

THE ARETÉ QUARTERLY

Welcome

As it becomes progressively more apparent that the investment landscape presents unique challenges, it is also becoming progressively more apparent that conventional investment approaches are not sufficient for meeting those challenges.

Areté is a unique organization for unique times. With an orientation to research and analysis, these activities are applied for the purpose of solving problems and helping investors do the best they can. Each investment decision and communication is made with the mindset of having skin in the game.

If you are interested in getting more (or different) investment insights, please take a look at our blog [[here](#)]. Content for the posts is selected and created on the basis of being important, relevant, and useful.

In addition, *Observations by David Robertson* provides a weekly collection of insights and analysis that are intended to be especially relevant for long-term investors. You can find the letters on the substack platform at: <https://abetterwaytoinvest.substack.com>

Finally, please always feel free to contact us with questions or comments.

Business Update

As an analyst, one of the important jobs I have is to constantly monitor the landscape

for research, data sources, and analytical tools. As I have learned over the years, things constantly change and it is critical to incorporate regular reviews of emerging technologies and data sources in order to stay on top of the game.

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One of the interesting patterns I have observed over the last couple of years is the rise and fall of Twitter. I have always had an awkward relationship with Twitter, mainly because it is still an ad-based business model which means tweets are mainly about engagement and quality content takes a back seat.

That said, for some period of time I found Twitter to be a good way to keep a finger on the pulse of the market and to capture useful insights from a number of informative contributors. This was also happening as more conventional outlets like newspapers continued losing relevance.

Since Elon Musk has taken over Twitter, however, I have noticed a material degradation in the usefulness of the platform. For one, a number of quality contributors have either withdrawn from the platform or have been banished.

The policy of charging for blue checks made a farce out of authentication and turned it into “pay to play”. Inconsistent policies and unexplained bans added a creepy edginess and capriciousness to the place. More recently, Twitter started blocking links to Substack.

This raises another issue - competition. I have been publishing Observations on Substack since 2020 now. Over the last few months I have seen a broad swath of people I follow on Twitter migrate over as well. Very recently, Substack introduced its Notes function to emulate Twitter-like engagement on the Substack platform.

It's very early days but this could get really interesting. I have always felt one of Areté's strengths is useful content. One of the greatest weaknesses has been lack of marketing reach. If there is a trend in social media towards higher engagement by way of high quality content, this would be extremely helpful.

In the meantime, ChatGPT also made huge waves this quarter. While I am still in very early stages evaluating it, I see lots of promise in helping people like me who have plenty of strategic vision but no team of analysts to do the legwork. Insofar as ChatGPT can function as a team of talented junior analysts and back office support, Areté can get a whole lot more productive!

In the meantime, I will continue doing what I do - sharing my thoughts about markets and portfolio strategy with clients and other interested parties through the “[Observations](#)” newsletter. Look through the archives and it is easy to trace how my thinking has evolved from the start of the pandemic through to today. I also put out

[The Areté Quarterly](#) to provide a more detailed analysis of the investment strategy.

Also, please don't forget, if you ever have questions or clarifications, let me know at drobotson@areteam.com and we'll get things straightened out.

Thanks for your support!

David Robertson, CFA
CEO and founder, Areté Asset Management

Asset Allocation

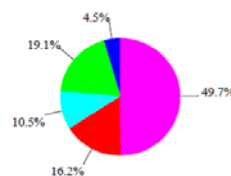
In the current allocation, cash is still the largest position comprising nearly half the portfolio.

The Gold position increased due to performance and the uncorrelated and inverse correlated classes both declined slightly in the quarter due to performance.

With the exception of cash, all other classes are underweight relative to the targeted allocation, though Gold is getting very close. The only significant underweight position is equity.

The chart below reflects a representative account from the All-Terrain composite.

Actual Allocation



Target Allocation



As a reminder, the easiest way to think about the strategic priorities of the All-Terrain strategy is as an effort to get the most out of the valid market opportunities that exist. In other words, it is more about finding attractive assets and creating thoughtful diversification than about speculating which hot stock might do well.

To that point, prices of stocks and bonds in general are still not cheap, and got worse in the first quarter. The main efforts are to avoid assets that depend on leverage or structured finance and to find ideas that can perform well independently of what the major stock indexes do.

It is also important to consider the debt ceiling negotiations going on right now. One reason is they add a great deal of uncertainty to the mix. Although there is little chance of a violation of the debt ceiling, the impact would be enormous.

In addition, once the debt ceiling does get resolved, there will be a flood of Treasuries hitting the market. When that happens, it will further drain liquidity - which will need to come from selling other assets. Either way then, the debt ceiling promises to cause a great deal of disruption.

Transactions review

There was only one transaction in the quarter and that involved swapping a good chunk of the Pershing money market fund for a higher yielding Vanguard money market fund. It seems odd there can be such a difference between essentially commodity products, but that's the financial services industry for you!

Performance review

With the All-Terrain strategy now being the sole focus, here are some of the general principles that guide its management.

The search for undervalued assets remains the same, although the scope of that search expands now encompasses a broad universe of publicly traded securities and funds.

The overarching goal of providing attractive returns to investors on an absolute basis also remains the same. As many markets became significantly overvalued, this is especially important to keep in mind.

Finally, the major change features a greater emphasis on diversification. This new focus will elevate the importance of uncorrelated return streams and reduce the importance of individual security performance.

For the first quarter, the ATA strategy returned 0.15% (net of fees) while VBIAX returned 5.59%. VBIAX was driven by strong equity performance which in turn was driven by the strong performance of mega cap tech stocks.

ATA performance was hurt by CTA in the quarter. The rate volatility which emanated from the bank failures caused historic losses across the trend following universe. While it is not unusual for incidents like this to affect trend following funds, this instance was particularly harsh.

That said, gold performed quite well in the quarter which allowed ATA to eke out a gain. Once again, ATA's diversification proved beneficial.

Investment Philosophy

We firmly believe in the critical importance of a cogent investment philosophy for any investment operation. In order to emphasize this point, and to assist you in understanding how we work, we provide an abbreviated version of our investment philosophy here. The text of our investment philosophy is also provided, in its entirety, in our Form ADV, Part II which is available upon request at any time.

Asset allocation is a key function of wealth management

One of the most important functions for long-term wealth accumulation is to have access to certain asset classes when they are attractive and to be able to minimize exposure to other asset classes when they are extremely unattractive. In short, diversification moderates the long-term swings in portfolio performance and therefore significantly increases the chances of wealth accumulation over a reasonably long investment horizon.

Mispriced assets are an important source of performance

One of the keys to investment performance is finding and exploiting market inefficiencies. While such inefficiencies can arise in the form of mispriced securities, they can also arise in the form of over- or under-valued industries or asset classes.

Identifying such opportunities begins with the assessment of underlying intrinsic value. When disparities with market prices exist and clear rationale for such mispricing can be identified, there are opportunities to take advantage of the differential.

Information management is a core skill of investment management

Analyzing investment opportunities and developing portfolio construction is a dynamic exercise that involves a constant and ongoing process of gathering information, processing it, analyzing it, developing knowledge, and applying it for the benefit of clients.

Execution is crucial for investment success.

In order to create value, an investment strategy needs to be implemented continuously and comprehensively. Actions speak louder than words. We believe the most effective efforts focus on a few simple, but key concepts that work to ensure proper execution of a firm's investment strategy. This approach is notably distinct from the common practice of simply gathering assets.

The first key to execution is structural in nature and involves a firm's independence. By maintaining independent ownership, an investment firm eliminates agency effects which can present a conflict of interest between clients and certain of its ownership groups.

The second key to execution is temperament. The best investors tend to have a temperament that provides them the courage and initiative to act, often going against the grain, when opportunities arise. However, the same temperament provides balance such that decision-making is not simply a risk-taking activity, but a very conscious and targeted effort to engage in propositions with high risk-adjusted expected returns.

Finally, another important element of execution is simply doing what you say you do in your investment process. Too often, perfectly acceptable investment processes fail when actual investment activities bear little resemblance to the process described

in the marketing presentation. We call this the “marketing gap;” the difference between what is said and what is done. Execution is optimized when the marketing gap is minimized.

Areté All-Terrain Composite

Areté Asset Management, LLC
All Terrain Composite
August 31, 2021 - March 31, 2023

Period	Gross-of-Fees		Vanguard balanced		Internal Dispersion (percent)	Total Composite Assets (\$)	Composite Assets With Bundled Fees (\$)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets (\$)
	Return (percent)	Net-of-Fees Return (percent)	Index Fund (percent)	Number of Portfolios					
2021	0.06	-0.20	2.22	3	NA	841,887	841,887	100%	1,460,255
2022	3.26	2.26	-16.89	5	NA	1,491,824	1,491,824	100%	1,778,478
2023									
January	1.01	0.78	5.42	5	NA	1,503,449	1,503,449	100%	1,792,950
February	-0.85	-0.85	-2.43	5	NA	1,490,656	1,490,656	100%	1,776,620
March	0.23	0.23	2.65	5	NA	1,494,119	1,494,119	100%	1,783,954
Q1	0.38	0.15	5.59	5	NA	1,494,119	1,494,119	100%	1,783,954
YTD	0.38	0.15	5.59	5	NA	1,494,119	1,494,119	100%	1,783,954

Areté Asset Management All-Terrain performance composite disclosures follow:

Definition of the firm

Areté Asset Management, LLC (Areté) was established in 2008 and is registered as an investment adviser in the state of Maryland. Areté is defined as an independent investment management firm and is not affiliated with any parent organization. Areté currently manages one strategy, the U.S. equity mid cap core strategy, which it markets to individual and institutional clients.

Benchmark

The benchmark is the Vanguard Balanced Index Fund Admiral Shares (VBIAX), and its performance is reported in U.S. dollars.

Areté Asset Management All-Terrain performance composite disclosures continued:**Calculation methodology**

Portfolio valuations are calculated as of calendar month-end and are computed in U.S. dollars and performance is also reported in U.S. dollars. Time-weighted rates of return are used which adjust for external cash flows. Our smaller, retail accounts contain fee structures in which one flat, per-transaction fee is charged for trading expenses, and which embeds an implicit charge for custody. Since trading and custody charges cannot be directly segregated in these cases, they constitute “bundled fees”. Gross-of-fees performance returns are presented before management and custodial fees when custodial fees can be segregated from trading but are presented before management fees and after bundled (trading and custodial) expenses for our retail accounts. Net-of-fees returns are presented after management fees, trading expenses, and custodial expenses are deducted or after management fees and bundled (trading and custodial) fees for retail accounts. There are no instances in which management fees are bundled with trading or custodial fees. Returns are presented net of nonreclaimable withholding taxes when applicable. Areté does not use leverage or derivatives in the management of portfolios. Additional information regarding policies for calculating and reporting returns is available upon request.

The composite

This All-Terrain allocation strategy composite was created in August 2021 and includes all fee-paying, taxable and non-taxable, discretionary, long only, fully invested portfolios benchmarked to the Vanguard Balanced Index Fund. Every new portfolio is added to the composite in the first complete calendar month that it is “fully invested”. For purposes of composite construction, a portfolio is “fully invested” when it breaches the threshold of 90% similarity with core composite portfolios. Each portfolio will remain in the composite until its similarity with core composite portfolios falls under 90%. A complete list and description of firm composites is available upon request.

Fee schedule

The management fee schedule is as follows: 1% of AUM up to \$1 million, 0.75% on AUM greater than \$1 million, but less than \$5 million, and 0.65% on assets greater than \$5 million.

Minimum account size

There is no minimum account size for inclusion in the composite. Please note, however, the minimum initial account size accepted is \$100,000.

Dispersion

Internal dispersion is currently not meaningful as there are five or fewer portfolios included in the composite. In the future, we plan to calculate dispersion using the dollar-weighted standard deviation of all portfolios included in the composite for each performance period.

Verification

Areté has not been verified by an independent verifier for its compliance with GIPS.