

Portfolio Concentration and Sector Rotation Report - June 2025

Table of Contents

1. Introduction
2. Governance Structure
3. Risk Policy Summary
4. Portfolio Overview
5. Sector Rotation Analysis
6. Policy and Policy ID References
7. Incident and Update Notes
8. Risk and Performance Metrics
9. Document Metadata and Citations
10. Appendices and Supplementary Data

1. Introduction

This comprehensive report provides an in-depth analysis of changes in portfolio sector concentrations observed in June 2025, with particular emphasis on the semiconductor sector. The report addresses the implications of recent risk management actions taken by Northbridge Capital and its parent company, Fairfax Financial Holding, following market events that impacted sector weights and exposures. It includes an overview of sector weight shifts, top positions, new exposures, and strategic adjustments made during the reporting period.

Designed for internal governance, compliance, and strategic review, this document offers detailed quantitative data, procedural insights, and policy context to facilitate informed decision-making and risk oversight.

2. Governance Structure

Northbridge Capital operates under a structured governance framework designed to oversee risk management, investment decision processes, and adherence to policies. The governance hierarchy includes:

- **Board of Directors:** Responsible for high-level oversight, approving risk policies, and strategic directives.
- **Investment Committee:** Analyzes asset allocation strategies, reviews sector exposures, and approves major trades.
- **Risk Management Department:** Implements policies, monitors compliance, and conducts stress testing and scenario analysis.
- **Portfolio Managers:** Execute investment decisions within policy boundaries, communicate market insights, and manage sector rotations.

Additionally, the governance framework incorporates periodic reviews, internal audits, and compliance reporting to ensure alignment with regulatory requirements and risk appetite parameters.

3. Risk Policy Summary

The risk management policies govern how portfolio exposures are controlled, monitored, and adjusted. Key components include:

Policy Aspect	Description
Exposure Limits	Maximum individual sector weight: 25%, maximum overall sector exposure: 70% of total portfolio.
Diversification Mandates	Minimum number of sectors: 8; maximum position size per security: 5% of sector weight.

Stress Testing	Perform quarterly stress tests simulating macroeconomic shocks and sector-specific downturns.
Event-Driven Adjustments	Risk triggers for sector rotation include adverse sector news, valuation dislocations, and macro environment shifts.
Compliance Codes	POL-20250115-001: Risk Management Policy; BR-20250618-045: Variance Breach Notice.

The policies are designed to adapt to evolving market conditions while maintaining disciplined risk controls.

4. Portfolio Overview

The portfolio as of June 2025 exhibits marked rebalancing influenced by sector rotation strategies. Major highlights include:

- **Total Portfolio Value:** USD 1.2 billion.
- **Sector Concentrations:**
 - Semiconductors: 18% (down from 22% in May 2025)
 - Technology: 25% (unchanged)
 - Financials: 15%
 - Healthcare: 12%
 - Consumer Discretionary: 10%

Table 1 summarizes sector weights compared to prior periods and identifies significant shifts, particularly the reduction in semiconductor exposure driven by risk mitigation efforts.

Sector	Weight (%) as of June 2025	Change from May 2025	Top 5 Positions
Semiconductors	18%	-4%	TSMC, Intel, NVIDIA, ASML, MediaTek
Technology	25%	0%	Apple, Microsoft, Alphabet, Cisco, Adobe

2. Reduction of overweight positions through systematic sell-offs, adhering to portfolio limits.
3. Rebalancing into alternative sectors, with transparent documentation of trade execution metrics such as slippage and spread costs.
4. Continuous monitoring of sector price movements and risk exposures, adjusting allocations as needed.

5.4. Example: Sector Rebalancing Workflow

```
# Pseudocode for adjusting sector weights
def rebalance_sector(current_weights, target_weights, sector):
    trade_amount = target_weights[sector] - current_weights[sector]
    execute_trade(sector, trade_amount)
    log_trade_details(sector, trade_amount)
```

This approach ensures disciplined, rules-based sector rotation aligned with risk management policies.

6. Policy and Policy ID References

6.1. Key Policies and Identifiers

- **Risk Management Policy:** POL-20250115-001
- **Variance Breach Notice:** BR-20250618-045
- **Asset Allocation Policy:** POL-20250320-002
- **Trade Execution Policy:** POL-20250410-003

6.2. Policy Implementation Examples

For instance, the adherence to the maximum sector weight of 25% is enforced through daily compliance checks; breaches trigger escalated review and reports to the governance committee.

7. Incident and Update Notes

7.1. Dated Incident Note: 2025-06-18

Description: The 2025-06-18 VAR/gamma update identified a variance breach exceeding the prescribed threshold in the semiconductor sector (>70% of allowed sector deviation).

Root Cause: Market volatility led to unexpected sector scalings, compounded by late trade executions during high-spread periods.

Actions Taken: Immediate rebalancing was enacted linking to the 'Rebalance Workflow' described earlier. An automatic breach alert was generated and reviewed manually.

7.2. Summary of Subsequent Adjustments

- Enhanced trade timing controls to avoid high-spread execution windows.
- Increased monitoring frequency for sector deviations during volatile periods.
- Updated risk models to incorporate more conservative bounds for volatile sectors.

8. Risk and Performance Metrics

8.1. Quantitative Metrics

Metric	Description	Current Value	Target / Threshold
Total Portfolio Variance (VAR)	Estimated maximum loss at 95% confidence	USD 12.5 million	USD 15 million
Gamma Exposure	Sensitivity of portfolio to gamma shifts	-0.02	± 0.05
Slippage (bps)	Average slippage during trades	1.2 basis points	< 2 basis points

Quote Spread (bps)	Average bid-ask spread for active trades	0.8 basis points	< 1.5 basis points
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8.2. Performance Analysis

The portfolio achieved a return of 3.2% during June, outperforming benchmark indices marginally. Sector rotation contributed positively to alpha, particularly through strategic rebalancing in energy and tech sectors. Risk metrics remain within acceptable thresholds, demonstrating disciplined adherence to policies.

9. Document Metadata and Citations

Generated on: 2025-07-01

Document Path: /Volumes/demo_generator/saswata_sengupta_agneticportfoliomanager/raw_data/incoming_data/Investor_Report/interim report.pdf

9.1. Data Sources

- Market data feeds from Bloomberg and Reuters (as of June 30, 2025)
- Trade execution logs and audit trails
- Internal risk assessments and stress testing reports

9.2. References

- Northbridge Capital Internal Policy POL-20250115-001
- Variance Breach BR-20250618-045
- Sector Allocation Guidelines Document
- Market Event Reports (June 2025)

10. Appendices and Supplementary Data

10.1. Sector Exposure Timeline

Date	Sector	Impact	Actions
2025-06-01	Semiconductors	Overweight at 22%	Initiated reduction to 18%
2025-06-15	Renewable Energy	New exposure	Added via ETF purchases
2025-06-25	Consumer Discretionary	Increased weight by 0.3%	Rebalancing executed

10.2. Glossary of Terms

- **VAR:** Value at Risk, representing potential maximum loss