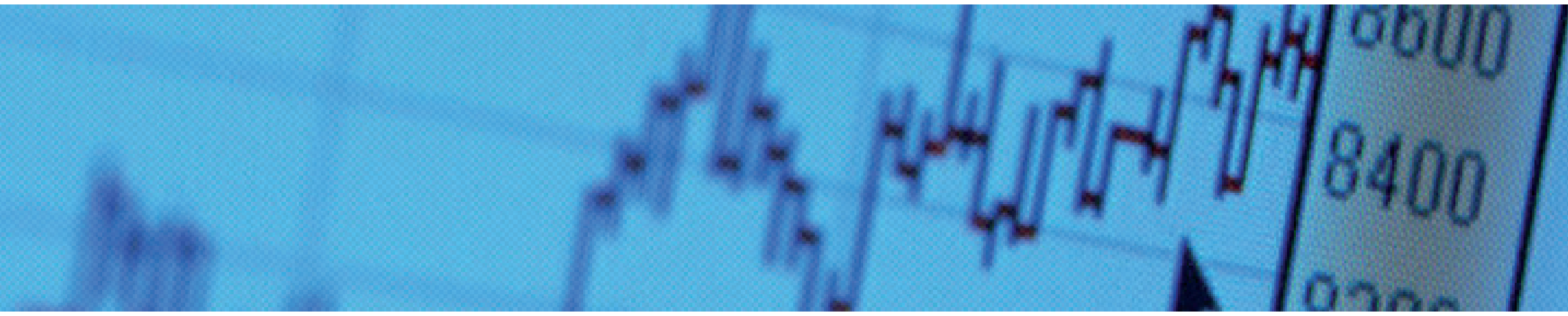
THE 1.2 FUND LUX
MONTHLY RETURN



The 1.2 Fund Lux - monthly report

December 2017

Euro C share class performance

December	+ 1.48%
Year to date	+ 5.15%
Since inception	+17.74%
Avg Annual Return	+ 4.71%

NAV € 117.74

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017	0.94%	-1.28%	3.08%	1.18%	0.34%	-0.12%	-0.83%	1.50%	0.14%	1.30%	-2.57%	1.48%	5.15%
2016	1.95%	-0.55%	-0.42%	1.24%	1.01%	0.58%	-0.69%	0.45%	-3.92%	0.26%	0.29%	0.70%	0.80%
2015	6.30%	1.27%	1.39%	0.42%	1.38%	1.77%	0.39%	-3.79%	1.45%	-0.67%	0.83%	1.94%	13.14%
2014						0.16%	0.15%	1.43%	1.90%	-3.46%	0.15%	-2.04%	-1.82%

December performance

We are delighted to report a strong rebound in performance to close out 2017 on a positive note after a challenging year. The final figure for the month is +1.48%, taking the annual gains to 5.15% and the average annual return to 4.71%.

After the negative drawdown in November we wanted to deliver a strong year end performance and close out the year with a +5% gain. Whilst we were confident that we could achieve this based on seasonal factors and the position we had constructed, it is satisfying to deliver the result. We structured a position throughout the month which would take advantage of historical trading conditions and the impact of a shortened trading period, as the markets were closed for the festive period. Our performance would in fact have been higher if not for the late market drop and spike in volatility, as a bout of month end selling took place in the final hour of trading. This has been regained however in the first day's performance of 2018 as US markets got off to a flying start crushing volatility in the process.

Our expectations as 2017 commenced, were for a greater level of volatility throughout the year and not the outsized gains in equity markets. The constant ability for the market to discount geo-politics, global uncertainty, terrorism etc. and "buy the dip" continues to confound and concern us, as selling volatility on every spike has become almost the default trade.

During 2017 the S&P 500 reached 62 fresh record highs, the most since 1995 with volatility declining sharply by the most since 2009, averaging 11 which is the lowest annual mean since its inception in 1990. While the decline in equity volatility was large, volatility across other asset classes declined even further, with that for Junk bonds declining the most, some circa 38%.

Despite the low level of volatility, investors have increased speculation in the VIX with the quantity of options and futures trading each day on average in 2017 more than any previous year. Recently the cost of betting on a VIX increase relative to declines surged to a peak as some investors speculate the calm won't be everlasting. However, based on the first day's trading of the year this may have been nothing more than some year-end hedging activity.

The narrative as 2018 commences is for the synchronised global recovery to continue, with expectations that the world economy will expand by around 4%. On a relative valuation basis most analysts still prefer Europe and Emerging market equities based on a more supportive ECB and a prediction of further US dollar weakness despite the FED tightening schedule. European stocks have under performed US and Asian index's, but as regional economies strengthen, and the earnings recovery develops further European stocks are predicted to perform well even against a strengthening Euro.

The S&P 500 is expected to continue to climb to new highs as earnings growth continues and a net favorable tax bill and dollar repatriation boosts US EPS. History has also shown that "strong returns tend to be followed by strong returns" according to Jonathon Golub at Credit Suisse, who has a year end target of 3,000 or +12% gain for the S&P 500, against the street average of 2875.

Market data

Indexes	Price	M/M	YTD
S&P	2673.61	0.98%	19.42%
Dow Jones	24719.22	1.84%	25.08%
€ Stoxx	3503.96	-1.85%	6.49%
Dax	12917.64	-0.82%	12.51%
FTSE-MIB	21853.34	-2.30%	13.61%
VIX	11.04	-2.13%	-21.37%
HFRX*	1271.66	1.11%	10.06%

* HFRX Equity Hedge Index

So, it appears the world is in total harmony, investing in risk has never looked so appealing and besides the inevitable little hiccup along the way, what could possibly go wrong? Lets all get long BITCOIN and enjoy the ride!

To say there are many concerns out there would be an understatement and now is not the time to be complacent. In fact, complacency increases during periods of economic stability, leading to some departure from rational investment decisions, an effect which is then compounded by herding behavior – leading to the inevitable next crisis that nobody saw or predicted.

At this moment no one is predicting a "Minsky moment" – a sudden crash of markets and economies that are hooked on debt, but with record debt levels around the world and high financial market valuations, caution at this time is warranted especially as we approach the biggest tightening of monetary policy in a decade.

Quantitative easing by global central banks is set to drop from $126 billion in September 2017 to just $18 billion by the end of 2018 and turn negative during the first half of 2019. This is warranted based on the synchronised global expansion finally being strong enough to lift inflation closer towards targets. It is imperative for central banks to descale their involvement in financial markets.

While global tightening will still leave rates low by historical levels and central banks have the option to slow the pace of tightening if inflation continues to remain too low. It appears that there is a view in the market that this transition process will be smooth and without incident. Can we really be sure that after the longest and largest liquidity injection into financial markets in history that there will be no problems once it is removed? Also, the market continues to assume that inflation will trend slowly higher without the possibility of an acceleration or a chance that the central banks are behind the curve, we hope that remains the case and the genie does not get out the bottle.

Geo-politics have been ignored but it feels like a very precarious world out there right now, the deteriorating situation in North Korea, Russia, deepening middle east crisis, Brexit etc can only be ignored so long. Ian Bremmer of Eurasia group, a leading political scientist argues that "the scale of the worlds political challenges is the most daunting since world war II". He also warns that "2018 is ripe for a big unexpected crisis".

Other examples of concerns for 2018 include;

• China credit bubble

• The ageing business cycle, currently on course to match the second longest expansionary period in history

• The US mid-term elections

• Rising protectionism

• Italian Elections

• Flattening US yield curve

• A return in Volatility

• The tightest credit spreads since the financial crisis.

The list could continue but the point should be clear, we live in a far from stable world and there are many potential destabilizing forces. All these factors should see a rise in the current benign volatility environment which will create greater opportunities and returns for the fund throughout the year.

We aim to continue to deliver gains throughout the year by exploiting volatility whilst maintaining a tight grip on risk control and position management. If as we expect volatility rises with a continued expectation for further equity gains, there should be increased opportunities to exploit and realise gains. We are alert to the potential for negative impacts and shall be watching closely across asset classes for any change in trend that may develop as the year progresses.

Key upcoming data and events

In the upcoming weeks we will be monitoring the following economic events as well as all economic data releases;

- Jan 03 FOMC meeting minutes
- Jan 04 Fed's Bullard speaks
- Jan 04-07 Fed's Harker, Mester, Potter & Williams speak
- Jan 08 Fed's Williams & Rosengreen speak on Inflation targeting
- Jan 08 UK commons reconvenes after Christmas recess
- Jan 10 Fed's Evan discusses economy and policy outlook
- Jan 11 Fed's Dudley speaks on US outlook
- Jan 17 Bank of Canada rate decision
- Jan 17 US Fed Reserve release Beige Book
- Jan 17 Fed's Evans speaks on economy and monetary policy
- Jan 31 FOMC rate decision

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