Quarterly Update
Fort Street

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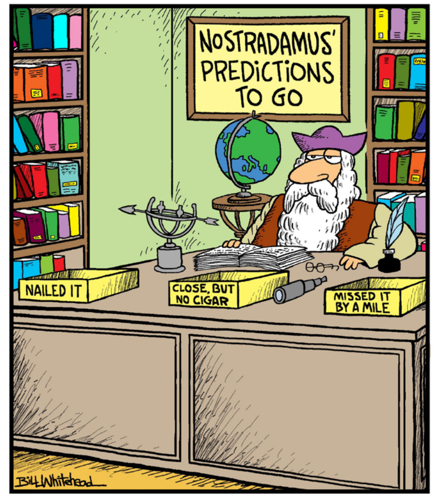
Fort Street
ASSET MANAGEMENT

4Q23 INVESTOR LETTER

Last year clearly demonstrated the futility of predicting what the markets will do over a given period. Most so-called experts and talking heads were flat-out wrong in 2023. Everyone expected a recession, and no one thought the S&P 500 would be up in the mid-double digits. Basing an investment strategy on being able to predict the future is a fool's game.

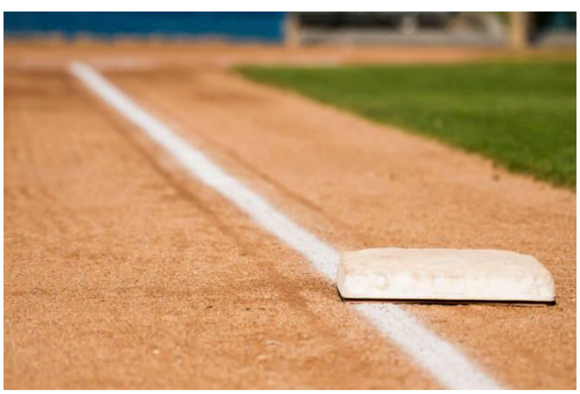
"We've long felt that the only value of stock forecasters is to make fortune tellers look good." Warren Buffett

"Out today due to foreseen circumstances."



Even though we were relatively bullish last year, we did not substantially dial up the level of risk in the portfolio, knowing that our views are far from infallible, despite what my mother says. Our investment decisions are made with a sober assessment of risks and opportunities based on the facts and are always subject to change as circumstances evolve. At Fort Street, we don't swing for the fences, even when potential returns look compelling. Our strategy is not to hit home runs but to consistently get on base. We tend to check our swing even when we see a fat pitch. It is not an exciting or sexy strategy, but it has delivered impressive results over time while minimizing agita. Apologies to our non-American friends for the baseball analogies.

FIRST BASE



Rising Risks: It seems we live in a riskier world with the status quo challenged at home and abroad. Global conflicts seem to be intensifying, and populism is on the rise. Higher interest rates and inflation could negatively affect the economy and investment returns going forward. Climate change and the potential for new health emergencies could also destabilize the political, economic, and societal landscape. In light of some of these threats and more, we have been spreading our bets across a number of possible outcomes and strategies to reflect the higher level of risks to markets.

Human Behavior

The one thing that is constant and predictable is human behavior. We are all driven by the same base-level desires and fears. Our species evolved based on our ability to cooperate as a group. Nothing like a jaunt through the African bush to realize that we humans don't stand a chance alone. Yours truly experienced this first-hand when an elephant decided to attack during a walking safari in Botswana. Spoiler alert: I survived.

Crowd Psychology

Millions of years of evolution have conditioned us to make decisions as a group and avoid becoming some animal's dinner. This is probably one of the reasons why, as investors, we tend to stay bearish or bullish long after the market has turned up or down, respectively—safety in numbers. At Fort Street, we try to use human nature to our advantage, doing our best to resist the pull of the crowd without getting run over or eaten by a lion in the process. The reality is that while there is often safety in numbers, crowds can be dangerous.

SAFETY IN NUMBERS

Waiting for a Pullback

Fortunes have been made (and lost) waiting for the inevitable pullback or market crash. Buying an asset only when it trades well below its intrinsic value is a bona fide investment strategy that tends to yield market-beating results when executed properly. However, it's not for everyone. It requires having: 1) the ability to calculate fair value estimates; 2) the courage to buy when the bullets are flying and everyone else is running for cover; and 3) not chasing prices or caring about the fear of missing out (FOMO). Fort Street uses elements of this strategy.

Keeping an Open Mind

For all you doomsayers out there, we suggest not being too negative. We know it's tempting to cash it all in, move to a remote island, and live under a rock. In case anyone is looking for a good rock on a remote island, we can help. While it's understandable to be worried about the future, the end of the world always appears to be nigh. We are not saying that the sun will shine eternally, far from it. We are concerned about the state of affairs in the US and worldwide. We might be entering into an extended period of minimal returns, be on the precipice of a significant global conflagration, or maybe climate change challenges our very existence. The problem is that it's impossible to predict these possibilities with any certainty. Will there be exogenous events that disrupt the markets and the economy? Absolutely. When and how will they occur? Who knows. Conversely, new technologies like AI could yield advancements that dramatically improve the human condition, the economy, and, hopefully, the planet. The Fort Street Fund portfolio is constructed to consider various risks and opportunities with an emphasis on safety.

We've outlined a brief review of 2023 and our expectations for next year. Please note that the success or failure of the portfolio is not predicated on our 2024 outlook.

YEAR IN REVIEW

Alarming Headlines

The lingering effects of 2022's bear market, war in Ukraine and the Middle East, a record rise in interest rates, a banking crisis, ongoing dysfunction in Washington, and the prospects of an imminent recession kept the vast majority of investors and market pundits in a risk-off mood for most of the year. Hiding all your money in your mattress or leaving it in a money market fund seemed like a good bet, especially with risk-free Treasury Bills yielding 5%. However, things are rarely what they seem or at least what the talking heads would have you believe.

Encouraging Data

Conversely, falling inflation, peaking interest rates, strong consumer spending, and a pick-up in productivity kept the economy growing beyond most investors' expectations. At the same time, investors moved a record amount of stocks and bonds into money markets. These massive outflows dramatically reduced the number of sellers, allowing the market to easily climb the proverbial wall of worry.

Magnificent Technology

While a handful of large technology stocks (the Magnificent 7) drove a disproportionate amount of the market's performance, there were still plenty of other opportunities outside this group. The emergence of AI as an economic and market force surprised everyone. Often, the things we least expect have the most significant impact.

Pervasive Skepticism

It's not unusual for investors to remain skeptical in the first year after a bear market. After being mauled in 2022, investors took a more risk-averse approach in 2023, opting for the safety of calmer waters in high-yielding money market funds. Only in November, as the storm clouds dissipated, did investors dive back into the water, reversing fund flows back into stocks and bonds.

FORT STREET – 2023

Moderately Bullish

While we recognized the various risks of higher rates, recession, geopolitical crises, and rich valuations, we also saw reasons to be optimistic. In particular, we expected inflation to dissipate and saw plenty of evidence that the economy remained resilient, if not robust. Despite the Fed's efforts to tighten financial conditions, we also felt that money still seemed abundant. The cumulative wealth effect from refinancing during the Pandemic gave us confidence that consumers would continue to spend.

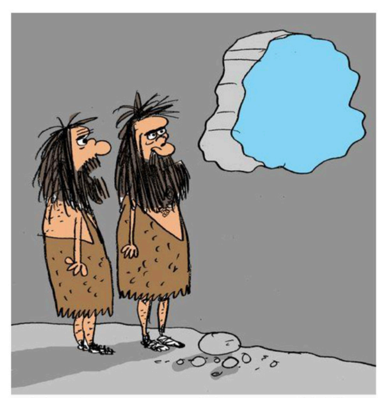
Portfolio Highlights

- Risk assets exposure ranged from 50 to 65% throughout the year.
- We reduced the number of holdings in the core equity portfolio from 41 to 30.
- Allocation to cash and protection strategies helped minimize losses when the markets hit a rough patch in October.
- The core equity portfolio performed in line with the broader markets.
- Uranium, big tech (MSFT, GOOGL, CSU, AMZN), and the Indus Select (Asian) Fund were the biggest contributors to the portfolio.
- Oil, options, the Ruffer Fund, and cash were the largest detractors.
- Our bond portfolio also made a meaningful contribution this year.
- While we kept plenty of dry powder, we closed out all our protective options after the market bottomed out in October.

OUTLOOK

Not wizards

We are not in the business of predicting markets, the weather, earthquakes, or who will win the World Series. We don't pretend to be self-proclaimed truth-sayers, fortunetellers, sorcerers, wizards, feng-shui masters, augurs, or economists. We don't use magic wands, crystal balls, economic models, tarot cards, price charts, lucky dice, or fancy college degrees; however, there are days when we wish we did. We don't engage in tasseography (reading patterns in tea leaves, coffee grinds, and even wine sediments), examine the entrails of animals slain for sacrifice, observe the behavior of chickens, or watch for random signs in the creaking of a chair, a sudden gust of wind, randomly spoken words, sneezing, coughing, or falling down to help guide our investment decisions or peer into the future. Nor do we wear fancy outfits to help brandish our credentials, although Clint has been spotted wearing a cape—more of a Superman thing.



"I've invented something to predict the weather. I call it the 'window.'"

Our Best Guess

As mentioned above, we will not try to impress you with grand proclamations about what will happen in 2024. Our guess (strong emphasis on guess) is that 2024 will be a more challenging year for stocks and bonds but that the S&P 500 could still end the year in positive territory.

For bonds, the setup looks a bit trickier. Lower inflation is putting pressure on the Fed to cut rates sooner rather than later. It could become a bit more challenging to simply sit in cash as money market yields are likely to fall more than longer-dated bonds. Bonds tend to move in advance of the time the Fed actually starts cutting rates. Statistically, equity markets usually do well in an election year. However, the nature of this year's election carries a higher-than-usual level of angst, which could lead to an extra dose of fireworks, hopefully only metaphorically.

"Among all forms of mistake, prophecy is the most gratuitous." -George Elliot, Middlemarch

Fund Flows

Statistically, the stock market usually goes up after the first strong year of a bull market as FOMO entices investors who missed out on last year's bonanza to chase prices higher. Record fund flows started reversing as the bonds and equities rallied in November 2023. We suspect there are still many more funds to unwind as investors turn from fear to greed over the course of this year.

Wall of Worry

The S&P 500 and Dow Jones Industrial Average just hit new highs, yet investors are clinging to a record $8.8 trillion in money-market funds and CDs. Amid election uncertainty and global tumult, investors remain concerned about elevated valuations, narrow market leadership, possible recession, and the prospect that lofty profit margins may revert to their historical mean. Despite the thunderstorms, the sun keeps peeking through. Bull markets like this are often more sustained and less volatile, given that neither fear nor greed dominates. Because of this uncertainty, they don't feel like bull markets, underscoring the "worry" in "wall of worry." In contrast, bull markets born of FOMO tend to soar and flame out faster and more dramatically. Their arc typically begins with nascent greed that cascades into euphoria and unbridled greed before investors capitulate, leaving rubble and tears in their wake. From where we stand, it could go either way.

Inflation and the Fed

Inflation will likely continue easing over the next few months, exerting more pressure on the Fed to lower interest rates. We sense that the Fed will start cutting rates later than the market anticipates. When the Fed finally cuts, concerns about a possible economic slowdown could spark a selloff in the equity markets. We expect inflation to become more volatile in the year's second half as year-on-year comparisons become more difficult.

Labor and Consumers

Labor markets still appear tight, indicating that the economy remains relatively robust. Unemployment claims are starting to creep up, so we must keep an eye on those figures. We have not seen any significant shift in consumer spending patterns, although there has been a substantial increase in auto payment defaults and credit card delinquencies.

Elections

The economy's performance often determines the outcome of Presidential elections, so we expect to see the Biden administration do everything it can to goose the economy. Statistically, equity markets usually do well in an election year. However, the nature of this year's election carries a higher-than-usual level of angst, which could lead to an extra dose of fireworks, hopefully only metaphorically.

Valuations

Valuations for the broader market are certainly not cheap. Wall Street expects corporate earnings to grow 11.6% in 2024 and 12.5% in 2025. We think that might be too optimistic, but note these are only forecasts and are subject to change. We prefer to pay more attention to what companies say, which seems to be a better barometer of earnings growth.

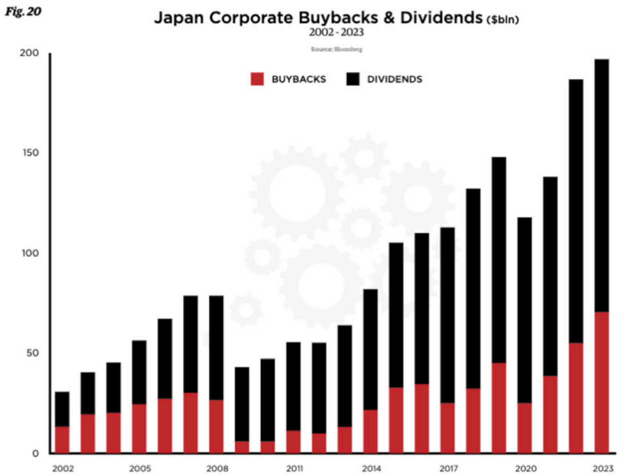
HK/China

HK/Chinese equities look cheap after recently hitting a five-year low. There is plenty of speculation that the government will take measures to boost the economy and the stock market. When or if that happens is hard to say, but we wouldn't be surprised to see a rally at some point this year. However, we remain cautious, given the erratic nature of government policy. Just last month, they announced new restrictions on the gaming industry, only to reverse course a day or two later, causing a number of stocks to plummet and then recover. As we write, China finally announced long-awaited stimulus measures, which could spark a rally.

Japan

In the land of the rising sun, we are encouraged by the pace and scale of corporate reforms. The chart on the right shows a sharp rise in corporate dividends and buybacks, reflecting a desire to boost shareholder value and investment returns, ultimately leading to higher prices. Despite a strong market performance last year, there are still many excellent Japanese companies that trade at reasonable valuations,

We wanted to give a shout out to John Pinkel and his team at Indus Capital for helping us manage most of our Asian exposure. Indus was up 19.9% last year, outperforming their benchmark by 11.4%.

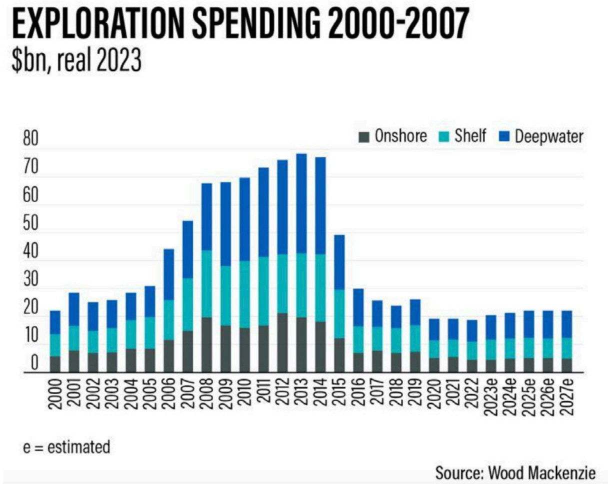


Energy

The world's failure to fully appreciate the ongoing need for oil, gas, coal, and nuclear power presents a compelling investment opportunity.

Hydrocarbons – separating fantasy from reality

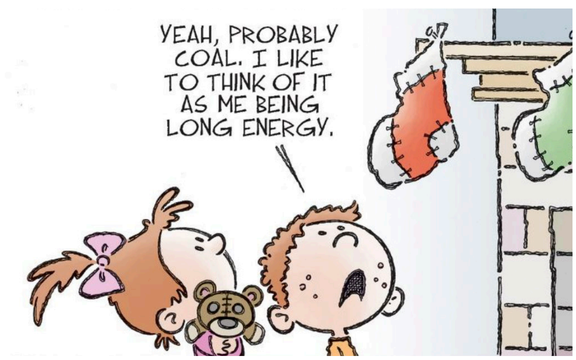
Despite ever-escalating rhetoric, an "energy transition" away from society's dependence on hydrocarbons is not feasible in any meaningful time frame, and it is a dangerous delusion to base policies on the idea that such a transition is possible. Data, not aspirations, show just how critical hydrocarbons are. The Ukraine invasion was a wake-up call to the consequences of wishful thinking. A different understanding of "transition" is required, one that recognizes that new energy sources should be considered additives, not outright replacements, for oil, natural gas, and coal.



The core challenge for energy transition goals today arises not from policies or political philosophy but from the physics of energy and technology. Hydrocarbon use continues growing because coal, oil, and natural gas can provide the vast amounts of reliable, dispatchable energy that the world demands at prices consumers can afford. And, like it or not, that will continue to be the case for years to come. Intermittent wind and solar cannot replace oil, gas, and coal at scale.

Uranium – the future's so bright I gotta wear shades

Uranium prices are up 90% over the last 12 months due to resurging nuclear power demand and years of underinvestment in new mines. After the Fukushima and Chernobyl disasters, uranium supplies were plentiful. A long-term supply overhang kept uranium prices well below the cost of production. Uranium was cheap and easy to buy. That's no longer the case.



The era of supply overhang is emphatically behind us. With little investment in new mines, expanding the uranium supply will take a long time. It can take up to a decade to open and restart mines. Inventories at the big producers are at record lows. Just last week, production giant Kazatomprom announced that a shortage of sulphuric acid was causing problems. This could have broad implications as they account for 43% of global production.

Governments are finally starting to grasp that nuclear is the only cheap and reliable low-carbon power available. They are realizing that they will never get anywhere near net zero with unreliable, expensive, and politically divisive wind turbines and solar panels.

Prices could stay elevated for a while. At the recent COP28 meeting in Dubai, twenty-two countries committed to trebling their nuclear capacity by 2050. And yet, uranium demand globally is expected to rise by 28% by 2030 and double by 2040.

There is certainly some risk. Another accident or a technological breakthrough could dramatically change the current outlook and put the kibosh on a uranium bull market. According to a recent Bloomberg report, you are four times as likely to be eaten by a shark than injured in a nuclear accident. I suspect those odds don't apply to those of us here in Hawaii.

Argentina and populism

We are intrigued and encouraged by Argentina's bold attempt to overturn over 50 years of ruinous populist and socialist policies. One hundred years ago, Argentina had one of the world's highest GDP per capita. Unfortunately, the country embraced collectivism around the turn of the 20th century. It's an utter shame that a country endowed with an abundance of natural resources and one of the most highly educated populations in Latin America is such a complete mess. The US and the West would do well to note what can happen when institutions and governments embrace populist or socialist/fascist ideologies.

Unfortunately, it seems the world is heading in that exact direction. The conflicts in Ukraine and the Middle East could lead to an escalation of hostilities that ignites a much broader conflagration. The rise of anti-semitism and the world's absurd reaction to the massacre on October 7 and Israel's right to defend itself is an ominous harbinger. As an Israeli comedian recently said, "People hate us again. What happened to never again"? We at Fort Street proudly stand with Israel and applaud leaders such as Argentina's new President, Javier Milei, for standing up and making their voices heard. We hope you all do the same.

"The opposite of good is not evil, but indifference" Elie Weisel.

Market Risks

- Inflation spikes, causing the Fed to reverse course and raise rates again.
- Escalation of conflicts in the Mideast, Ukraine-Russia, or China-Taiwan.
- Long and variable effects of last year's rate hikes spark a credit crisis, a rise in unemployment, or a slowdown in consumer spending, triggering an economic downturn.
- The presidential election in the US leads to some unforeseen events.
- A Biden or Trump White House exacerbates profligate fiscal spending.
- The Mets don't make it into the playoffs.
- Aliens invade Earth again.

CONCLUSION

We often discuss trying to be prepared for the punch you don't see coming. The reality is that it's impossible to be fully protected against whatever challenges the markets or life decides to throw at you. We have to stay alert and be ready to react and adapt. Our philosophy is to strike a reasonable balance between risk and reward, keeping an open mind to the opportunities and the dangers. Eliminating all the risks guarantees no rewards – where is the fun in that?

"It's not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." Charles Darwin

Getting better

We would like to report that our fund and company continue to grow and improve at what we do and how we can help our clients and friends. We are constantly working to improve the portfolio and provide the best service possible to our investors – adding new strategies, expanding our knowledge network, upgrading our marketing and communications, and ensuring we have the right resources to complete our mission. As we head into 2024, we feel increasingly confident in our ability to protect your assets and ensure they grow at a more than reasonable rate of return. As always, we are grateful for your trust in us and all your support. Please know that we are here for you in any way we can help.

Feedback

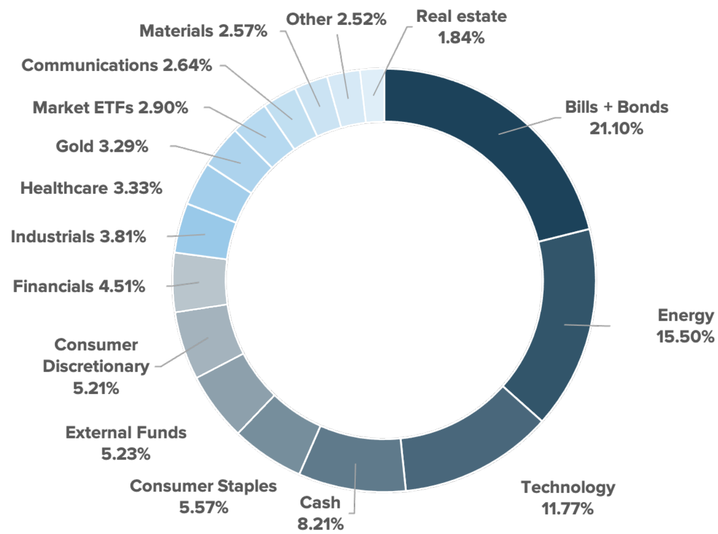
If this investor letter happened to make it into your inbox and you opened it (intentionally or by accident), and you bothered to read it, we would be grateful if you could let us know what you liked or didn't like, and what you would like to see more or less of. We know you are all busy, but it does mean a lot to us.

	Jan 23	Feb 23	Mar 23	April 23	May 23	June 23	July 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	YTD
FSAM **net of fees*	**3.89%**	**-2.05%**	**1.63%**	**1.27%**	**-1.23%**	**3.26%**	**2.97%**	**-1.26%**	**-1.97%**	**-1.52%**	**4.95%**	**2.65%**	**13.40%**
S&P 500	6.18%	-2.61%	3.51%	1.46%	0.25%	6.47%	3.11%	-1.77%	-4.87%	-2.19%	8.92%	4.42%	24.23%
60/40 Blend	5.04%	-2.63%	1.23%	0.77%	-1.29%	3.44%	2.62%	-1.47%	-3.14%	-1.95%	5.66%	4.17%	13.36%

TOP 10 HOLDINGS

Securities	% Equities	% NAV	Sub-sector
Cameco	5.16%	3.47%	Uranium Mining
Constellation Software	4.24%	2.86%	Software
Vanguard Energy ETF	4.16%	2.80%	Oil & Gas
Microsoft	4.08%	2.75%	Software
Google	3.92%	2.64%	Internet Media
ASML	3.47%	2.33%	Semiconductors
Schlumberger	3.24%	2.19%	Oil & Gas
Berkshire Hathaway	3.07%	2.07%	Financial Services
Lockheed Martin	3.05%	2.06%	Defense
Freeport-McMoRan	2.88%	1.94%	Base Metals

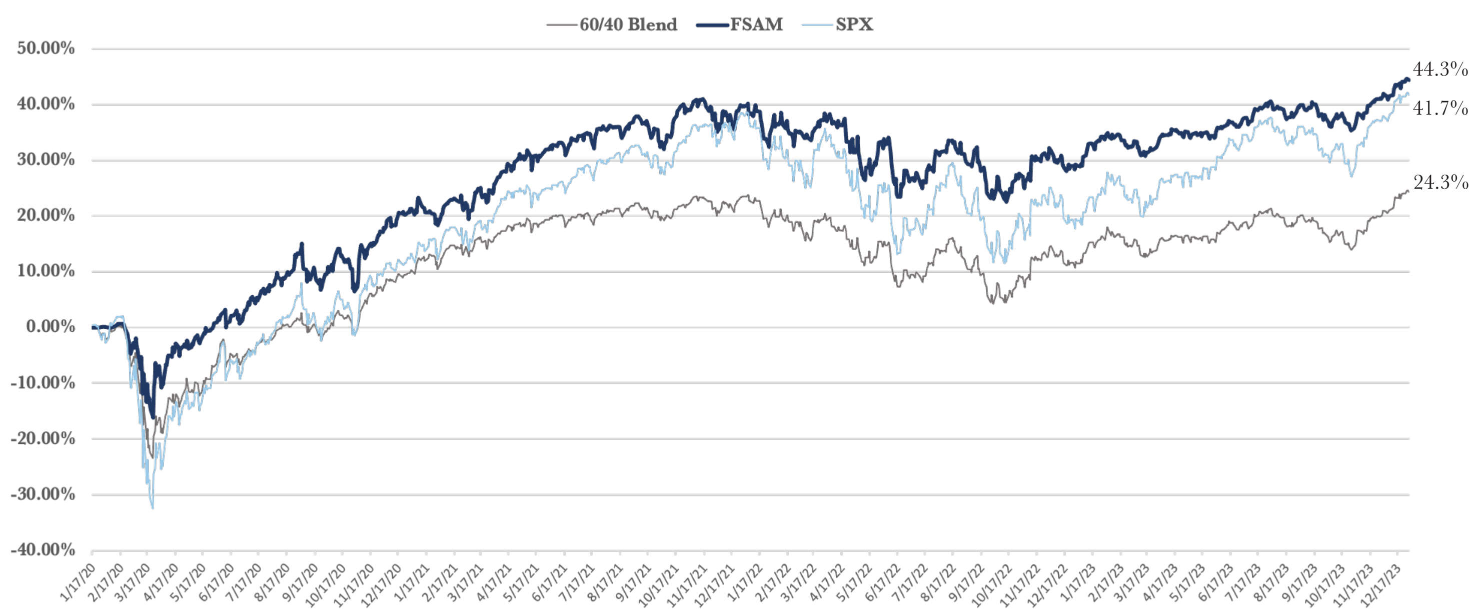
ASSET ALLOCATION



PERFORMANCE OF CORE PORTFOLIO *Started core portfolio at Morgan Stanley in 2016

	2016	2017	2018	2019	2020	2021	2022	2023	Cumulative	Annualized **as of 12/29/23*
FSAM	**8.7%**	**29.0%**	**-7.4%**	**36.1%**	**22.5%**	**20.4%**	**-10.8%**	**13.4%**	**111.9%**	**14.02%**
S&P 500	9.5%	19.4%	-6.2%	28.8%	16.3%	27.0%	-19.4%	24.2%	99.74%	11.82%
60/40 Blend	5.7%	12.1%	-4.8%	19.5%	11.6%	14.8%	-12.1%	13.3%	60.26%	7.21%

PERFORMANCE SINCE FSAM FUND INCEPTION *Launched FSAM fund in 2020



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