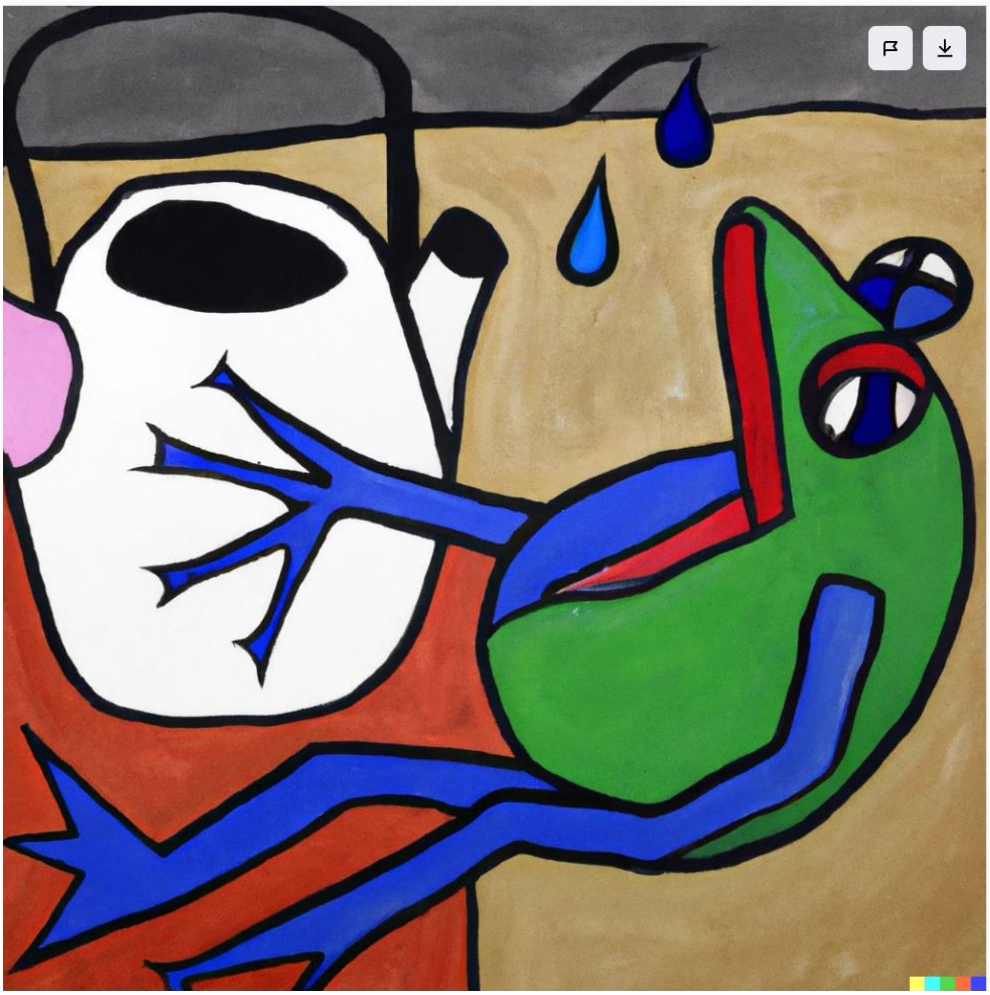
Dear Clients and Investors,

We are starting our quarterly investment letter with an unusual painting. I am anything but an artist, but our analyst Kai Zhang had this brilliant idea of using the Open AI DALL-E 2 Neural Nets to generate incredible pictures. This is indeed an incredible innovation based on DALL-E's CLIP and Diffusion Model technologies (more below). This shows how advanced AI systems see and understand our world, and applications are endless. DALL-E 2 is now open to the public without waiting list since the 28th September, and our first application will be to start our investment letters going forward with a DALL-E 2 AI-generated painting depicting how we see the current market dynamics. DALL-E 2 is based on a simple caption, and the painting below has been generated using the caption "A Picasso painting representing the dead boiling frog" [of inflation]. Picasso of course never painted this dead boiling frog and, like I said, I am not an artist, but it took DALL-E 30 seconds to generate it. Have a look, try it, and tell us what you think!

DALL-E painting of the month: "A Picasso painting representing the dead boiling frog"



Source: labs.openai.com

About DALL-E 2: "A picture is worth a thousand words" but thanks to breakthrough technology from Open AI Labs, now with a few words in a caption, you can generate incredible "million words" pictures and artworks. In April 2022, Open AI enhanced its technology generating more realistic images at higher resolutions that can understand the nuances of concepts, attributes, and styles (DALL-E 2). In late Q3 2022, DALL-E 2 has opened to anyone with waiting list requirements removed. DALL-E 2 relies on CLIP models (Contrastive Language-Image Pre-training) and Diffusion Model training. The breakthrough technology DALL-E 2 brings is one of many examples of how advanced AI models are changing the world in which we live.

As we close the third quarter with equity markets plunging another 4% from the end of June, I will review the quarter's market performance and then examine how our fund fared during this period. I will also drill down into the contribution by stock, followed by insight into our outlook and how we are positioned for the rest of the year. I hope you find this letter helpful and, as always, feel free to reach out to us with any questions.

Performance*

RETURNS AS OF SEPTEMBER 30, 2022 (%, net of fees)

	July	Aug	Sept	Q3	YTD	2021	2020	Since Inception
Fund[1]	7.67	-5.76	-6.35	-4.97	-20.00	28.73	11.13	5.17
Benchmark[2]	7.60	-4.91	-6.28	-4.11	-17.38	25.13	-3.32	0.06
Relative Performance	0.07	-0.84	-0.07	-0.86	-2.62	3.60	14.45	5.11

* *Past performance is not a reliable indicator of future performance and can be misleading*

The End of an Era: the boiling frog of inflation is dead

"There are decades where nothing happens; and there are weeks where decades happen"-- Vladimir Ilyich Lenin

And so it felt throughout the third quarter of this year.

The death of the Queen certainly marked the end of a long era of sovereignty. But then as the effect of inflation started impacting the cost of living, everything else related to government and fiscal policy has been unfolding right in front of our eyes, thereby ushering in the end of an era and beginning of a new one: a new Prime Minister and her Chancellor announcing a "mini-budget" with tax cuts worth GBP45bn but already costing the currency's credibility, unprecedented GBP65bn emergency bond-buying from the Bank of England, and serious concerns over trust in the Conservatives when it comes to the economy with Labour surging a 33-point lead (source: YouGov), which is the largest poll lead ever enjoyed by any party with any pollster in the past 33 years!

And it isn't just Britain. The Norwegians are taxing their salmon producers. The Spanish want to levy a 10% windfall tax on domestic banks even before these banks could even see the benefit of rising rates on their profits! Italy and Sweden have handed their governments to far-right parties. As a result of this and other factors of course, the Euro is now firmly below parity.

As for Energy, we are faced with the reality of living with no Russian gas at all after Russia suspended Nord Stream 1 gas supply indefinitely and is no longer operational as we speak. With regards to inflation, we have written in our last letter about the possibility of a "boiling frog syndrome". **The boiling frog of Inflation is now dead with the hopes from the**

[1] The Fund = The Aperture European Innovation Fund (ticker APEIIED LX)
[2] Benchmark = the Fund's Benchmark, MSCI Europe Net Total Return EUR Index (ticker MSDEE15N Index)

Indices are unmanaged and do not include the effect of fees. One cannot invest directly in an index.

previous earnings season and the July CPI. They have been crushed by the August CPI. All this leaving little doubt that inflation is secular, not transitory.

The Fed is therefore committed to nothing less than an outright recession of economic growth as it raised rates twice by +75bps this quarter. The ECB also raised rates by +75bps. Swedish Riksbank did even more: it hiked rates by +100bps more than doubling them to 1.75%.

Goldman Sachs Investment Research has coined a new word to replace our decade-long market companion TINA (There Is No Alternative) with TARA (There Are Reasonable Alternatives), especially in cash. Many are attempting to coin other new words to describe this new era and the associated bear market we are experiencing with it, let's see what sticks.

As a result, European indices (MSDEE15N index) fell another -4.1% from the oversold June lows to close -17.4% YTD. One more thing, as if we needed an additional sign for the end of an era: Federer retired from Tennis!

How did we do this quarter?

The Aperture European Innovation Fund (Ticker: APEIIED LX) closed the quarter -4.97% (net of fees) or -0.86% behind its benchmark MSCI Europe Net Total Return Index. This brings the YTD performance of the fund to -20.0% (net of fees), or -2.6% behind its benchmark at -17.4%. During the quarter, the fund performed in-line with its benchmark in July and September with most of the underperformance coming from the month of August.

As highlighted in our previous letter, we entered the quarter reinforcing at the margin our defensive bias and yet managed to keep up with the rising market in July. However, in August, our positions in Healthcare failed to protect to the downside in a falling market (as we discuss below), which is where most of the underperformance came from.

Single stock commentary

Stocks that helped and detracted

Our biggest detractors came from our Healthcare exposure, namely in Large Cap Pharma: **Sanofi** (SAN FP), **AstraZeneca** (AZN LN) and **Novo Nordisk** (NOVOB DC). This was especially the case in August, where Sanofi and Novo Nordisk fell 15.5% and 6.6%, respectively, in euros terms.

Despite its already cheap valuation, Sanofi stock price dropped 20% in the space of two days in early August. The price was pressured by renewed investor speculation about the potential impact from the upcoming Zantac litigation in the US. It is highly unlikely the litigation cost will be in the EUR20bn range that the market cap has lost. However, it is impossible to know until the trials begin in February next year whether the class action can morph into a much larger case and how long it will take for the litigation to settle. We believe this is likely to remain an overhang on the stock price for now.

Novo Nordisk stock price fell 9% early August as the company pre-announced solid Q2 results and even raised guidance. The main disappointment was around the SELECT study that failed to find a conclusive link between weight reduction and cardiovascular risk reduction, missing on the opportunity to expand insurance coverage for Novo Nordisk's obesity drugs.

Other detractors included AstraZeneca, whose shares fell 8.5% in sympathy with the broader Healthcare sector. The German defence company **Rheinmetall** (RHM GY) lost 30% this quarter, retracing from its highs of +168% YTD during the summer holiday period for German parliament and defence budget allocations. Finally, timing in a position we held in

Spanish domestic bank **Caixabank** (CABK SM) detracted from returns as the Spanish government talked about plans to impose windfall tax on domestic banks. This news caused Caixabank shares to drop some 20% in July.

Mitigating this adverse performance, our top contributors included Franco-Italian Semiconductor company **STMicroelectronics** (STM FP), **UK Oil Major Shell** (SHEL LN), German stock exchange and financial data company **Deutsche Böerse** (DB1 GY), UK-listed business services **Compass Group** (CPG LN) and French fashion leader **LVMH** (MC FP).

STMicroelectronics shares outperformed after its very strong "beat and raise" Q2 results in July and ended the quarter with a +16% gain. The Integrated Semiconductor Manufacturer gave guidance that implied a 20% upgrade to consensus, driven by secular trends such as electric vehicles and industrial automation.

Shell outperformed the market until mid-September thanks to its cheap valuation and exposure to European natural gas. The shares pulled back after declining oil price and an increased prospect of a recession, eventually concluding the quarter with a +2% gain.

Deutsche Böerse gained +3.5% during the quarter. Most of its revenues were positively linked to interest rates either through interest income or transaction volume. The rest were durable income streams such as data analytics and ESG. Volatile gas prices also helped its energy trading unit.

Shares of British business catering company Compass Group gained 8%, which was driven by sustained top line momentum. The group benefitted from COVID 19 recovery tailwinds and continued to win new contracts.

Luxury goods conglomerate LVMH was supported by a resilient customer base as shares pulled back from late August over higher interest rates and ended the quarter with a +6% gain.

We rarely discuss our shorts because the gross exposure tends be small. However, a UK online furniture store's stock price collapse of 93% as a result of high FCF burn and balance sheet pressure has put this short position in our top ten contributors this quarter.

What have we done?

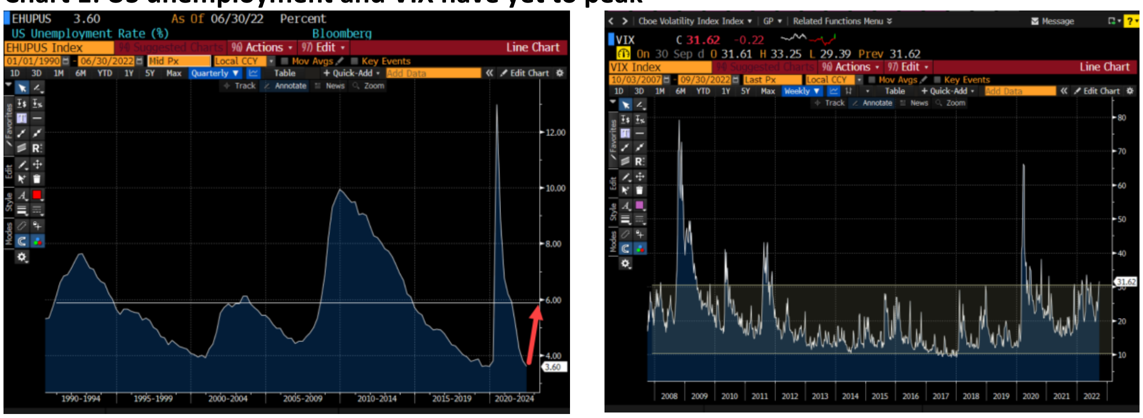
Market liquidity and volumes were low during this summer quarter, albeit in-line with seasonally-adjusted averages. We focused on avoiding stretched balance sheets and added to positions that can weather well a prolonged period of inflation, declining economic activity, and rising rates. Our churn remained relatively subdued and in-line with our long term run rate of 1.5x.

How do we think about the outlook?

With so much change in the world and, in many ways, the start of a new era, it is striking that we have not seen a "Black Swan" event just yet. But we have experienced a few near misses. The doubling of European gas price this past summer could also have triggered a large liquidity event ($1.5 Tr of margin calls according to Equinor) for Utilities and Financial players in the Energy market. In September, the rapid sell-off in the British Pound and UK Gilts caused stress in the large LDI market, which only stabilised thanks to unprecedented large-scale intervention by the Bank of England.

All the genies are out of their bottles: Recession, Inflation, and even the words "tactical nuclear weapons" are used loosely in the press nowadays. Tightening financial conditions does feel like a bull in a China shop, awaiting the catalyst for a "Big Low". Meanwhile, European markets continue to print lower lows and lower highs. The Fed action could take rates and employment higher, and it would hardly surprise anyone if they head towards 4-5%. VIX remains contained, and volatility could yet spike.

Chart 1: US unemployment and VIX have yet to peak

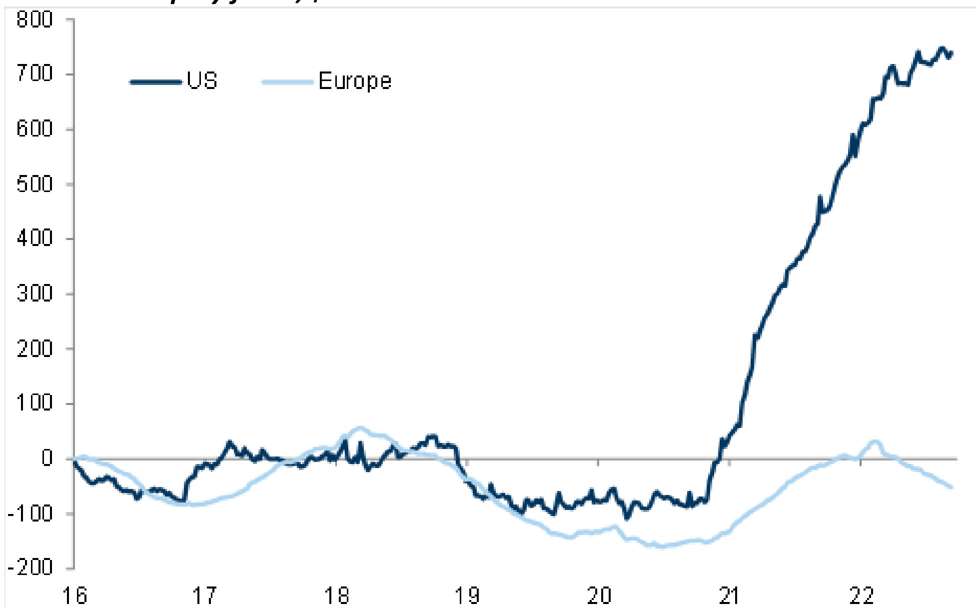


Source: Bloomberg as of September 2022

Equities must fight a higher hurdle of TARA, but what if the earnings prove more resilient?

We are in the process of bottoming. While it is near-impossible to pinpoint the absolute low, it is important to bear in mind the big picture. **First, Bear markets don't last long.** If previous averages hold true, we should be seeking a recovery very soon between Q4 and spring of next year. **Second, positioning also plays an important role. Positioning has rarely been so negative, especially on a relative basis in Europe and if you look at flows over the longer term.**

Chart 2: Long term European flows have lagged
Cumulative equity flows, $bn



Source: Goldman Sachs as of September 2022

As was the case with the "most telegraphed Recession" in history (we have been waiting for it since 2019 after all!), everyone is carefully watching "Bottoming signs" in the most unloved equities asset classes. Things evolve much faster nowadays, so hoping to catch the absolute bottom is likely to prove as hard as ever.

In fact, the hurdle of TARA may not be so taxing for many innovation assets where the positioning is now extreme. The moment market participants sense any sign of policy pivot, one should not be surprised to see these assets move higher by double digits in percentage points. We all appreciate how missing out on the top five to 10 best days in a year can totally flatten the returns over a longer timeframe, hence the importance of staying invested.

If the big issues of this new era include inflation and government spending, it is likely that more 5G, automation, machine-to-machine communication, and digitalisation are the perfect answers to alleviate labour costs and reinvigorate supply chains and productivity across sectors and industries. In Healthcare, preventive care, life science therapeutics, and diagnostics are also good examples of dealing with the ever-increasing costs and reducing global government spending.

The innovation picture is now very blurred by fear of cyclicality, inflation, and rising rates. In Europe, it is even obscured by fears over war and energy supply. "Big Lows" are the ideal opportunities to take advantage of lower valuations. Catching them is always challenging, but we may have a good window ahead of us.

All my best,

Anis Lahlou

CIO, European Equities

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