

MIMS – Diversified Passive Selection Fund

Portfolio Management Team

Report – March 2025

Fund description

The Passive Fund is composed by a number of Exchange Traded Funds selected by Minerva Investment Management Society, reflecting the output of the research of the Passive Portfolio Team. These ETFs aim to replicate as closely as possible the performance of a basket of securities with specific common properties, thus being effective instruments for investors who wish to express a certain view on industry sectors or economic trends while capturing as little idiosyncratic risk as possible. Each ETF was carefully chosen in line with the macroeconomic outlook. Our allocation is based on a diversification process achieved among geographies, asset classes and sectors.

Adjustment

Reasoning

As a discretionary fund, rebalancing and adjusting fund allocation is essential for effective active management and capitalizing on market opportunities. This approach enables the Diversified Passive Selection Fund Fund to remain strategically aligned with market conditions while adhering to its investment goals. Rather than a one-time event, adjustments are made in response to genuine market opportunities and are implemented alongside the comprehensive semi-annual rebalancing report. This brief report serves as both a tracking measure and a bridge between the two standard semi-annual reports.

Actual Adjustments and Changes

Due to Trump's tariffs and large EU government spending, we decided to reduce interest rate exposure by replacing the two Amundi ETFs on very long-term Treasuries and Euro government bonds with an ETF on short-term Treasuries on the one hand and two ETFs on European short-term corporate bonds and on the European defense sector on the other. Furthermore, weaker-than-expected results of the Indian economy prompted us to replace the India Columbia Consumer ETF with a more diversified ETF on emerging markets. After the adjustment, the portfolio allocation is balanced across equities (52.50%), fixed income (37.50%), and commodities (10%), and it remains strategically diversified across the United States, Europe and Asia.



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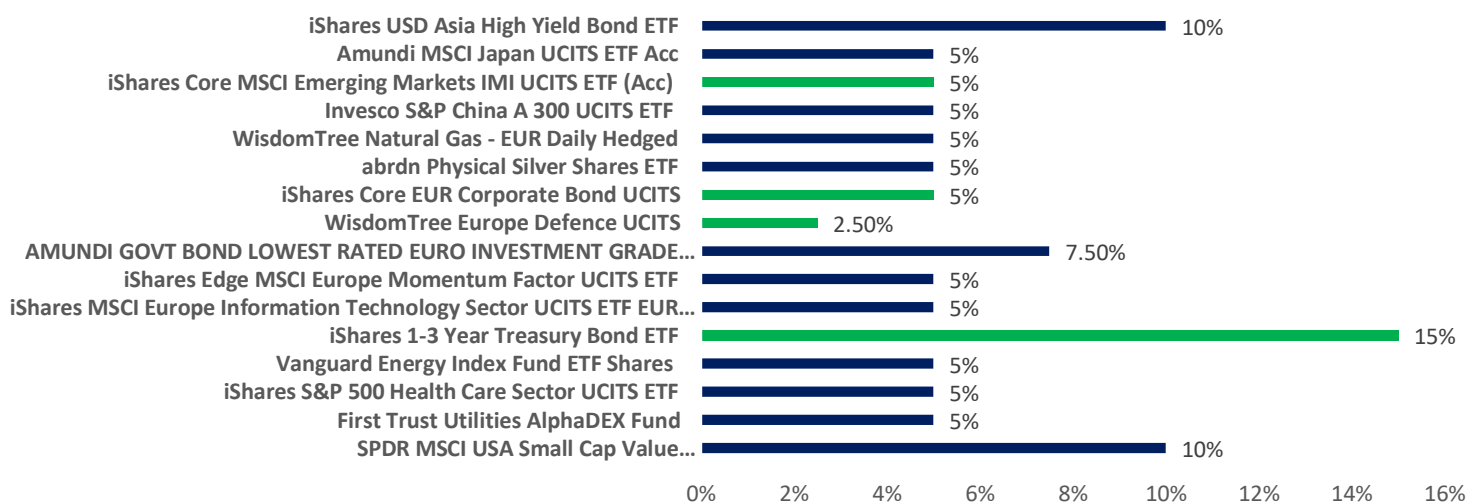
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ETFs Resulting Breakdown



REMOVALS

Amundi Euro Government Bond 25+Y UCITS ETF Acc.

Index: Bloomberg Euro Treasury 50bn 25+ Year Bond Index

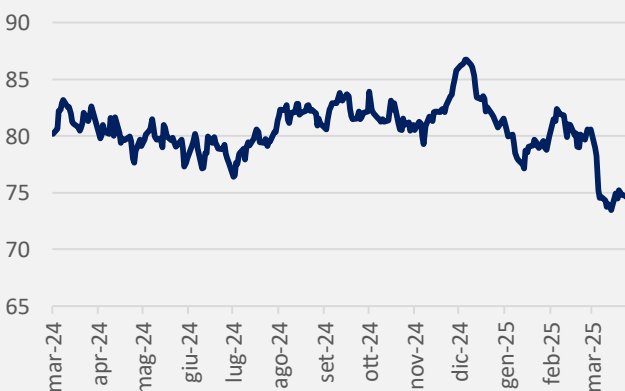
Expense Ratio: 0.07% Tracking Error Volatility: 0.03%

Overview

The Amundi Euro Government Bond 25+ Y ETF invests in government bond issued by Euro area countries with long maturities. Invested securities have maturities comprised between 20 and 30 years and boosts an average modified duration of over 21 years. The fund is generally geographically well diversified but displays a high portion of investments in France's bonds.

Analysis

The ETF performed badly in the first part of the period, especially in December. The trend continued to worsen after Trump started its mandate immediately threatening the imposition of tariffs. The idea underlying the long position in the ETF was to get a return from the decrease in the interest rate in Europe. The decrease has been present and our expectations about decreasing inflation and weak economic growth were correct, however, the huge increase in public spending by public governments (especially Germany) caused an increase in the yields that hit the performance.



Conclusion

Our idea is to switch the ETF to another European bond ETF with lower maturity and exposure to corporate bonds and to an ETF on the European defense industry.

ADDINGS

iShares Core EUR Corporate Bond UCITS & WisdomTree Europe Defence UCITS

Indexes: Bloomberg Euro Corporate Bond Index & WisdomTree Europe Defence UCITS index

Expense Ratio: 0.20% Tracking Error Volatility: 0.00% & Expense Ratio: 0.40% Tracking Error Volatility: N/A

Overview

Ishares Core EUR Corporate Bond UCITS invests into European Government Bonds issued by Investment grade corporates. WisdomTree Europe Defence UCITS invests instead in the main defence stocks in Europe (we do not provide a graph of this latter ETF given the very short period since it has been issued).

Analysis

The first ETF maintains an exposure to European bonds but with a much lower duration. In addition, the increase in public spending can reduce corporate spreads even more, guaranteeing us a good performance for the following 2 months. The ETF distributes an annual dividend but, since the distribution always occurs at the end of the year and considering our holding period, we do not account for it in our analysis. The second ETF is heavily exposed to the most important defense stocks in Europe. The rationale behind this ETF is to invest in a sector that can be strongly boosted by the ReArm EU Plan.



Conclusion

This investment aims to maintain exposure to European bonds while reducing exposure to public debt and capitalizing on the increase in defense spending.

DISCLAIMER

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REMOVALS

India Columbia Consumer ETF USD

Index: India Consumer ETF

Expense Ratio: 0.75% Tracking Error Volatility: 1%

Overview

The objective of this investment is to replicate the performance of the India Consumer Index. This index tracks the performance of the Indian large caps belonging to consumer-related sectors.

Analysis

The ETF underperformed due to several macroeconomic challenges that have recently impacted the Indian economy. Following the post-pandemic expansion, GDP growth has entered a seasonal slowdown, driven by persistent inflation and sluggish consumer spending. The ETF, which tracks consumer-focused sectors, has begun pricing in a softer economic outlook. Business activity and export growth have shown signs of stagnation, largely influenced by uncertainty surrounding US tariff policies. Additionally, the Indian stock market continues to trade at a premium compared to other emerging markets, making it more vulnerable to volatility. Given ongoing global and domestic economic uncertainties, market fluctuations are expected to persist in the coming weeks.



Conclusion

Our idea is to replace the ETF with an Equity Emerging Market ETF with broader diversification in terms of sector and geographic scope. By doing so, it's possible to reduce the country risk associated with this fund.

ADDINGS

iShares Core MSCI Emerging Markets IMI UCITS ETF (Acc)

Index: MSCI Emerging Markets Investable Market Index

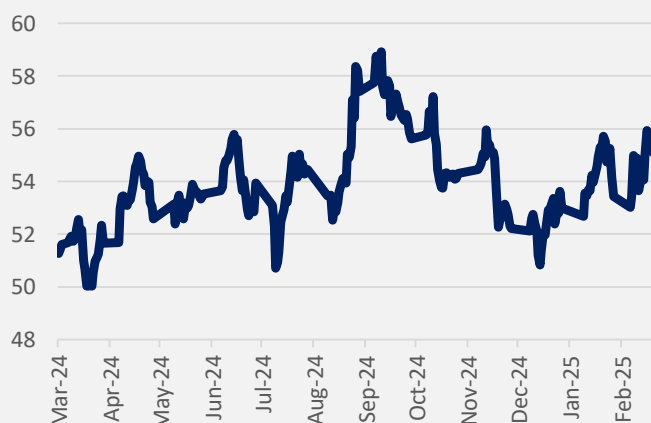
Expense Ratio: 0.18% Tracking Error Volatility: 1%

Overview

iShares Core MSCI Emerging Markets tracks the performance of 3160 companies operating in different emerging economies. The fund is exposed to different economies such as China, Saudi Arabia, India and Brazil. The main sectors are Financials, Tech and Discretionary.

Analysis

The ETF presents a compelling investment opportunity due to attractive valuations and diversification scope. EM equities have experienced a correction after the shift in the US trade policy, making valuations more appealing than developed market counterparts. Additionally, with inflation showing signs of stabilization and central banks in key EM shifting toward more accommodative monetary policies, the economic outlook is improving. A softer US interest rate environment also strengthens the case for EM assets, as capital flows tend to favor higher-growth regions when the dollar weakens. Furthermore, structural growth drivers such as rising consumption, technological advancements, and infrastructure investments continue to support long-term prospects.



Conclusion

This investment aims to maintain exposure to emerging markets while reducing concentration in a single economy. Broader diversification helps mitigate overall volatility while preserving a substantial risk premium.

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REMOVALS

iShares 20+ Year Treasury Bond ETF

Index: ICE U.S. Treasury 20+ Years Bond Index

Expense Ratio: 0.15% Tracking Error Volatility: 0.18%

Overview

The iShares 20+ Year Treasury Bond ETF tracks the ICE U.S. Treasury 20+ Years Bond Index. It tracks the performance of the US Dollar denominated government Treasury bonds with maturities of 20 years or longer.

Analysis

The ultra-long duration of the ETF makes it one of the most interest-rate-sensitive instruments in the market, and in today's environment, that's a liability rather than a hedge. Although the fund has already seen a meaningful price correction, the macro landscape still poses a risk to long-dated Treasuries. Inflation remains persistent and the Fed has recently reiterated a cautious stance, delaying any aggressive pivot toward rate cuts. That means long-term yields could remain under pressure or even drift higher, especially if fiscal concerns reprice the long end of the curve.



Conclusion

While the ETF may appear undervalued compared to historical levels, a lower price does not necessarily equate to safety, especially amid policy uncertainty and persistent inflation. The potential upside from a rate-cut surprise is outweighed by the asymmetric risk of further drawdowns if markets reprice inflation expectations again. Holding such duration in this environment no longer aligns with prudent risk management.

ADDINGS

iShares 1-3 Year Treasury Bond ETF

Index: ICE US Treasury 1-3 Year Bond Index

Expense Ratio: 0.15% Tracking Error Volatility: 0.18%

Overview

The iShares 1-3 Year Treasury Bond ETF seeks to track the investment results of an index composed of U.S. Treasury bonds with remaining maturities between one and three years, having an effective duration of 1.82 years.

Analysis

The ETF provides exposure to short-term U.S. government bonds with significantly lower duration risk, while still offering attractive yields and preserving liquidity. In a market where policy remains uncertain and real rates are volatile, this instrument gives you flexibility and resilience. It also works better as a capital preservation anchor in the portfolio, especially when paired with cyclical or risk-on assets elsewhere.



Conclusion

This investment aims to gain a more balanced risk-return profile compared to a strictly long-term approach, particularly until inflation is clearly contained and the Federal Reserve adopts a decisive policy shift.

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