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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 reach out with questions or comments. A big part of why I founded Areté was to be better able to help investors. Let's see if I can help you!

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Business Update

Since I revamped Areté's core strategy in August 2021, performance has been good, and I would argue good for the right reasons.

I made the change for a couple of reasons. One was that I came to view the investment landscape as being an extremely poor one for capturing idiosyncratic stock performance. Relatedly, I saw that a number of macro forces were driving asset returns that could not be effectively captured by a stock selection process.

As a result, I devised a strategy that allowed me to take advantage of more of the opportunities I saw, that facilitated better risk management efforts, and that I thought could deliver a great deal of value to investors (including myself!).

One of the big changes I observed in the investment landscape was a fundamental change in policy direction. Not only was government policy taking over what had been the nearly exclusive province of monetary policy, but the threat of inflation had fundamentally changed as well.

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Despite these changes, most advisors were positioned for more of the same – more low rates, more stocks going up, and more bonds going up. As a result, a lot of investors got hammered in the first three quarters of last year. Areté's investors did not (see performance disclosures on page 5).

While some of that relative performance advantage has dissipated in the first half of this year, I don't see the broad investment environment as having changed. This means rates will remain higher for longer and eventually this will serve to deflate the valuation of virtually all financial assets.

The good news is Areté is well-positioned to deal with this. With the All-Terrain Allocation strategy I have the all the tools I need when the going gets tough.

The bad news is this approach is still fairly novel and most investors are not familiar with it. Further, a large proportion of investors have not been burned badly enough, yet, to fully appreciate the shortcomings of their existing portfolios.

Either way, if you, or someone you know, are interested in learning more about Areté, there are lots of ways to do so. For example, I put out the "Observations" newsletter on a weekly basis. Look through the archives and it is easy to trace the course of my thinking as the investment environment has evolved.

I also put out The Areté Quarterly to provide a more detailed analysis of the investment strategy.

Finally, if you ever have questions, or want to follow up on something, you can always reach me at drobertson@areteam.com.

Thanks for your support!

David Robertson, CFA
CEO and founder, Areté Asset Management

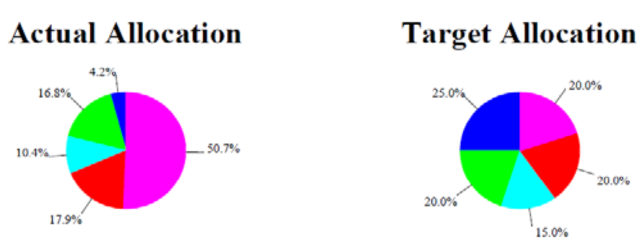
Asset Allocation

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

With the exception of cash, all other classes are underweight relative to the targeted allocation, though Gold and Uncorrelated are getting fairly very close. Equity is the only significantly underweight position which, among other characteristics, reflects its unappealing valuation.

The Gold position decreased due to underperformance and the uncorrelated assets performed relatively well in the quarter.

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



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 in general are still not cheap and got worse in the second quarter. While bonds are relatively more attractive than in early 2022, they still have a great deal of risk associated with them.

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.

While that did not work in the second quarter as mega cap tech stocks rallied hard, the flood of Treasuries after the debt ceiling has happened. To date, those Treasuries have been mostly bills which do not materially affect liquidity conditions. Just as soon as longer-term bond issuance gets pushed up, however, liquidity will start to drain from other financial assets. There is a good chance this process will start to become noticeable in the third quarter.

Transactions review

There were no transactions in the quarter but the acquisition of AUY by AEM and PAAS did happen in April. There was little net effect on the portfolio as all of the stocks were already owned. The deal resulted in AUY being eliminated while commensurately larger weights of AEM and PAAS were added.

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 -.20% (net of fees) while VBIAX returned 4.63%. VBIAX was driven by strong equity performance. Strong equity performance was driven again by the strong performance of mega cap tech stocks, especially in regard to prospects related to artificial intelligence. Interestingly, excepting big tech, the rest of the S&P 500 was pretty flat.

There was little to distinguish ATA performance in the quarter. Gold miners were down a bit and the Husssman Strategic Growth fund was down a bit. Nothing was especially noteworthy.

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 funciton 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

Arete Asset Management, LLC
All Terrain Composite
August 31, 2021 - June 30, 2023

Period	Gross-of-Fees Return (percent)	Net-of-Fees Return (percent)	Vanguard balanced Index Fund (percent)	Number of Portfolios	Internal Dispersion (percent)	Total Composite Assets ($)	Composite Assets With Bundled Fees ($)	Percentage of Composite Assets With Bundled Fees	Total Firm Assets ($)
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
April	1.56	1.31	0.87	5	NA	1,513,680	1,513,680	100%	1,807,935
May	-1.40	-1.40	-0.20	5	NA	1,492,481	1,492,481	100%	1,781,468
June	-0.09	-0.09	3.93	5	NA	1,491,165	1,491,165	100%	1,778,368
Q1	0.38	0.15	5.59	5	NA	1,494,119	1,494,119	100%	1,783,954
Q2	0.05	-0.20	4.63	5	NA	1,491,165	1,491,165	100%	1,778,368
YTD	0.43	-0.05	10.48	5	NA	1,491,165	1,491,165	100%	1,778,368

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.