



Deuterium Global Dynamic Allocation

Quarterly Strategy Report Q4 2021

30 September 2021



Table of Contents

DGDA Investment and Economic projections for Q4 2021

| | |
|--|----|
| Global Asset Allocation Outlook for Q4 2021 | 3 |
| Market Projections | 4 |
| Global Investment Conclusions | 5 |
| Regional Investment Conclusions | |
| USA | 10 |
| China | 13 |
| Japan | 16 |
| Eurozone | 19 |
| UK | 22 |
| Developing Markets, Far East ex Japan, Commodities | 25 |

All data in this report are sourced from Deuterium Global Asset Allocation proprietary models.



Deuterium Global Dynamic Allocation Outlook for Q4 2021

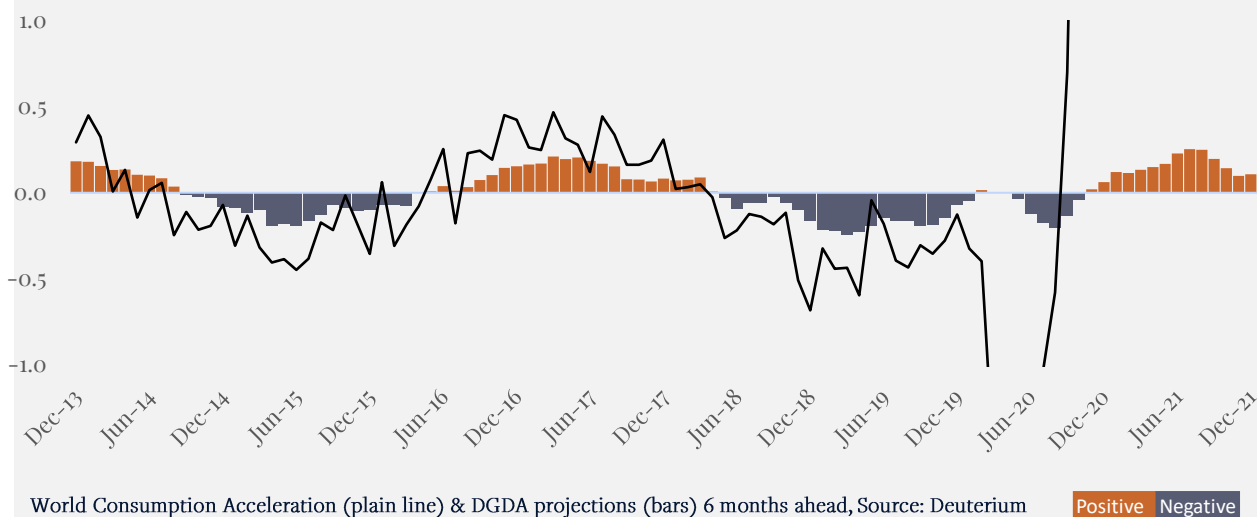
The outlook for risk assets likely will be positive through the initial weeks of this quarter, with equity valuations benefitting from a continued surge in global output, but finding less support towards year end. The cyclical rebound and steady rise in goods and producer prices will have long term bond yields moving higher on further strength in global demand and output, with major central banks maintaining short-term rates near their lows.

The first half of Q4 2021 will show a global environment where investors remain concerned by upward pressures on bond yields as consumer prices and commodity inflation stay high, yet worldwide share valuations find support in higher sales and earnings reports. Global central banks likely will continue to provide ample liquidity and corporate credit spreads remain narrow. Further real economy expansions will be key supports for risk-asset valuations to start the quarter, and core consumer price inflation will moderate somewhat, giving central bank authorities room to postpone for a time any reversal of their current accommodative policies.







The principal market surprise in Q4 2021 nonetheless may be a sudden halt to accelerations in the global economic expansion over the second half of the quarter, with output growth flattening after its strong rebound from the Covid-19 induced recession. This probably will bring greater volatility to equity market valuations towards year end, when investors try to assess the size and breadth of the global economic expansion over the months to come, while bond yields stay elevated in line with most price measures showing little sign of decelerating.

Investors may do well to maintain high allocations to risk assets to start Q4 2021, given that cycle expansions will provide support for equity fundamentals, while bond yields will sustain further upward pressure. Reduced allocations to risk-assets may be justified towards year end as the surge in economic growth begins to fade, and global inflation pressures stay high.

Deuterium Global Asset Allocation projections show world consumption reaccelerating in Q4 2021



DGDA Market Projections for Q4 2021

| DGDA projections for Q4 2021 | At 30 September 2021 | Market moves projected for end Q4 2021 |
|---------------------------------|----------------------|---|
| USA | | |
| 3 Month yields | 0.03% | |
| 10 Year yields | 1.49% |  |
| US Dollar Index | 94.2 | + |
| S&P 500 Index | 4308 |  |
| China | | |
| 3 Month yields | 2.43% | |
| Chinese Yuan | 0.155 | -- |
| MSCI China | 90 | + |
| Japan | | |
| 3 Month yields | -0.14% | |
| 10 Year yields | 0.07% | |
| Japanese Yen | 0.009 | -- |
| Topix Share Index | 2030 | -- |
| EMU | | |
| 3 Month yields | -0.66% | |
| 10 Year yields | -0.20% |  |
| Euro | 1.16 | |
| Euro Stoxx 50 Share Index | 4048 |  |
| UK | | |
| 3 Month yields | 0.02% | |
| 10 Year yields | 1.02% | -- |
| British Pound | 1.35 | -- |
| FTSE 100 Share Index | 7086 | |
| Commodity Markets | | |
| All Commodities | 101 |  |
| Oil & Energy | 36 |  |
| Gold & Precious Metals | 210 | -- |

Source: Deuterium, Bloomberg



DGDA Global Investment Conclusions

1. The global business cycle will show strong signs of recovery for the initial part of Q4 2021 while major central bank support continues. Equity valuations likely will benefit from the continued rebound in global output until growth rates begin to fade towards year end. Sovereign bond markets, given continued high inflation rates, will face poorer prospects. This suggests that as economic growth expands to start Q4 2021, the effects initially will be positive for risk assets, despite rising long bond yields, but will be less so later in the quarter as output growth slows.

| Market Projections | Major Equities | Positive | ++ |
|--------------------|-----------------------------|----------|----|
| | Developing Equities | Negative | -- |
| | Oil, Industrial Commodities | Positive | ++ |
| | Major Bonds | Negative | -- |
| | Developing Bonds | Negative | -- |
| | US Dollar | Positive | ++ |
| | Japanese Yen | Negative | -- |
| | Euro | Neutral | |
| | British Pound | Negative | -- |

2. The US Federal Reserve continues to provide extraordinary liquidity to the US financial system, and to US banks in particular, so that the repo market for excess cash has surged beyond its 2014 extremes. Although US QE purchases have subsided, neither US employment nor US inflation look high enough to have the Fed tightening policy anytime soon. The ECB and BoE still look to be counting on monetary policy to support domestic activity and prices, while the PBoC may have reversed its monetary policy tightening to begin again supporting domestic credit growth.

| Monetary Policy Projections | USA | Loose |
|-----------------------------|-------|-----------------------|
| | China | Loosening |
| | EMU | Extraordinarily Loose |
| | Japan | Loose |
| | UK | Extraordinarily Loose |

3. In Q4 2021 the US and European economies will have rapid expansions in aggregate demand to start the quarter, yet toward year end will show signs that their strong output accelerations are beginning to fade. In this they will be joined by the Far-East and developing economies. Monetary and fiscal interventions have given sufficient liquidity and income support to keep the global recovery in place, but its pace will be substantially slower.

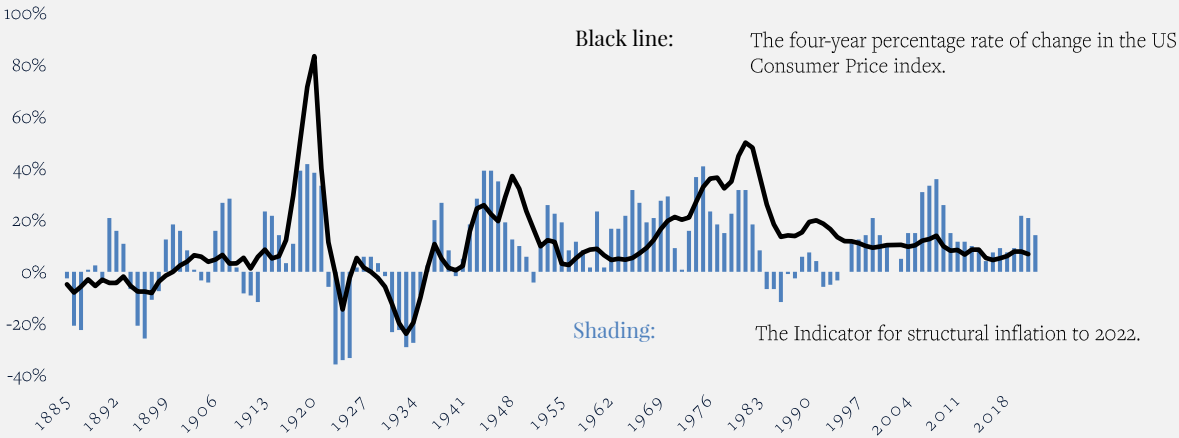
| Economic Projections | USA | Rapid Expansion |
|----------------------|-------|--------------------|
| | China | Moderate Expansion |
| | EMU | Rapid Expansion |
| | Japan | Expansion |
| | UK | Expansion |

Deuterium Global Dynamic Allocation Outlook for Q4 2021

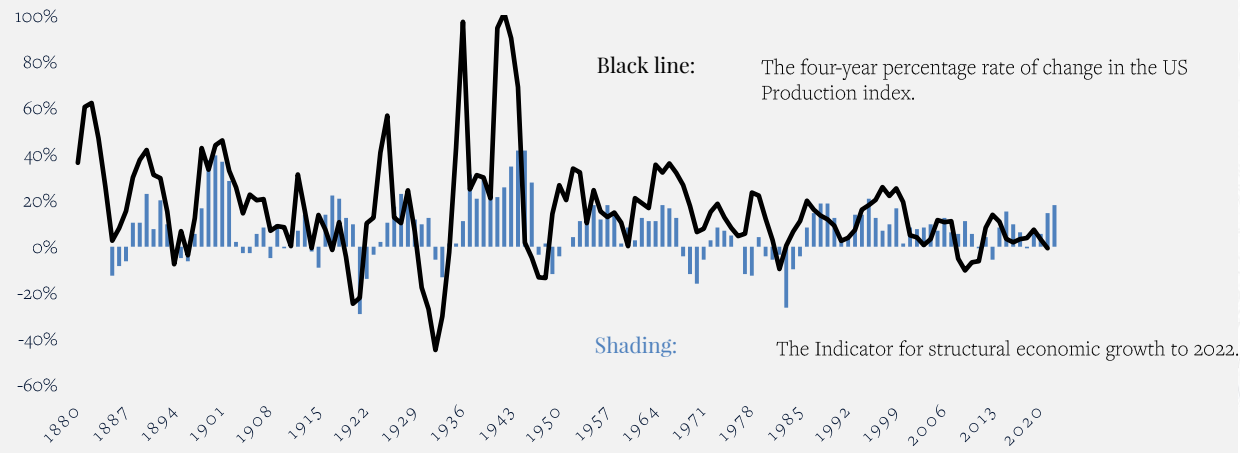
Our Q4 2021 projections for inflation to remain at current rates and industrial activity to shift higher to begin the quarter match our structural projections for US CPI and Production out through 2022, based on our 150-year historical analysis (published separately).

The charts below show our predictive Indicators for US Structural Inflation and Growth from 1885 to 2022.

This chart shows the percent change over four years of US inflation & our four-year inflation indicator.



This chart shows the percent change over four years of US industrial production & our four-year production indicator.



The key measures that underpinned the historical evolution of prices and industrial activity were money supply, commodity prices, interest rates, fiscal policy, and output. These therefore lay behind the booms and bust in the equity, precious metals, and bond markets. Our quarterly projections for a cyclical upswing align well currently with our historical projections, available on our website.

Global Economic Acceleration in Q4 2021

DGDA projections for production, orders, and exports show strong accelerations across most regions to start Q4 2021, but these will become mixed signals near year end.

Global Short Term Production Monitors (+/- 1) ↗

| Production Monitor | Production | Orders | Exports | Direction | Average |
|--------------------|------------|--------|---------|-----------|---------|
| USA | | | | | 0.02 |
| Europe | | | | | 0.07 |
| Japan | | | | | -0.09 |
| UK | | | | | 0.01 |
| Canada | | | | | 0.18 |
| France | | | | | -0.01 |
| Switzerland | | | | | 0.24 |
| Germany | | | | | -0.04 |
| Australia | | | | | 0.27 |
| Netherland | | | | | 0.14 |
| Spain | | | | | -0.03 |
| Sweden | | | | | 0.06 |
| Italy | | | | | 0.00 |
| China | | | | | -0.17 |
| South_Korea | | | | | 0.18 |
| Taiwan | | | | | 0.13 |
| Hong_Kong | | | | | 0.02 |
| Singapore | | | | | -0.26 |
| Indonesia | | | | | -0.17 |
| Thailand | | | | | -0.16 |
| India | | | | | 0.02 |
| Brazil | | | | | -0.17 |
| Russia | | | | | 0.20 |
| Mexico | | | | | 0.05 |
| South_Africa | | | | | 0.12 |

Best Worst

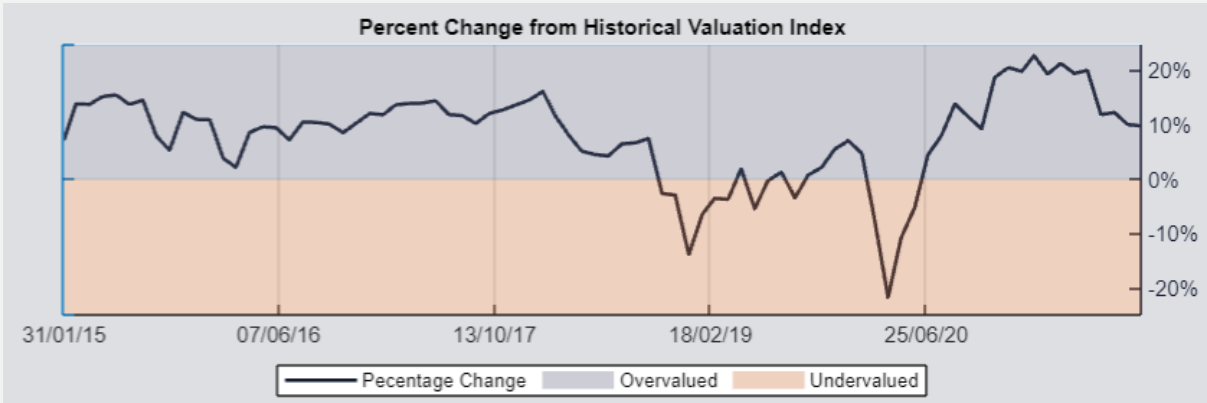
Source: Deuterium

Our short-term indicators for industrial activity are strongest to start Q4 2021 and shift to mixed signals by quarter end, with Far East and developing economy outputs slowing in particular. Fiscal measures in the major economies continue to support incomes as labour market shocks ease, while monetary interventions have provided depth and liquidity to the debt markets.

Record US disposable income and savings rates with strong housing markets will continue to support domestic consumption and production, while China appears to be reversing its monetary policy tightening as its negative effects on the property market are a significant problem.

Equity Markets and Bond Markets are overvalued

Corporate earnings have risen strongly, leaving most major markets at fair value with the exception of the US, where shares are sufficiently expensive to make world equities overvalued.



Source: Deuterium

US equities show as very expensive, with the US market the primary major market to be materially above fair value at present. UK, Far-East, and Emerging market equities stand out as attractively valued.

| COUNTRY | Current Price | Target Price | Price Move required to get to target price |
|----------------|---------------|--------------|--|
| World | 3104 | 2711 | -12.7% |
| EAFE | 2342 | 2414 | 3.1% |
| United States | 4455 | 3557 | -20.2% |
| EMU | 4159 | 4077 | -2.0% |
| Japan | 30249 | 30458 | 0.7% |
| United Kingdom | 7051 | 8492 | 20.4% |
| Canada | 20403 | 18646 | -8.6% |
| France | 6638 | 6940 | 4.5% |
| Switzerland | 11817 | 12152 | 2.8% |
| Germany | 15532 | 16380 | 5.5% |
| Australia | 7343 | 7165 | -2.4% |
| Netherlands | 791 | 671 | -15.2% |
| Spain | 8873 | 8578 | -3.3% |
| Sweden | 2313 | 2657 | 14.9% |
| Italy | 25969 | 33646 | 29.6% |
| Asia Ex Japan | 737 | 685 | -7.1% |
| China | 89 | 90 | 1.4% |
| South Korea | 3125 | 2893 | -7.4% |

| COUNTRY | Current Price | Target Price | Price Move required to get to target price |
|--------------|---------------|--------------|--|
| Taiwan | 17260 | 15855 | -8.1% |
| Hong Kong | 24192 | 29178 | 20.6% |
| Singapore | 3061 | 2841 | -7.2% |
| Indonesia | 6145 | 7117 | 15.8% |
| Malaysia | 1532 | 2072 | 35.2% |
| Thailand | 1631 | 1560 | -4.3% |
| Philippines | 6952 | 8002 | 15.1% |
| Emerging | 1265 | 1251 | -1.1% |
| India | 60048 | 56878 | -5.3% |
| Brazil | 113283 | 164148 | 44.9% |
| Russia | 4038 | 3198 | -20.8% |
| Mexico | 51106 | 56030 | 9.6% |
| Turkey | 1385 | 1569 | 13.3% |
| Resource | 307 | 444 | 44.7% |
| South Africa | 64049 | 92699 | 44.7% |
| Colombia | 438 | 418 | -4.6% |
| Chile | 4377 | 4602 | 5.1% |
| Argentina | 74180 | 74180 | 0.0% |

Source: Deuterium, Bloomberg

Negative Positive

US Equities and G5 Bond Markets remain overvalued

› US equity markets continue to show valuation extremes. Share prices have risen strongly on anticipations of continued earnings rebounds, while trailing fundamental measures have moved up quickly from a low base one year after the Covid-19 recession. Most major equity markets, nevertheless, currently are fairly valued on their trailing price to earnings metrics that rebounded as expected in the initial recovery quarters following the economic contraction. Present equity valuations continue to benefit from very low worldwide interest rates and narrow credit spreads.

› Q4 2021 will show good fundamental support for shares to start the quarter, with a poor outlook for bonds worldwide, as expansions in US and European activity and prices continue at their current rates. Difficulties for bonds will last throughout the quarter as inflation will be sustained across the major regions, while consumption, industrial production, and export growth will be strong to start the quarter before slowing somewhat towards year end.

› With global output expanding and bond yields high to start the quarter, pro-cyclical sectors such as industrials, technology, financials, and real estate likely will provide better returns than counter-cycle sectors such as utilities, telecommunications, consumer staples, and healthcare that do poorly in relative terms when faced with rising long-term interest rates.

Deuterium Global Asset Allocation Conclusions for Q4 2021

Continued global cycle expansions will give additional support for corporate earnings to begin the quarter, and along with fiscal and monetary policies still underpinning incomes and output, will benefit risk asset valuations through the first half of Q4 2021. Sustained inflation rates and accelerating industrial activity will put more upward pressure on long term bond yields during the quarter.

Price pressures likely will remain substantial throughout Q4 2021, keeping a floor under bond yields. To start the quarter, the global context will be one where rising output, rather than accelerating prices will give an upward bias to long-term interest rates, as investors likely will anticipate central banks shifting sooner rather than later away from present extraordinarily loose monetary policies. Mixed signals from the major economies towards year end nonetheless will mean that the global context will be less supportive of risk asset valuations late in the quarter.

Investors may do well to maintain high allocations to risk assets to start Q4 2021, as faster economic growth worldwide will provide support for corporate revenue and earnings projections. Long-term bond yields again adjust higher while central banks keep short rates near their lows. The generalised expansion in the global cycle likely will flatten towards year end, with Far-East and developing economies showing slower output growth, at which point equity valuations will find less support than during the first half of Q4 2021.

USA Regional Investment Conclusions

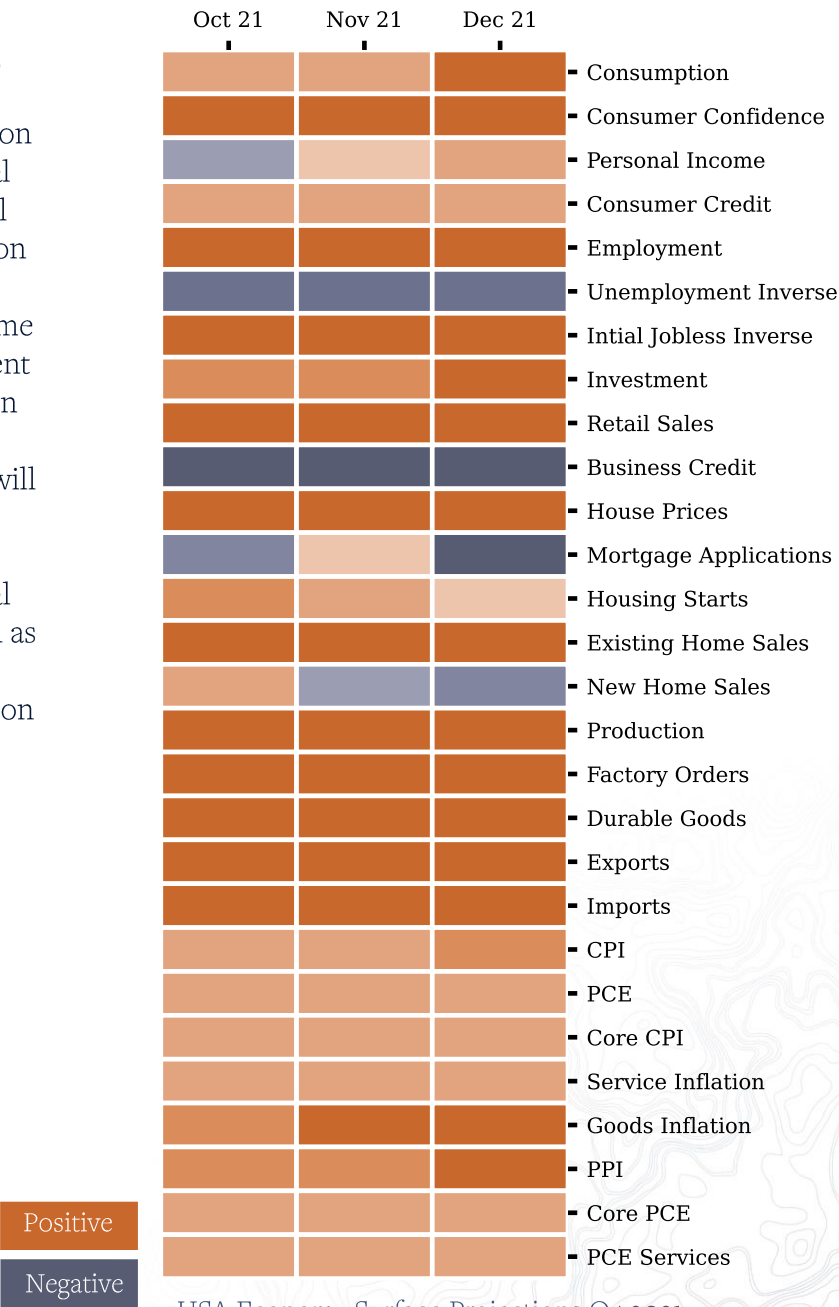
Q4 2021:

DGDA Economic Projection Surfaces



Economic Projections

Deuterium Global Asset Allocation models project that US industrial production and trade growth will continue to lead the US expansion during the next quarter, with US consumption and personal income rising faster as well. US investment growth looks to have bottomed in in the wake of higher housing prices. During Q4, US inflation will be sustained, with further accelerations in goods inflation and producer prices the principal problem for US authorities, even as core CPI and personal consumption expenditure inflation stop accelerating from here.




USA Economy Surface Projections Q4 2021


Market Valuations

Outlook Summary


USA



Equities



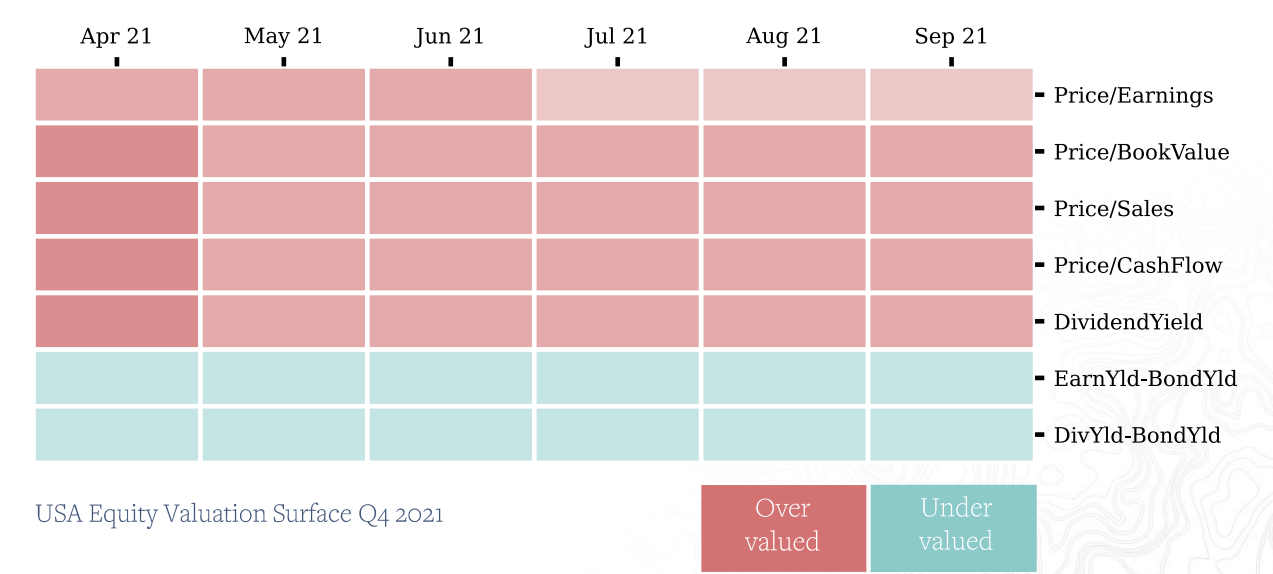
Three Month Bills



Market Valuations

Equity valuation metrics show US shares to be overvalued, and the sole exception to fair valuations among major markets. Comparisons of US trailing earnings and dividend yields against low but positive US bond yields are within average bounds, but most other measures show marked overvaluations.

The Federal Reserve’s policy interventions and high inflation mean that US bond valuations are expensive compared to long term averages and are likely to correct. The US Dollar is undervalued on inflation and external account differentials.



DGDA Models show US equities to be overvalued on metrics such as price/earnings and dividend yields, while earnings yields compared to bond yields are more aligned to historical averages

Monetary Policy and Transmission

Outlook Summary

USA



USD

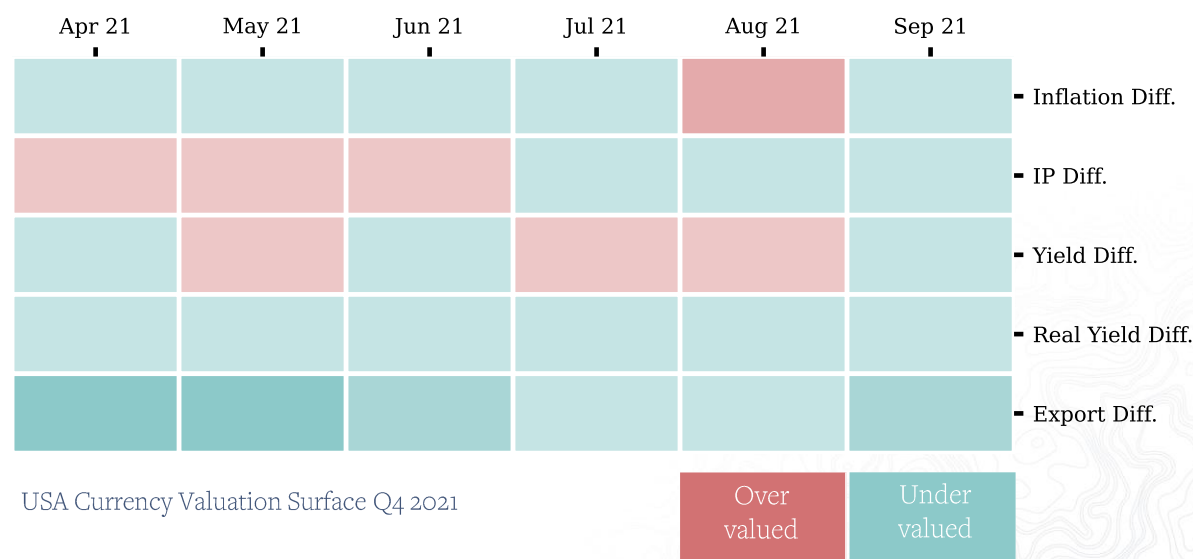


Ten Year Bonds



Monetary Policy and Transmission

DGDA Models suggest that USA inflation will stay high over the course of Q4 2021, and that while the Federal Reserve will continue to implement extensive policy measures designed to support US prices and output, provide financial system liquidity, and facilitate credit market functioning, long-term yields will face upward pressures.



DGDA Models show the USD to be undervalued on international real yield comparisons and external account measures

China Regional Investment Conclusions

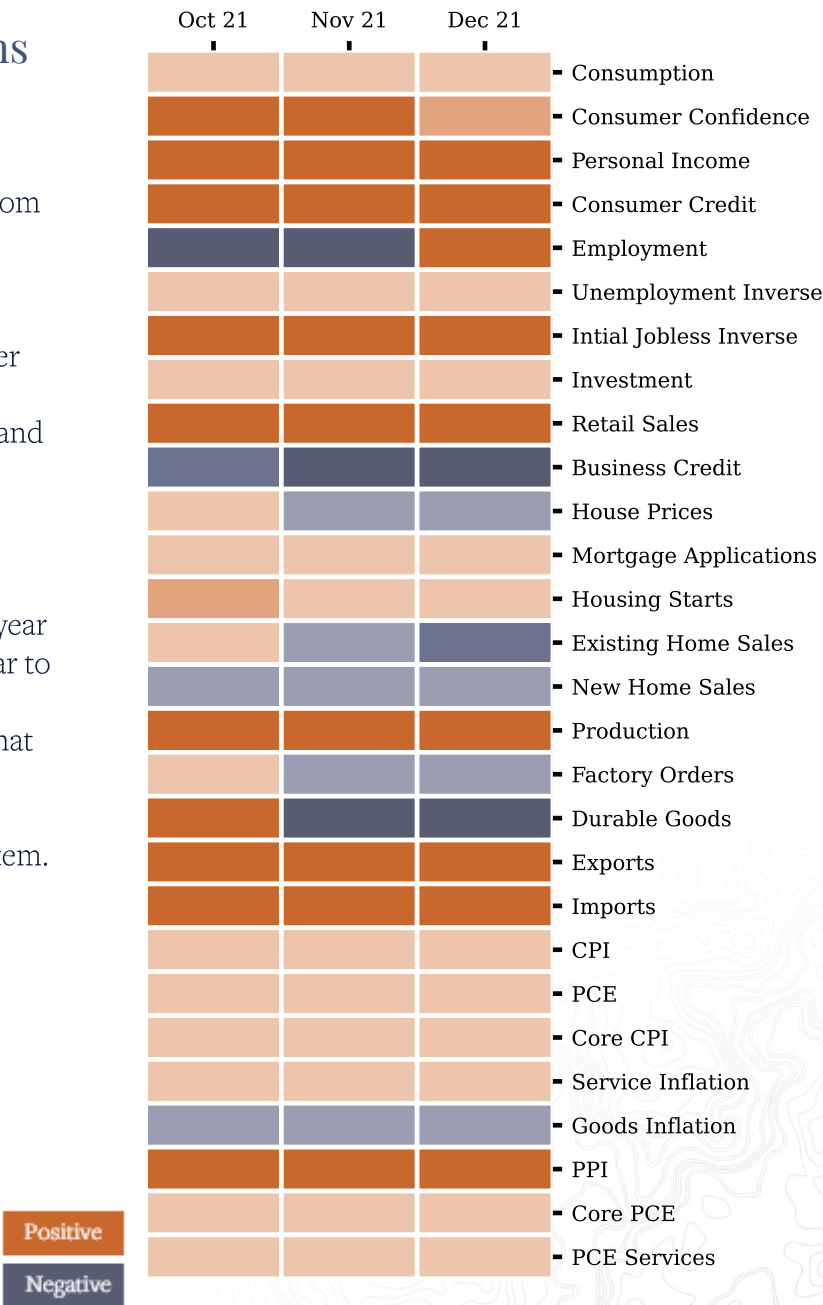
Q4 2021:

DGDA Economic Projection Surfaces



Economic Projections

DGDA Models show that real output growth in China will continue to have headwinds from poor credit and housing conditions. Expansions in consumption and personal income look to be on track over the quarter, with continued accelerations in both imports and exports. Yet higher producer prices in combination with slowing factory orders and durable goods production will become problematic towards year end. Chinese authorities appear to be shifting once again toward looser monetary policy, now that difficulties with property and credit are putting substantial stress on China's financial system.



China Economy Surface Projections Q4 2021

Market Valuations

Outlook Summary

China



Equities



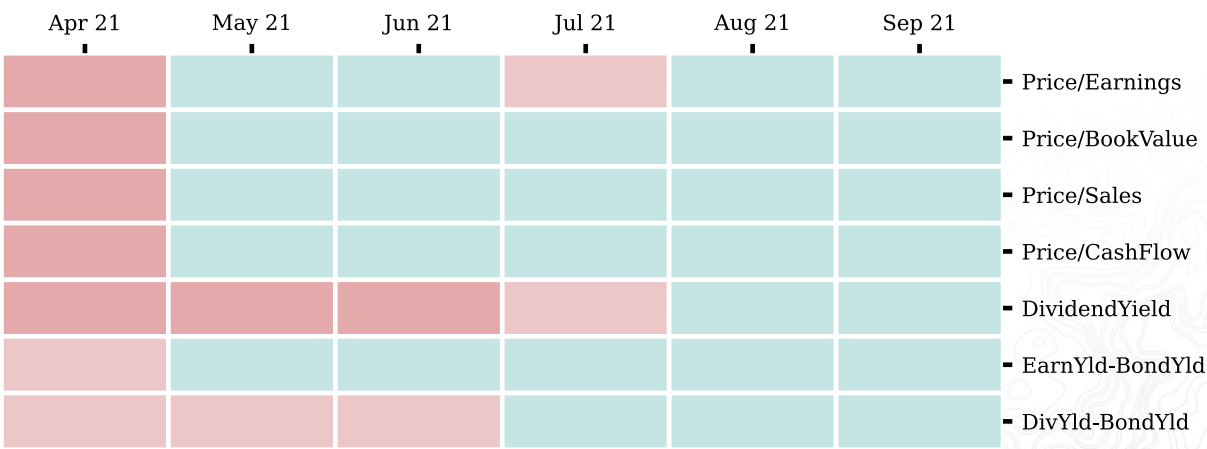
Three Month Bills



Market Valuations

Valuation tools suggest that Chinese shares in mainland indices have moved to undervalued levels compared to long-term measures for trailing cash flow and earnings yields, while Hong Kong equities now are at very inexpensive valuations compared to fundamentals.

Chinese bond market valuations are unattractive, and the Yuan remains attractive on international comparisons.



China Equity Valuation Surface Q4 2021

DGDA Models show Chinese equities as undervalued on historical price to earnings, dividend yield, and cash flow measures

Monetary Policy and Transmission

Outlook Summary

China



CNY

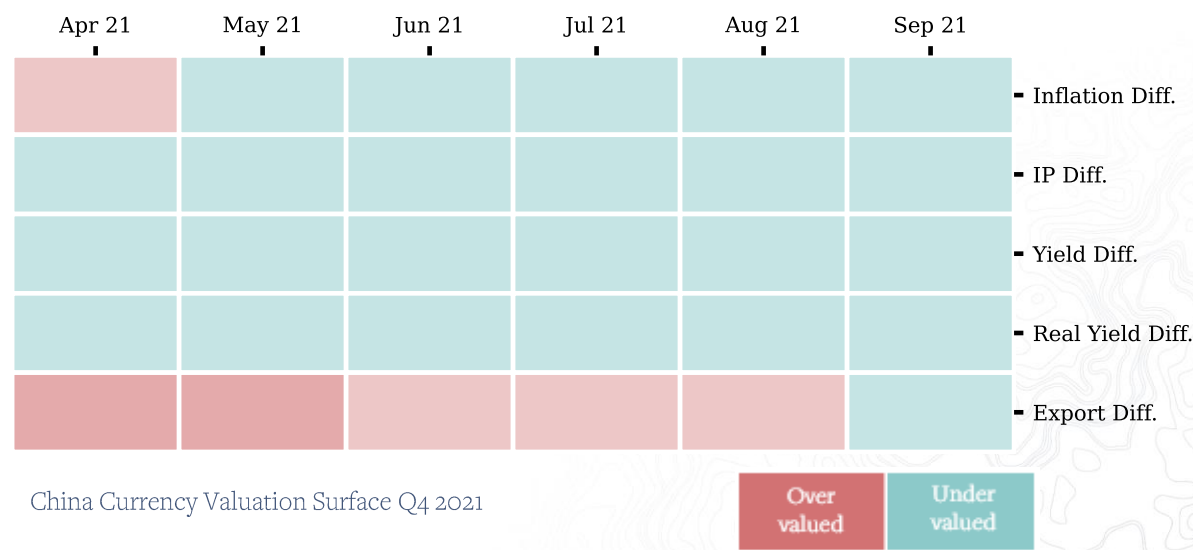


Ten Year Bonds



Monetary Policy And Transmission

Chinese monetary authorities appear to be slowing or reversing the significant steps to contain credit expansions they have been implementing this year, responding in part to lesser domestic inflation subsequent to the Yuan’s strengthening and to financial system stress from negative effects on Chinese property markets. China’s monetary channels now have begun to show positive transmission effects into the real economy, which should lead through positive effects on consumption, employment, and external trade to support for real GDP growth.



DGDA Models show the CNY to be undervalued on interest rate and domestic cycle comparisons

Japan Regional Investment Conclusions

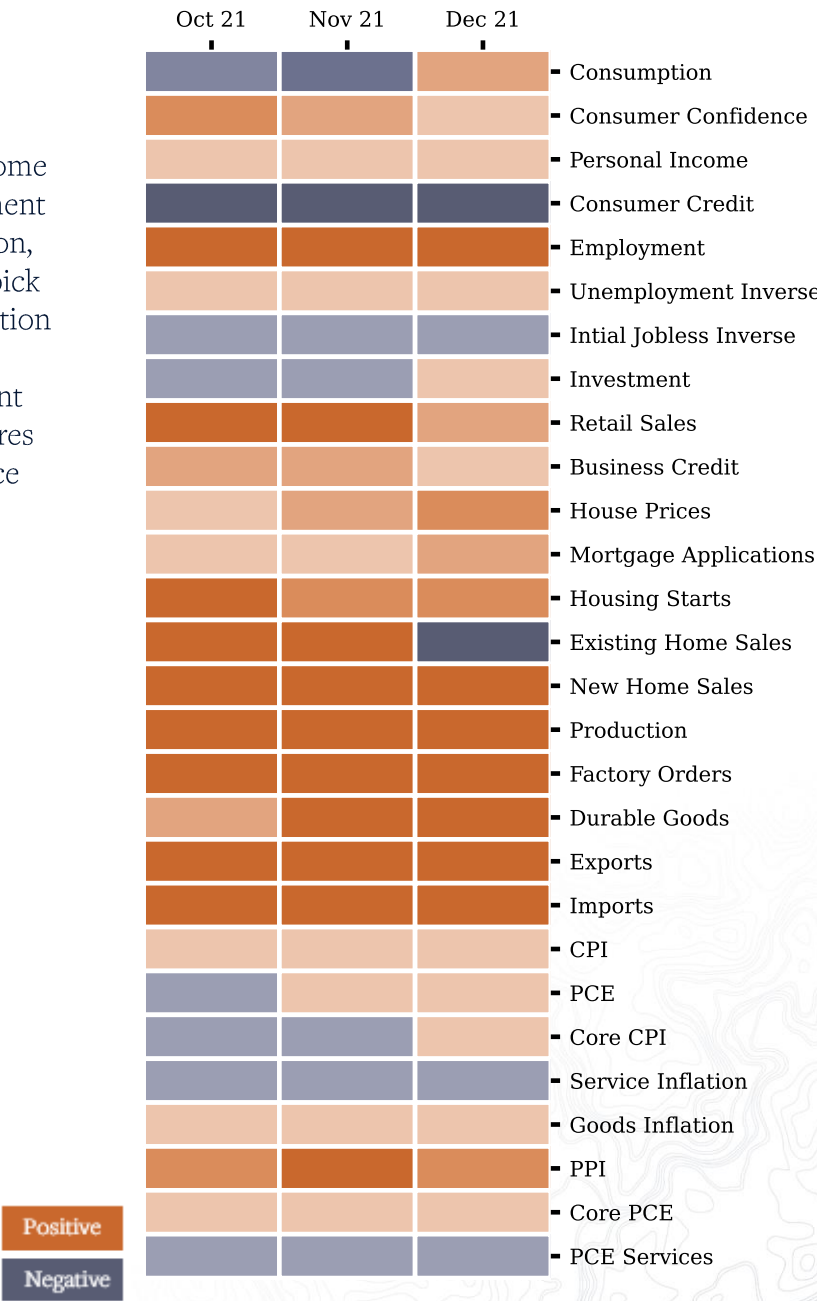
Q4 2021:

DGDA Economic Projection Surfaces



Economic Projections

DGDA Models show significant accelerations in Japanese new home sales and housing starts. Investment will begin to expand as production, factory order, and trade growth pick up as well in Q4 2021. Consumption will rebound in line with higher personal income and employment levels. Japanese inflation measures will show positive consumer price and goods inflation rates, while Japanese producer prices will accelerate in line with world PPI measures.



Japan Economy Surface Projections Q4 2021

Market Valuations

Outlook Summary

Japan



Equities

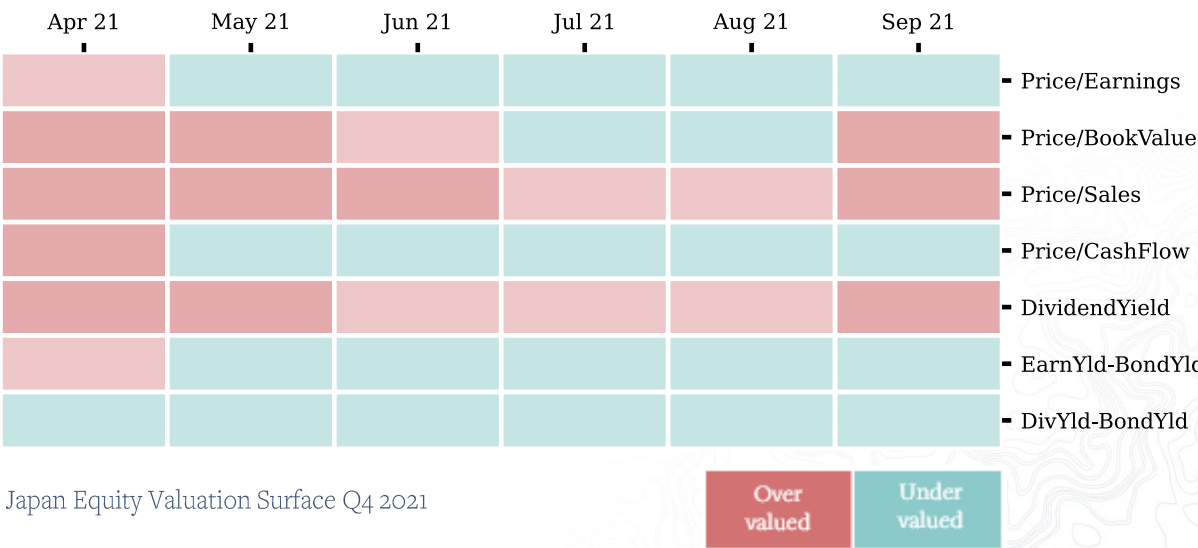


Three Month Bills



Market Valuations

Japanese shares are reasonably valued, with several metrics including earnings yields and dividend yields compared to long bond yields in line with their historical averages. The Yen looks to be fairly valued.



DGDA Models show that Japanese equities are fairly valued on standard historical metrics

Monetary Policy and Transmission

Outlook Summary

Japan



JPY

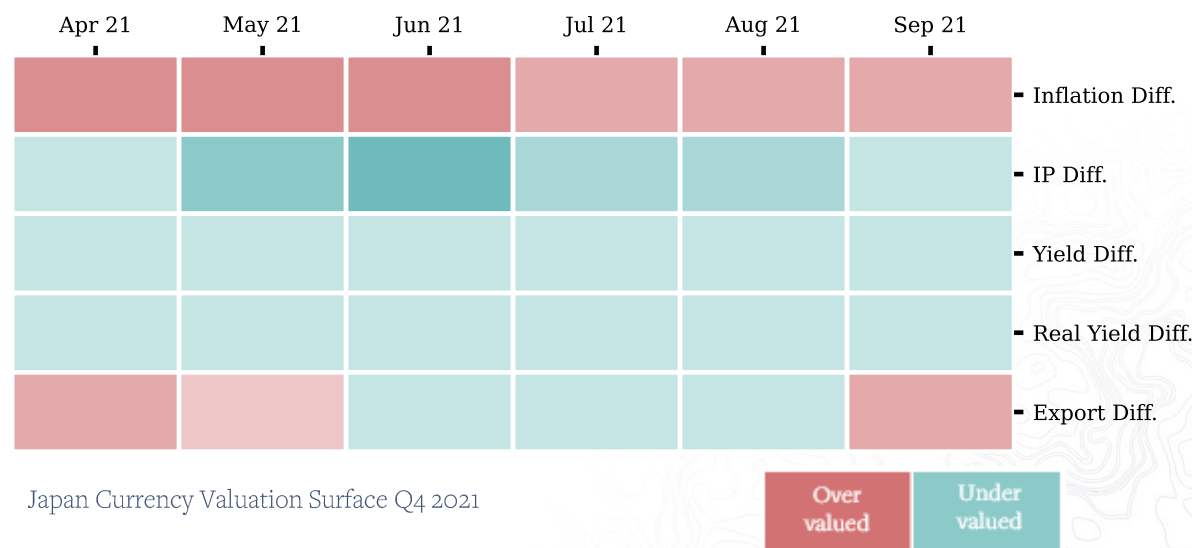


Ten Year Bonds



Monetary Policy And Transmission

DGDA Models indicate that Japanese monetary policy will continue to be supportive of prices and real economy growth, in line with the policies of most major central banks. The BOJ has kept policy loose enough to benefit as well from the implicit reflationary pressures that stem from a weaker Yen and rising world commodity prices.



DGDA Models show the JPY to be fairly valued on international fundamentals

Eurozone Regional Investment Conclusions Q4 2021:

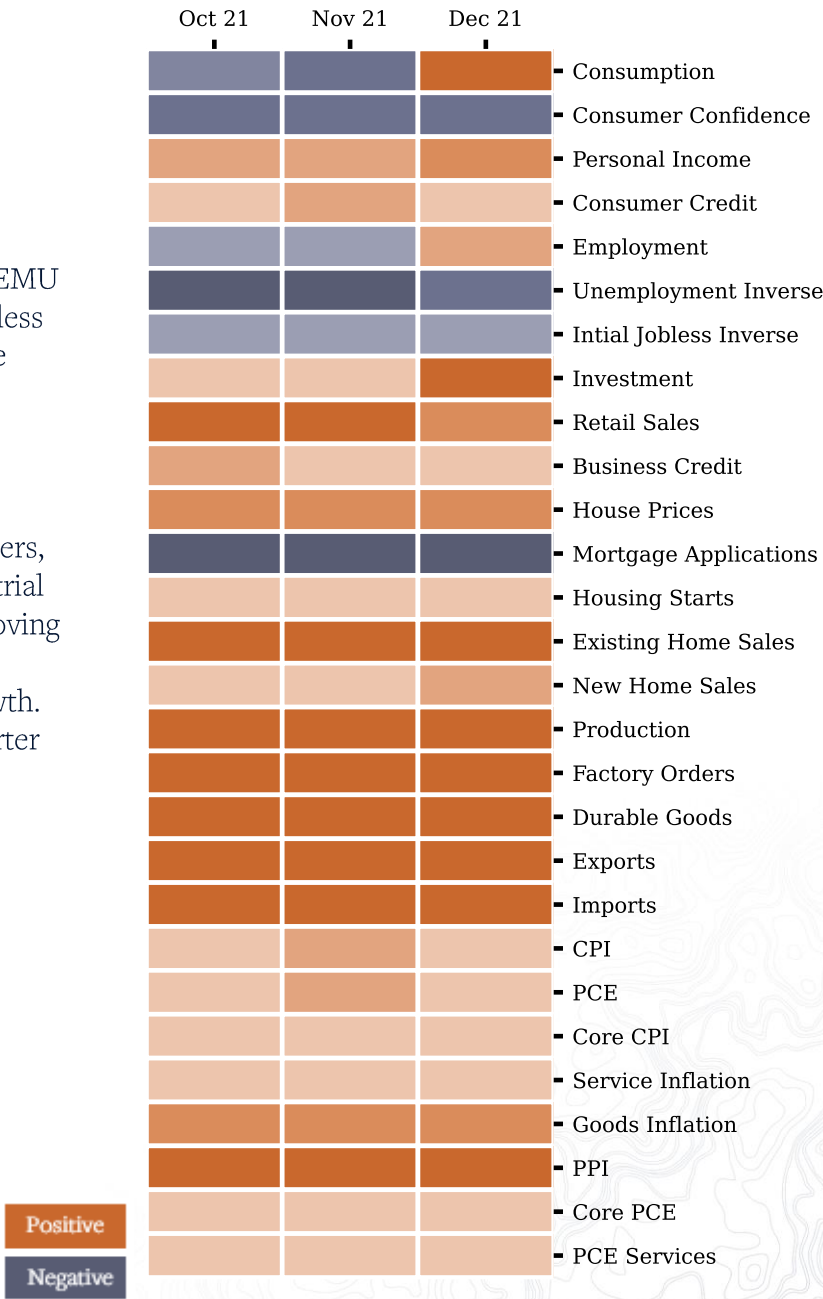
DGDA Economic Projection Surfaces



Economic Projections

DGDA Models show that economic growth in the Eurozone will reflect expansions in production and trade during Q4 2021. Our models show negative readings persisting for the EMU consumption surface, with nonetheless better growth rates to come over the quarter in personal income, employment, and retail sales.

After several quarters of severe weakness in production, factory orders, and durable goods, Eurozone industrial activity and trade will normalize, moving these to their historically positive contributions to overall output growth. EMU inflation over the coming quarter will be modestly higher, with accelerations in producer prices fostered by the global economic expansion.



Eurozone Economy Surface Projections Q4 2021

Market Valuations

Outlook Summary

Eurozone



Equities

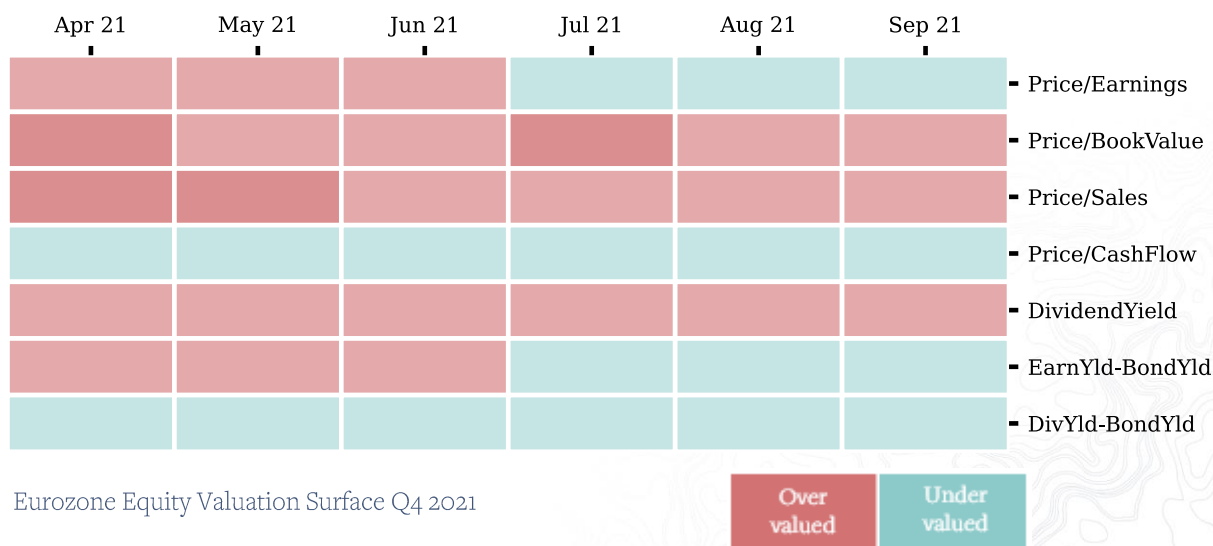


Three Month Bills



Market Valuations

Eurozone equity valuations, like those of Japan, are fairly valued according to measures comparing trailing earnings yields and dividend yields to long-maturity bond yields and are significantly more attractive than US shares on those comparisons. Eurozone bonds look to be overvalued at present given the Eurozone’s likely higher inflation and output growth, while the Euro is attractive.



DGDA Models show EMU equities to be reasonably valued on price earnings, and on dividend yield and earnings yield to bond yield comparisons

Monetary Policy and Transmission

Outlook Summary

Eurozone



EUR

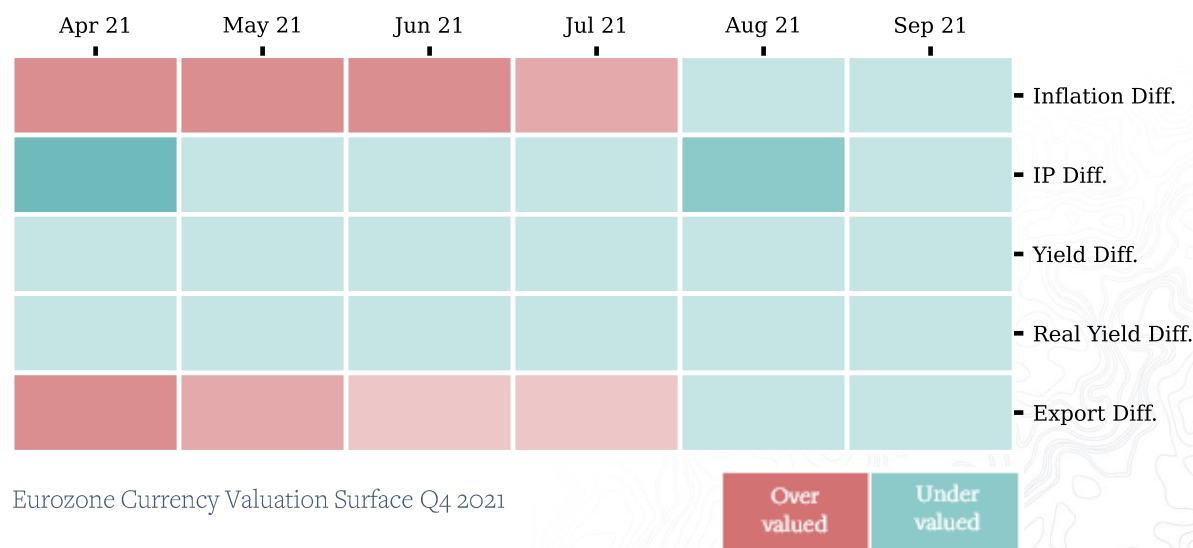


Ten Year Bonds



Monetary Policy And Transmission

The ECB provided significant monetary policy loosening in support of the Eurozone’s financial system, intervening as did the Federal Reserve for the USA, and at the ECB at present appears to show a firm commitment to further monetary stimulus. The ECB president’s clear backing for additional fiscal measures in the major Eurozone economies has met with positive responses, and Europe’s monetary authorities look to continue working with political leaders to boost EMU income and output.



DGDA Models show that the Euro looks to be attractively valued on historical comparisons

UK Regional Investment Conclusions

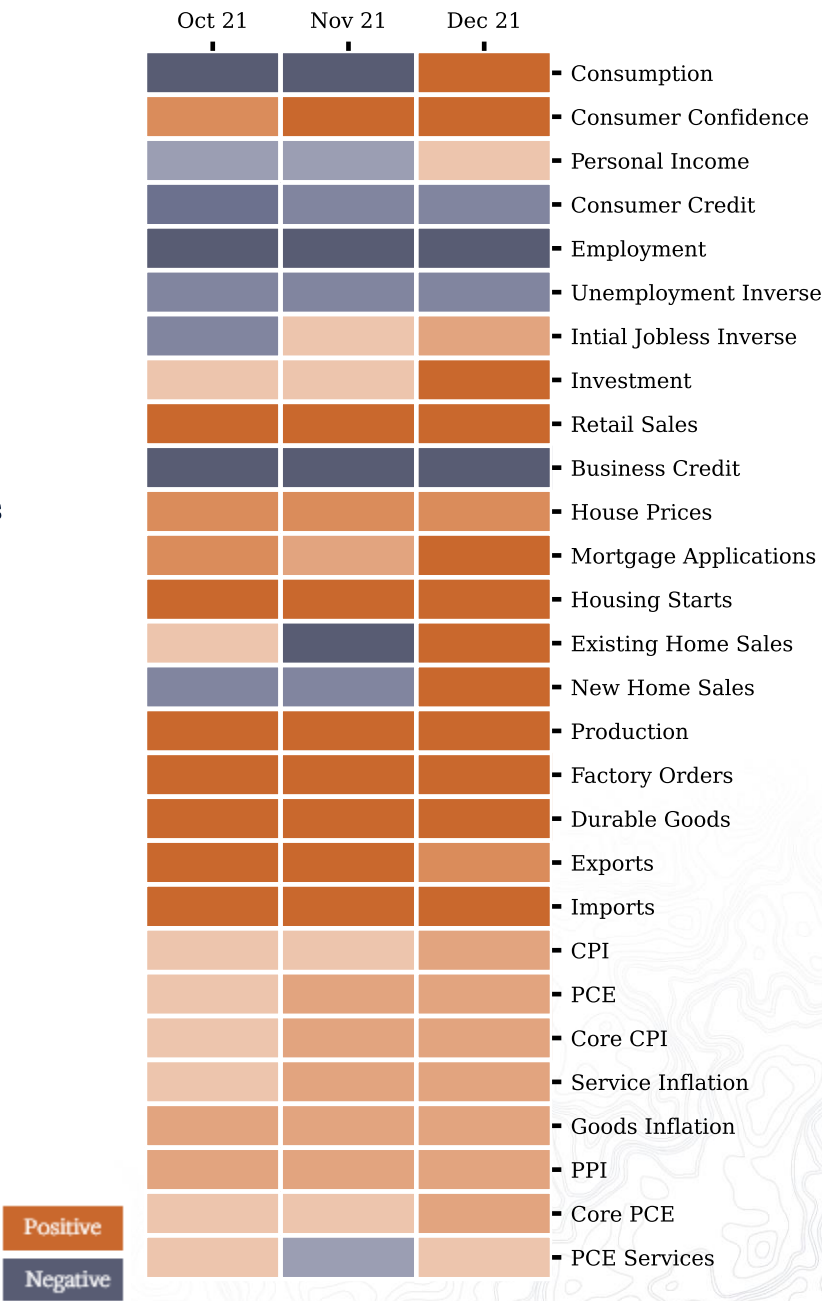
Q4 2021:

DGDA Economic Projection Surfaces



Economic Projections

DGDA Models show economic output expansions in Britain during Q4 2021, with some rebound in consumption constrained by weak confidence and poor labour market readings. Next quarter’s trade growth looks to be positive, with fewer impediments to expansion as EU trade issues eventually are settled. Construction and housing look to expand, with good prospects for growth in production from previous very low levels, while the overall outlook for UK investment will improve. UK inflation will remain positive, with consumer, goods, and producer price inflation all moving up during the quarter.




UK Economy Surface Projections Q4 2021


Market Valuations

Outlook Summary


UK



Equities



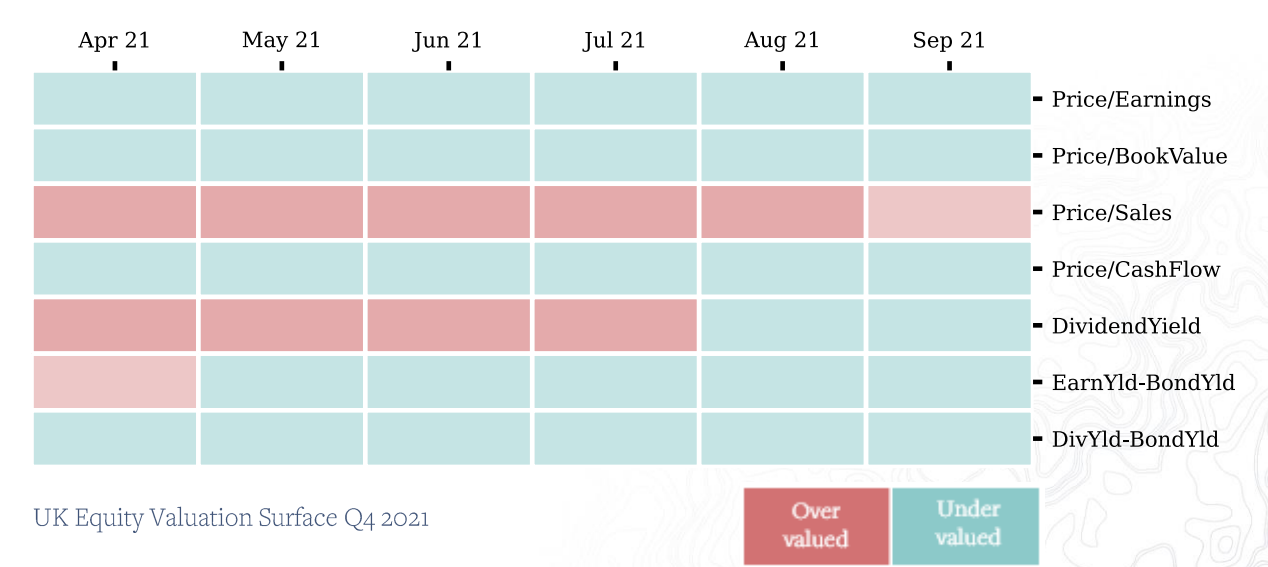
Three Month Bills



Market Valuations

UK shares have attractive valuation characteristics, better than those for most major equity markets. The prior deep contractions in UK GDP, along with FTSE 100 companies often having global commodity related earnings, have made UK shares reasonably valued across several metrics.

The Pound is somewhat unattractive at its current exchange rate and is unlikely to recover previous highs of five years ago, given the outlines that UK trade agreements appear to be taking. UK bonds look to have expensive valuations given their low yields in both nominal and real terms.



DGDA Models show UK equities to be attractively valued on nearly all measures including price to earnings and price to cash flow comparisons

Monetary Policy and Transmission

Outlook Summary

UK



GBP

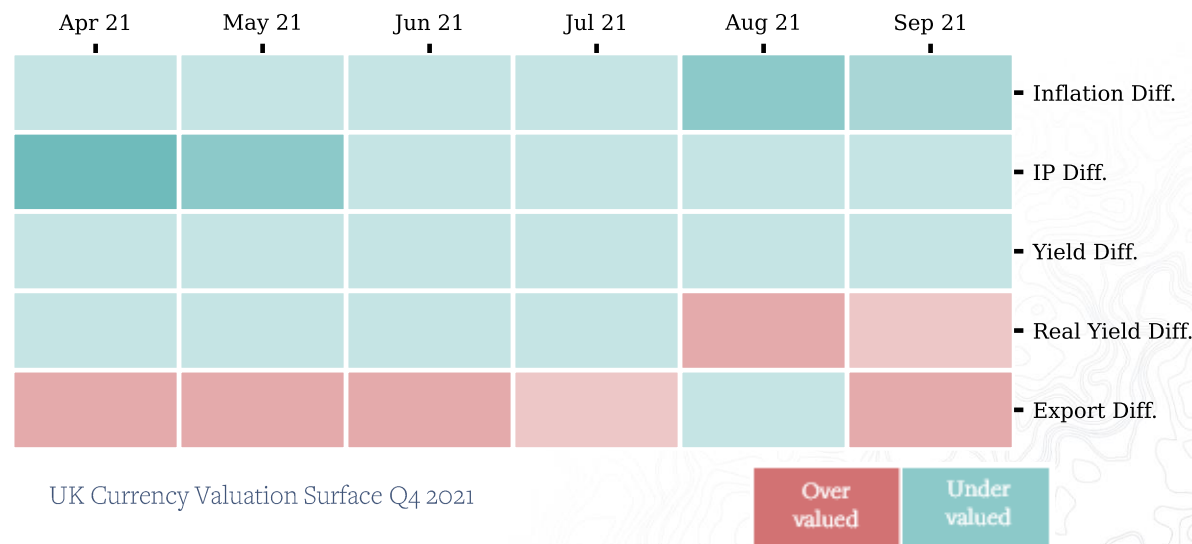


Ten Year Bonds



Monetary Policy And Transmission

The BOE joined the rest of the world’s central banks in supporting output and prices over the past eighteen months, and along with the ECB looks to be keeping those very loose monetary policies in place for some time yet. Domestic political stability has allowed the UK authorities to set monetary policies adapted to the UK’s needs, which now appear to be working through domestic transmission channels to help promote expansions in Britain’s nominal GDP.



DGDA Models show the Pound to be somewhat overvalued on international real yield and trade comparisons

Emerging, Far East ex Japan, and Commodity Markets

Regional Investment Conclusions Q4 2021



Outlook Summary

Emerging Equities



Far East Equities



Commodities



Economic Projections

Accelerating global demand in the first part of the quarter will be beneficial for developing market economies that rely upon commodity exports to accumulate international reserves. Valuations for developing equity markets have stayed low and very attractive even as world output has rebounded over the past several months, translating into one of the largest divergences between major and emerging market performances in years. This has meant that Brazilian, Mexican, and other developing resource equity markets are currently at discounts to historical valuations, showing significant relative valuation advantages compared to major markets. World output and prices will continue to rise early in Q4 2021, relieving pressure on such countries' external accounts, and likely giving support for their equity valuations in line with the expanding cycle to begin the quarter. Towards year end, nonetheless, growth will start to slow in Far East economies such as those of Taiwan or South Korea, and that downward shift probably will also be to the detriment of developing market equity valuations worldwide.

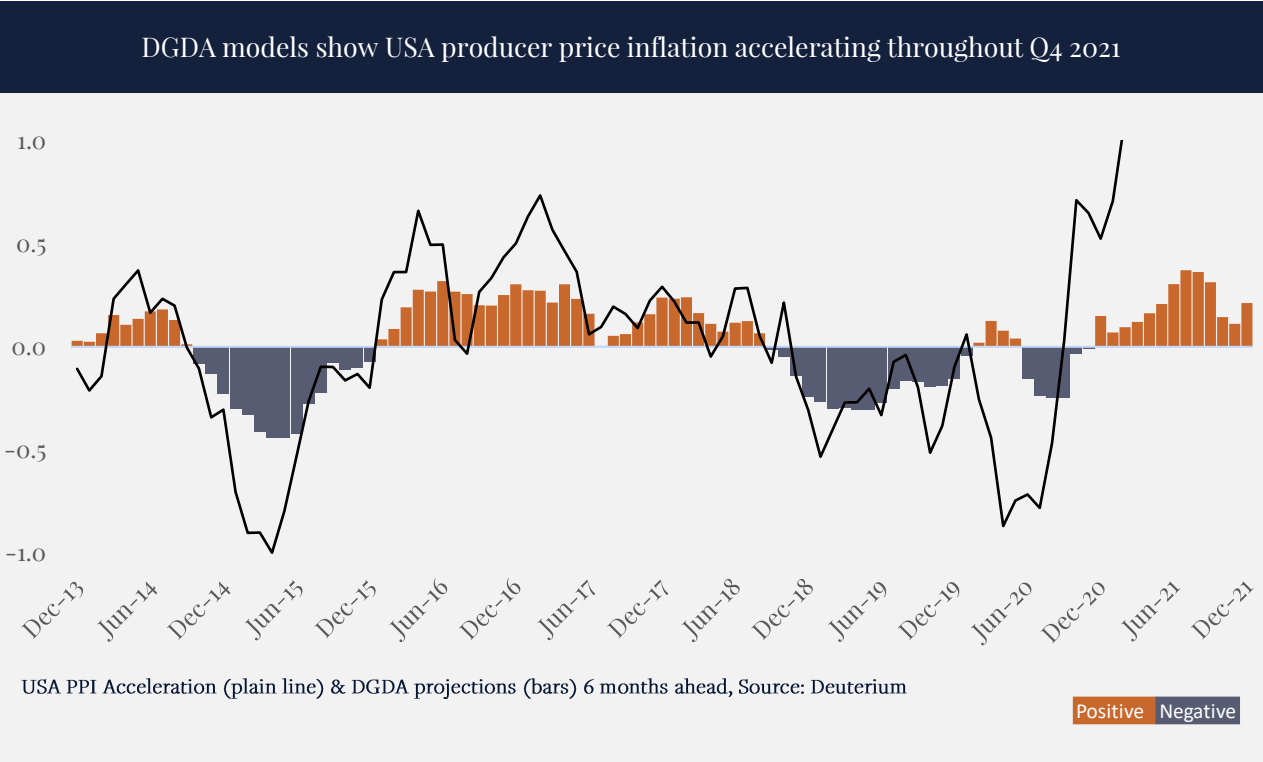
Monetary Policy And Transmission

Central Banks around the world aligned their monetary policies to unprecedented loosening, with the Federal Reserve having implemented rapid rate cuts and expanded its balance sheet, the ECB having extended its quantitative easing, and only the PBoC withholding domestic monetary support. Directed short-term interest rates remain close to all-time lows and with real economy expansions still lifting world trade and commodity prices rising, developing country monetary policies likely will stay supportive of local output, maintaining low short-term interest rates across the developing regions.



Market Valuation And Sentiment

Shares for Far East ex Japan countries such as South Korea and Taiwan are somewhat expensive compared to historical measures, while those of developing markets such as Mexico and Brazil now are showing as very inexpensive compared to their long-term averages.



About the Author: John Ricciardi

Lead Manager of the Deuterium Global Dynamic Allocation Fund

Head of Global Asset Allocation, Deuterium Capital Management, LLC

Before joining Deuterium in January 2021, John was the Head of Global Asset Allocation at Merian Global Investors (MGI). John co-founded Kestrel Investment Partners LLP in 2011, whose global asset allocation business was acquired by MGI. Prior to Kestrel, John served as the Head of Asset Allocation at Iveagh Limited between 2006 and 2011, where he launched the Iveagh Wealth Fund.

Earlier in his career, John cofounded Cursitor Management. Cursitor was one of the first firms to offer top-down, global asset allocation solutions for institutions. Upon the sale of Cursitor to Alliance Capital in 1996, John became the Head of Global Asset Allocation for AllianceBernstein, where he served until 2003. With AllianceBernstein, John also cofounded Bullrun Financial in 2000, a pioneer of quantitative portfolio strategies for institutions and advisers. John chaired the business through to 2010 when it was sold to Quantal International Inc.

About Deuterium

Deuterium Capital Management, LLC has been in business as a US registered investment adviser since April 2018. The firm provides comprehensive investment management solutions through both direct relationships and partnerships with family offices and/or similar institutions. Deuterium also provides investment management services to an umbrella Irish Collective Asset-management Vehicle. Deuterium Investment Advisers Limited is Deuterium's UK presence and is an Appointed Representative of Duff & Phelps Securities Limited which is authorised and regulated by the Financial Conduct Authority in the UK. Deuterium's website can be viewed at www.deuterium.us

Online

Download fund data and read investment updates from this fund manager at **deuterium.us**

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