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## Moor Funds Investor Letter No.3 (the AI edition...)

27th May 2023

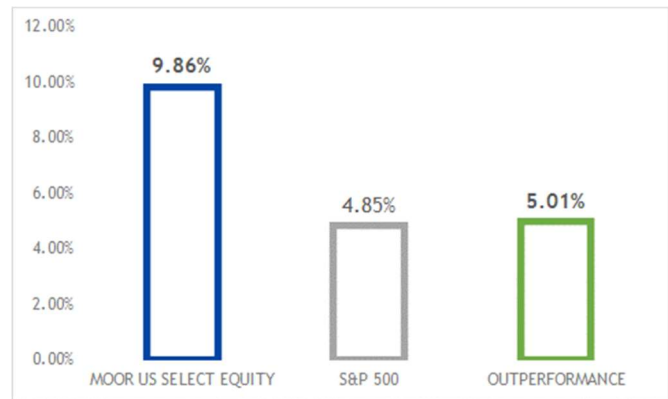
Dear Investor, thank you for your continued investment with Moor Funds. This quarter's investment letter begins with an overview of our performance followed by a short Q&A relating to some of the inbound queries we're currently seeing related to our use of Artificially Intelligent (AI) techniques; we've had our work cut out, amidst the current AI bandwagon, explaining we've been at this since 2018 and we don't use ChatGPT!

We are also pleased to announce the addition of the **Moor International Select Equity Fund** to our range of investment strategies. The International fund focuses on delivering benchmark-beating performance from a concentrated portfolio of blue-chip, non-US companies, please review all fund factsheets at [www.moorfunds.com](http://www.moorfunds.com).

### Moor US Select Equity



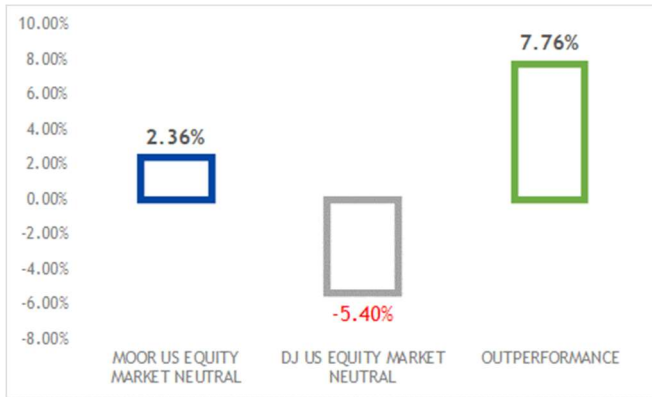
3-MONTH (Period 1<sup>st</sup> March 2023 to 26<sup>th</sup> May 2023)



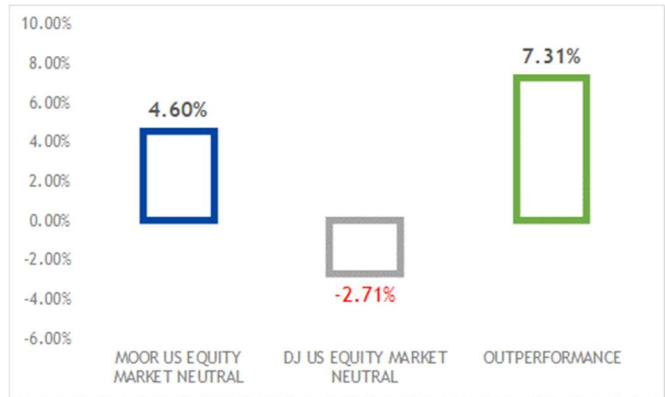
9-MONTH (Period 29<sup>th</sup> August 2022 to 26<sup>th</sup> May 2023)

- **Prior 3-month period:** Moor US Equity Select returned +6.08%, vs benchmark S&P 500 return of +5.81%; **relative outperformance for the 3-month period was +0.27%.**
- **Prior 9-month period:** Moor US Select Equity returned +9.86% vs benchmark S&P 500 return of +4.85%; **relative outperformance for the 9-month period was +5.01%.**
- **Year-to-Date:** Moor US Select Equity returned +13.07% vs benchmark S&P 500 return of +9.86%; **relative outperformance YTD has been +3.71%.**

## Moor US Equity Market Neutral



3-MONTH (Period 1<sup>st</sup> March 2023 to 26<sup>th</sup> May 2023)



9-MONTH (Period 29<sup>th</sup> August 2022 to 26<sup>th</sup> May 2023)

- **Prior 3-month period:** Moor US Equity Market Neutral returned +2.36%, vs benchmark DJ US Equity Market Neutral (Size) return of -5.40%; **relative outperformance for the 3-month period was +7.76%.**
- **Prior 9-month period:** Moor US Equity Market Neutral returned +4.60% vs benchmark DJ US Equity Market Neutral (Size) return of -2.71%; **relative outperformance for the 9-month period was +7.31%.**
- **Year-to-Date:** Moor US Equity Market Neutral returned +4.09% vs benchmark DJ US Equity Market Neutral (Size) return of -1.08%; **relative outperformance YTD has been +5.17%.**

### OUR PERSPECTIVE ON THE CURRENT 'AI' CRAZE

*Context: Moor Funds utilize proprietary artificially intelligent processes to identify a subset of US companies exhibiting operational and financial factors that when combined are expected to deliver (with a high probability) relative outperformance for publicly listed stocks. Our investment team selects a portfolio, from this subset of companies, with a focus on companies exhibiting positive operating momentum as measured by various factors. Typically, 10 stocks account for 66% of the total portfolio weighting; no single stock can be greater than 10% of the capital invested. We seek to identify great companies that will become great stocks.*

#### Q. Does Moor use Chat GPT?

**Ans. No, we don't use Chat GPT, and we honestly don't think any investor, serious about using machine learning techniques to improve their operating leverage or performance, should be using Chat GPT for systematic investment now. Moor uses a range of proprietary techniques we began developing in 2018. In developing the use of machine techniques our objective was singular; how do we optimize relative performance and minimize our operational costs to be a**

- competitive choice for investors relative to index funds. Our answer was to develop machine techniques that a) enable a much larger volume of data assimilation and analysis relative to a human research team b) operate at a lower cost to a human research team c) leverage a scale of data computation and non-linear factor analysis that is impossible with human analysis alone. Combining a, b, and c with proprietary factors and machine techniques gives you a focused artificially intelligent system.

**Q. Is Moor a ‘Quant Fund’?**

**Ans. No, we aren’t a Quant Fund.** In fact, we are not Quant, Hedge, Growth or Value investors; we use machine techniques toward a singular focus...beating our benchmark index. To simplify our logic, of the 505 stocks that comprise the S&P 500 if we can identify, in each quarter (through our machine logic and experience), the ONE stock that has the highest probability of underperforming the other 504 stocks we would construct an outperforming portfolio of the remaining 504 stocks and expect to beat the index.

Rolling this logic forward if we were able to identify 100, 200, or 300 stocks we would increase the probability of consistently outperforming the index. That’s exactly what machine learning is useful for; taking WIDE arrays of data (we use between 120 and 180 factors and millions of daily data points) and delivering on a very NARROW process-based objective very well. Our ‘investment approach’ or ‘style’ can be characterized as ‘benchmark orientated’. We continually need to demonstrate that our technology, intellect, and culture combine to beat our benchmarks and deliver value as active fund managers in an environment of index fund pressure.

**Q. What about the black box?**

**Ans. There is no black box!** We use factor driven machine techniques to process, analyze and assimilate large amounts of data. What does that mean? We take a wide range of daily, weekly, monthly and quarterly operational, consumer and financial data from a myriad of sources and the machine applies 180 factors created by the investment team. These factors are just a range of datapoints, multiples or variables the investment team deem valuable in assessing and identifying company quality i.e., ‘Product MoM Sales Growth’, ‘% Change Gross Margin vs % Change in OCF’ or ‘% Change in website visits’ vs ‘% Change in Twitter Mentions’; all could be included in the 180 factors.

The machine may select 5, or 50, factors that it deems useful in completing its fixed objective to a +99% confidence level. The only ‘mystery’ is why the machine selects any combination of factors; the answer to that would include understanding 180 factorial... which is a 330-digit number that seems a lot of work. Put simply, the machine has a greater ability to assimilate, process, compute and analyze data relative to a team of human analysts; furthermore, it doesn’t have the human desire for linear extrapolation and confirmation bias. We still set the rules, our factors include all sensible data points you’d expect when looking for quality companies!

**Q. Is there a risk that AI is just a phase, or your AI system gets out of control?**

**Ans. AI may be a phase for the financial media,** who needed the ‘next thing’ post-crypto, but AI is an often-misunderstood term that covers technology that has been around a long-time and really isn’t new. Chat GPT, as a consumer-facing search and generative logic is a new product however Chat GPT wasn’t the dawn of AI... just that nobody told some members of the financial media. On the question of ‘controlling AI’ I’m aware that many people have seen the various Terminator films and fear a ‘rise of Skynet’ situation. I’m also aware that our ‘diligent always ahead of the curve’ legislators are very concerned about AI and scrambling to legislate so we can all sleep at night so let me treat this subject with the seriousness it deserves by using a pet analogy.

A dog can be taught to sit, give a paw, play dead, or even more complex tasks like fetching the post, indicating when it’s the dog’s mealtime, or acting as home security. These value-added actions can be taught to the dog, by the owners, in a controlled environment. If that same dog, then independently takes over the household, becomes the breadwinner, fixes the leaky bathroom tap, and drives the kids to school then I say more power to the dog. Anything that doesn’t have our level of sentient logic that then makes the jump to complex decision-making and the ability to navigate our world probably deserves to takeover... it took us millennia to go from Flint tools and scratching on cave walls scratching to macchiatos and Wi-Fi. If your dog... or AI program ends up taking over in the next decade, we should all marvel at the evolutionary breaking ability of our new overlords.

Sincerely,

**Edwin Hagan-Emmin, Chief Investment Officer**

**IMPORTANT DISCLOSURE**

In considering investments investors should carefully consider the fund's investment objectives, risks, charges, and expenses. For further details on the funds presented in this document please request a summary fund brochure by contacting Moor Funds LLC by email at [invest@moorfunds.com](mailto:invest@moorfunds.com) or by telephone at +1 800 819-5185.

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