Three Rock Capital Management

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Monthly Performance

Global Macro Program	Monthly Return	Year to Date	Since Inception
Jun 2019	1.15%	-0.31%	74.22%

Performance Record (%)

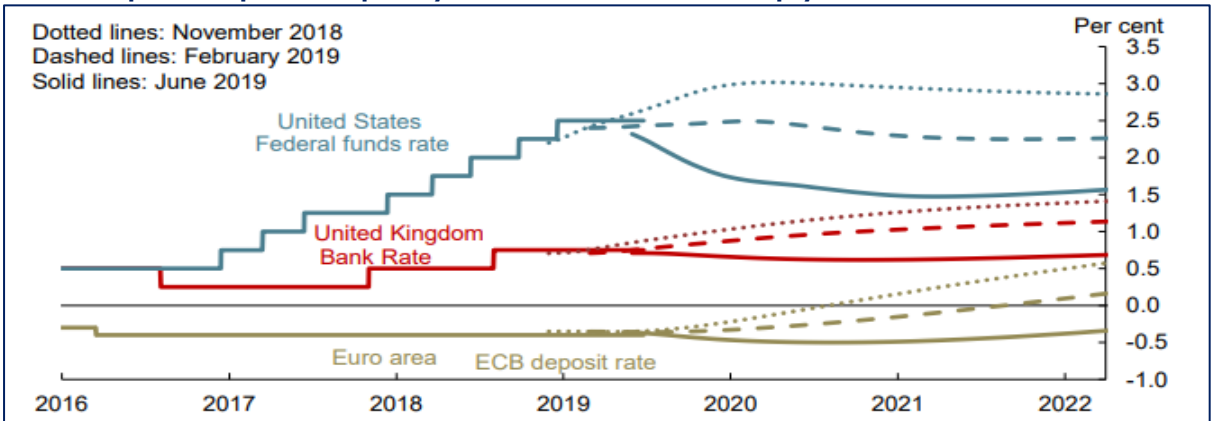
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019	-0.80	-0.67	1.01	-1.34	0.36	1.15							**-0.31**
2018	4.22	-2.16	-1.42	0.47	2.48	0.80	0.56	0.12	-0.04	-0.61	-3.28	2.03	**3.00**
2017	-3.57	-1.46	-0.90	-1.84	0.46	-2.41	1.10	-0.72	2.82	-0.43	-2.38	-1.18	**-10.17**
2016	2.63	2.08	-1.04	-0.18	0.20	0.76	0.98	-0.25	-2.90	3.32	4.57	-0.73	**9.60**
2015	5.05	2.36	4.15	1.17	2.75	-3.98	-0.17	0.14	-2.08	2.93	0.09	1.12	**13.98**
2014	-1.43	-1.69	-1.42	-1.43	-1.02	-0.34	-0.46	0.88	5.68	3.67	5.47	0.30	**8.09**
2013	2.85	0.14	-1.16	0.55	0.45	1.84	-0.80	1.41	-0.69	-1.36	2.19	0.68	**6.15**
2012	1.36	2.07	1.99	-1.12	1.91	-0.61	1.98	0.98	0.30	-1.92	1.82	0.02	**9.03**
2011	-4.33	-1.06	2.20	4.25	-3.75	-3.22	1.18	0.43	-0.78	2.79	0.01	2.96	**0.24**
2010	-0.76	3.97	4.79	2.51	1.81	-3.01	0.27	2.33	6.30	2.73	2.52	2.96	**29.44**
2009	-4.32	4.36	3.68	-3.14	8.00	-7.19	-1.53	-7.42	-0.20	3.34	1.14	-2.54	**-6.85**

From January 2009 to November 2012 Three Rock Capital Management traded as Anark Capital Ltd. The firm has been regulated by the Central Bank of Ireland since December 2012 and has been registered with the CFTC and a member of the NFA since January 2013. The performance record from January 2009 to December 2014 has been reviewed by KPMG. The performance record from January 2015 to December 2016 has been reviewed by Arthur Bell. Performance data is net of management and incentive fees. The current fee structure is 1% management fee & 20% incentive fee. Past Performance is not necessarily indicative of future results.

Commentary

In a speech on July 2nd titled 'Sea Change' the governor of the Bank of England Mark Carney assessed recent developments in the global economy. He began by noting the following: "A sea change is a profound transformation…In recent months there has been a sea change in financial markets driven by growing concerns over the global economic outlook. Most notably in the US where an expectation of two further hikes over the next three years has flipped to four cuts by the end of next year."

Chart: Expected paths of policy rates have shifted sharply downwards



Sources: Bank of England, Bloomberg Finance L.P., ECB, Federal Reserve, Eikon from Refinitiv, Tradeweb and Bank calculations.
Notes: The June 2019 and February 2019 and November 2018 curves are estimated using instantaneous forward overnight index swap rates in the 15 working days to 19 June 2019, 30 January 2019 and 24 October 2018 respectively. The federal funds rate shows the top of the target range.

Observing sharp slowdowns in global trade, manufacturing, industrial production, capital goods orders together with softer inflation expectations, Governor Carney described the quality of the global expansion as having deteriorated and as being increasingly dependent on consumer spending, thus less resilient. He cited falling business confidence and investment and sharp reductions in corporate earnings expectations. He pointed to the fact that these developments have coincided with 'the more hostile and uncertain trading environment' and refers to the 'non-linear effects of tariffs on tightly integrated global supply chains'.

He noted the broadening rationales for tariffs, in particular the threat of new tariffs on Mexico in May, linked to immigration, 'despite having only recently agreed a revised NAFTA accord'. While describing 'the news at the weekend that the US and China agreed to restart trade talks' as 'welcome' he observed 'though we have learnt, progress today is no guarantee of progress tomorrow'.

> *"Certainly the portents are worrying….Over the past year, the global economy has shifted from a robust, broad based expansion to a widespread slowdown, with the proportion of the global economy growing above trend falling from four fifths to one sixth*."

Yet on July 3rd the S&P 500 closed at an all-time high while the Stoxx Europe 600 index made a new high for 2019. In this context Governor Carney remarked 'the market's faith in the power of monetary policy is notable.' I suspect 'the market's faith in the power of monetary policy' has less to do with faith that monetary policy will successfully counteract the negative forces he described and more to do with faith that easier monetary policy and the potential renewal of asset purchase programs will promote a fresh round of asset price inflation as investors are emboldened to take on more risk. This is indeed a 'sea change' from a few months ago when tighter monetary policy and smaller central bank balance sheets was the expectation for the years ahead.

A recent Bloomberg article pointed out that of fifty seven securities issued by the German government with a face value of €750 billion, only six have a positive yield, all with a maturity of more than twenty years. Against that backdrop an earnings yield on the Stoxx Europe 600 of 5.7% is attractive even if earnings weaken. The 'search for yield' has ben turbo-charged - Italian 10Yr yields have fallen 88 basis points since the most recent ECB meeting on June 6th.

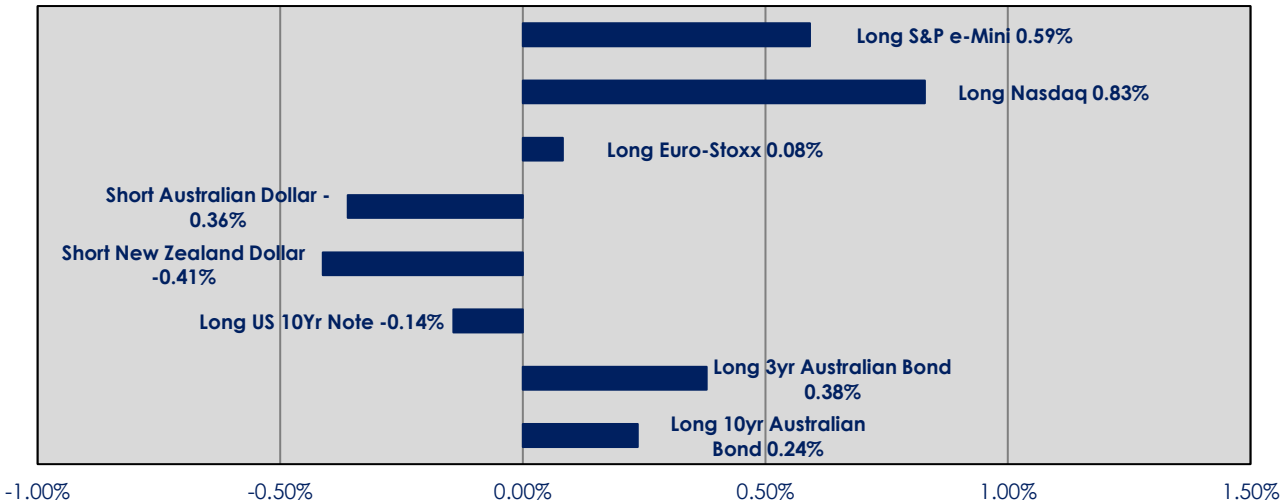
Italy 10Yr Yield

Source: Bloomberg

In the short term, the adage 'don't fight the Fed' (or the ECB or the RBA) may be appropriate but ultimately how supportive of central bank objectives forthcoming policy actions will turn out to be, is open to question. A longer term concern is that asset inflation will lead to price bubbles driven by virtually zero cost debt. When bubbles ultimately deflate we end up in a debt deflation scenario, coinciding with a monetary policy arsenal that is historically depleted. One school of thought is that while central banks believe they are fighting deflation they are in fact creating the conditions for it.

Monthly Profit Attribution (Gross)

FX -0.77%	Equity Indices 1.50%	Interest Rates 0.47%	Precious Metals 0.00%



Correlations

S&P 500	MSCI World	JP Morgan Global Bond Index	S&P GS Commodity Index	HFR Global Hedge Fund Index	HFR Macro / CTA Index	Newedge CTA Index
0.06	0.09	-0.02	0.08	0.18	0.25	0.26

Fee Structure and other Information

Management Fee: 1%
Performance Fee: 20%
Minimum Managed Account : $1 mio
Average Margin to Equity Ratio (since 2013): 2.69%
Benchmark Index: HFRX Macro / CTA YTD: 2.40%

Administrator: HedgeFacts LLP
Legal: Greenberg Traurig LLP
Bloomberg: TRCGMCP ID
AUM: $74.3 mio