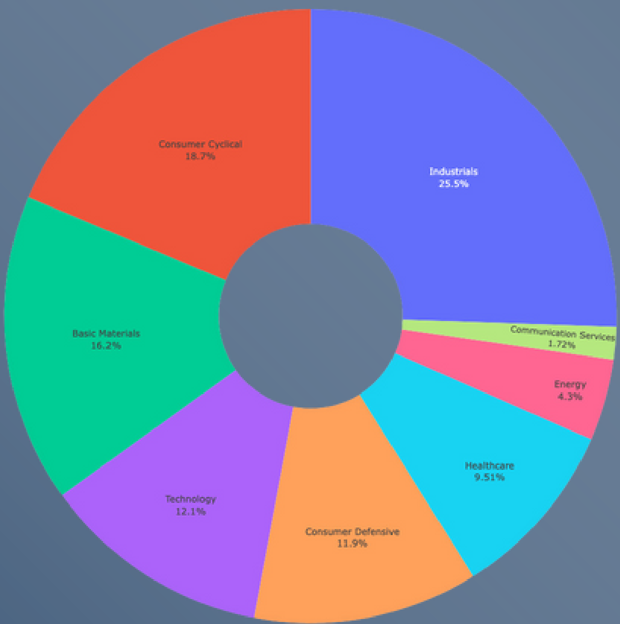
ACTIVE PORTFOLIO

Asset Allocation by geographical & sector area

The first pie chart represents the **geographical distribution** of investments in our portfolio. This distribution highlights a concentrated exposure to certain key markets, which is intended to balance growth potential with risk management. Japan represents the largest geographical weighting at 28.7%, reflecting our strategic emphasis on stable, developed markets in Asia. The United States follows at 17.8%, signaling a strong commitment to one of the world's most resilient and diversified economies. China (17%) and Taiwan (10.9%) contribute a significant portion, targeting emerging market growth, especially within Asia. European exposure is also included, with notable allocations to France (8.91%), Portugal (6.57%), and the United Kingdom (5.85%), supporting diversification and tapping into regional stability. Smaller allocations to Sweden, Norway, and Bermuda further diversify the portfolio, each contributing between 1-2% of the total.



The second pie chart shows the **sectoral allocation** within the portfolio, structured to achieve balanced exposure across various economic segments. Industrials lead the allocation at 25.5%, capitalizing on steady industrial growth and infrastructure demand worldwide. Consumer Cyclical (18.7%) and Basic Materials (16.2%) reflect confidence in sectors that are likely to benefit from economic recovery and increased consumer spending. Technology represents 12.1% of the portfolio, balancing innovation-driven growth with stability, while Consumer Defensive and Healthcare sectors hold 11.9% and 9.51% respectively, offering protection against market volatility and adding resilience. Smaller allocations to Energy (4.3%) and Communication Services (1.72%) round out the portfolio, enhancing diversification and aligning with long-term growth prospects in these areas.



ETF PORTFOLIO

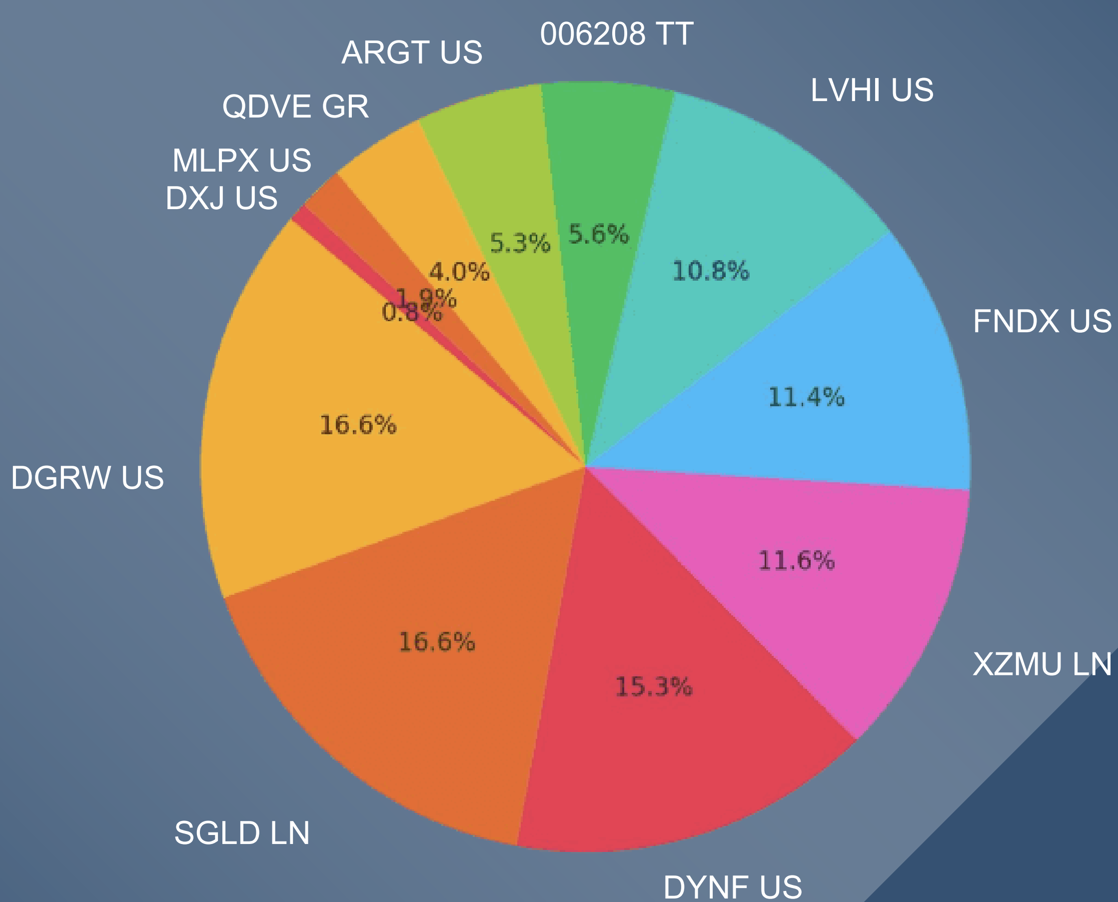
New composition

To ensure sufficient liquidity for the active portfolio, we decided to reduce our exposure to certain assets, specifically our positions in Indian equities and the LVHI ETF.

Rationale for Adjustments

1. **Removed in India Exposure:** We removed our allocation to Indian equities to balance our exposure to emerging markets. Since our active portfolio already includes positions in emerging markets, removing the Indian allocation helps to diversify our emerging market exposure while freeing up capital for other opportunities.
2. **Reduction in LVHI Exposure:** The LVHI ETF was trimmed to improve portfolio liquidity. Given our expectation of lower volatility in the overall market, we reduced our position in LVHI, which is designed to lower volatility through high-dividend, stable companies. This adjustment allows us to allocate more to the active portfolio where we see potential for higher returns.

These adjustments provide liquidity for active management and maintain a diversified risk profile, with an emphasis on flexibility and the ability to capitalize on targeted opportunities.



PORTFOLIO

Final composition

The 90-10 allocation between the optimized portfolio (90%) and the active stock portfolio (10%) was derived based on the Treynor-Black model's approach to maximizing the overall portfolio's Sharpe Ratio.

In the Treynor-Black framework, the allocation to the active portfolio is determined by balancing the Information Ratio of the active portfolio against the Sharpe Ratio of the market (optimized) portfolio. Specifically, the model calculates the weight w_a for the active portfolio using this formula:

$$w_a = \frac{\mathrm{IR}^2}{\mathrm{IR}^2 + \mathrm{SR}^2}$$

where:

- IR (Information Ratio) represents the risk-adjusted expected return of the active portfolio.
- SR (Sharpe Ratio) is the risk-adjusted return of the market portfolio.

Through this calculation, the model recommended an approximately 10% allocation to the active portfolio and a 90% allocation to the market portfolio. This allocation optimally balances the active portfolio's potential for alpha generation with the stability and diversification of the market portfolio, aiming to maximize the overall risk-adjusted return of the combined portfolio.

CONCLUSIONS

Our portfolio allocation strategy aims to balance the stability of diversified investments with the growth potential of selective equities. The decision to invest 90% in ETFs and 10% in individual equities is grounded in a few key considerations: diversification, risk management, cost efficiency, and strategic growth.

Diversification and Risk Management Allocating the majority of the portfolio to ETFs provides broad exposure across sectors, regions, and asset classes. ETFs allow us to diversify our investment across hundreds of underlying assets, reducing unsystematic risk— the risk associated with individual companies or sectors. Stanley Druckenmiller has noted that “diversification is a way to preserve wealth,” and this strategy enables us to limit downside risk by not relying on the performance of a single stock or sector.

Stability Through Market Volatility With 90% of the portfolio in ETFs, we mitigate the impact of market volatility. ETFs offer greater liquidity and tend to follow broader market trends, making them less vulnerable to sharp declines in individual stock prices. Druckenmiller, known for his macro approach, emphasizes understanding market cycles and trends, saying, “I don't really have a lot of confidence in anything except for maybe trying to understand when financial conditions are getting too loose or too tight.” By heavily weighting our portfolio in ETFs, we align with a macro approach to managing market risks.

Cost Efficiency and Accessibility ETFs generally have lower expense ratios compared to actively managed portfolios of individual stocks. By investing predominantly in ETFs, we minimize transaction costs, management fees, and tax implications, creating a cost-effective portfolio. The low costs associated with ETFs are beneficial for long-term portfolio performance, particularly in terms of compounding returns.

Selective Growth Through Equities The 10% allocation to individual equities provides an opportunity for strategic growth. This slice allows us to invest in specific companies we believe have high potential, based on careful analysis and research. While ETFs provide broad exposure, investing in individual stocks enables us to capture unique opportunities in specific markets, such as growth stocks or emerging sectors. This active component gives us flexibility to capitalize on targeted insights without heavily impacting overall portfolio risk.

Balanced Approach for Long-Term Success Our 90/10 allocation strikes a balance between passive and active management. The ETF-heavy allocation aligns with a conservative, long-term approach that builds stability and resilience, while the smaller equity portion allows for selective, high-potential investments. As Druckenmiller suggests, "It's all about keeping your mind open to what the market might bring." This mix allows us to benefit from the long-term growth of markets while staying prepared for changes in economic conditions..

MEET OUR TEAM

Leonardo Di Gennaro
Risk Analyst

Sara Elvebakk
Software Developer

Nicola Fochi
Portfolio Manager

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