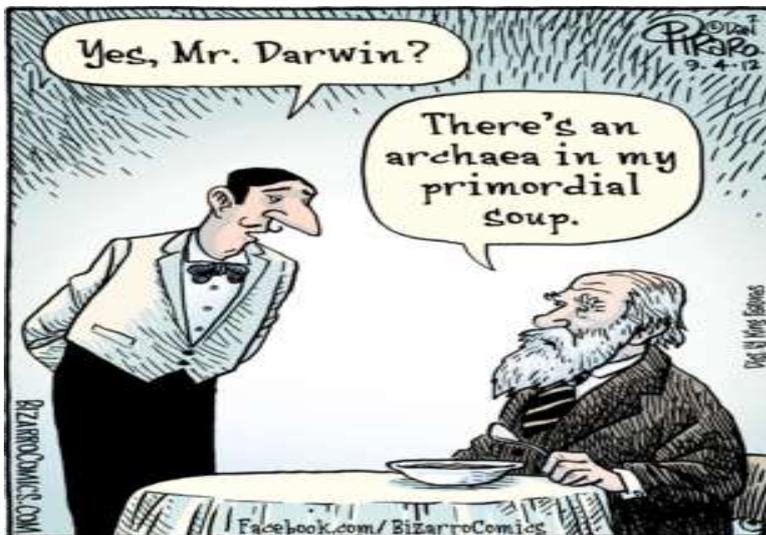


Survival of the Fittest – Is 2018 a year for evolution?

A Brief Summary of 2017

Darwin once wrote that “the shield may be as important for victory, as the sword or spear”. This struck home among the Fortem Team in what has been a unique 12 months in both the economic and political cycle. In the last year we have provided different products that could well be considered a shield or a sword. The traditional Autocall falls into the defensive allocations, while the much loved Boosters and Supertrackers would certainly be regarded as offensive tools in an investor’s arsenal. However, it is in the “value added” that we’ve seen interest increase in 2017 and where we see the potential for evolution in 2018 – both in the traditional sense, as well as in more esoteric and thematic ideas.

We have seen in the most part, clients unwilling to increase risk to match former returns; instead deciding to elongate tenor to take advantage of the pick up in yield further out the curve, or simply reduce return expectations. Moreover, demand for de-correlated or capital protected product has increased dramatically in the last few months and looks set to continue into 2018 with clients looking to find homes for underperforming cash held in hedge funds and so called absolute return vehicles. We have had regular discussion on this, and will continue to try and produce fresh ideas over the coming months that look to have negligible correlation to bond and equity markets and target returns above inflation. Portfolio diversification has been found in other ways in 2017, with some of our clients increasing allocations to equity markets further afield, such as Japan, Emerging Markets and India. One product that was particularly well received was the Topix Callspread – outperforming both the underlying index, as well as a basket of Japanese active managers. Please click [here](#) for the latest quarterly update on performance. It has certainly not disappointed. There will be more on this in the new year.



Evolution in action!

2018 – Natural Selection and Evolution

When discussing with our clients and partner banks their outlooks for 2018, a central theme kept cropping up; innovation and disruption of the status quo. With traditional “risk assets” mostly perceived as expensive, people are moving further from tradition and looking for a new USP. ESG investing is just one example of this and has picked up real traction this year, so stay tuned for more on this in the coming weeks, with both Autocalls and growth products soon to be available on ESG indices. For something a little different, the “new ideas crib sheet” among our banks for 2018 focuses strongly on disruptive technologies such as Blockchain, machine learning & robotics, and thoroughly revolutionary ideas such as CRISPR. On the next page, we explore them very briefly, and would be happy to discuss each in more detail, as well as related products on each of these themes.

Markets this week:

Rates (bps)		
	Current	Week Change
GBP 1yr	68.30	0.1
GBP 3yr	93.30	0.7
GBP 5yr	107.90	0.0

Equity Indices (%)		
FTSE 100	7,397.87	0.23%
S&P 500	2,560.40	-0.72%
Nikkei 225	22,250.85	0.69%
Eurostoxx 50	3,579.34	0.90%

5yr Credit Spreads (bps)		
Citigroup	46.85	-3.60
Credit Suisse	58.11	-1.54
Deutsche	76.78	-2.05
GS	62.55	-1.21
HSBC	21.64	0.87
JPM	45.01	-4.85
Soc Gen	24.80	-1.67
Santander UK	46.07	-0.48
MS	57.46	-1.36

Commodities & Currencies (%)		
Gold	1,290.80	-0.13%
Oil (CLA)	58.53	3.21%
GBPUSD	1.3322	0.81%
GBPEUR	1.1221	0.04%
GBPJPY	148.465	0.22%

5yr Implied (vol pts)		
FTSE 100	16.62%	-0.12%
S&P 500	18.67%	0.01%
Nikkei 225	18.73%	0.18%
Eurostoxx 50	17.76%	-0.35%

*Source Bloomberg / Partner Banks
Data as at 24th November 11.00am

Contact

General Enquiries T 020 8050 2900 E enquiries@fortemcapital.com Trading T 020 8050 2901 E trading@fortemcapital.com
Advisory & Analytics T 020 8050 2904 E advisory@fortemcapital.com Sales T 020 8050 2905 E sales@fortemcapital.com

"Change is the law of life. And those who look only to the past or present are certain to miss the future.

– John F. Kennedy

Blockchain

The growth of Bitcoin and cryptocurrencies has been everywhere in 2017, but the potential benefits of blockchain technology have barely scratched the surface. It effectively works as a distributed ledger that records ownership of assets within a shared registry, a copy of which is held by every entity in the network. This distributed ledger is different from a traditional market trading exchange, where a centralized ledger is maintained by a trusted third party which records, validates, clears, and guarantees the transactions. Given its characteristics, blockchain looks to be especially well-suited to revolutionize both physical commodity trading and the entire electricity sector (among other potential applications) by eliminating the function of organized trading exchanges and substituting it with a system that is cheaper, faster, and even more secure in diminishing counterparty trading exposures, including for banks. Physical commodity trading - the oldest form of trade - could be vastly changed by the introduction of blockchain technology by not only reducing the amount of required processing and confirmations, but also by significantly reducing the working capital required to facilitate trading. Additionally, blockchain could also upend the centralized control of electricity by local utilities. This is an especially important area as more of the energy sector is being electrified - cars, individual homes, commercial space, and factories - through self-generated or "distributed" energy, and as consumers become 'prosumers' because buildings and vehicles with surplus electricity gained via solar and energy storage can sell it to others in competition with central grid operators. The distributed nature of blockchain would allow electricity to trade or flow between buildings or local areas. Other areas of commodities could also potentially benefit from moving toward a blockchain-enabled environment. Though only in its nascence, this is certainly going to feature in 2018.

Robotics and Machine Learning

These are obviously intriguing arguments to believe robots have a significant place in our society, and investors seem to think so too – for example, Pictet's Robo fund closed its doors to new money in the last quarter. The ideas of blended workforces, increased efficiency, automation and productivity are nothing new. However, perhaps the most compelling investment cases to date surround the enhancement of living standards. Frost & Sullivan believe that AI has the potential to improve medical procedure outcomes by 30-40% while halving treatment costs! Furthermore, increasingly aged populations are resulting in unbalanced societies with more and more dependent pensioners on the younger generations. We will need more caregivers at lower cost, as well as measures to reduce the expense of their treatment. Robots provide this. McKinsey commented that developed economies "have a major interest in pursuing rapid automation adoption" for this very reason, and we are beginning to see the growth of both large cap and government spending in this space, with significantly more to come. As an example, both Amazon and Google have spent heavily on robotics recently, not to mention a pledge from the UK government to the sum of £2bn. At the end of 2015, the Global Robotics Market was valued at US\$15.1bn and is projected (by numerous sources) to be above US\$65bn by 2025. Evidently there is the potential and demand for growth in this theme.

CRISPR

This is one of the most exciting developments in medicine and pharmaceuticals since Penicillin. Citigroup have termed it the "holy grail of modern biomedicine" and one would be hard pushed to argue against that. Technology that can permanently change the genetic code of a living organism – including humans - is upon us. Previously only found in the annals of science fiction history, genome editing technology is spreading like wildfire across the biomedical research community. First discovered in 2012, and certainly both risky and in the early stages of development, the technology cannot be ignored. If a company succeeds in bringing it to market, they would have the unfettered potential to provide "one and done" cures across a wide breadth of diseases. Progress is expected to be volatile and slow, but it is widely expected to change the way doctors and scientists think about disease management, were a "genetic cure" to become an option. To date, scientists have not only successfully achieved gene editing in simple organisms, they have also managed to edit higher organisms as well, including monkeys, which as Darwin will attest to, are fairly similar to man. Human genome studies are expected to start inside the next 6 months, propelled by a wave of new public companies aggressively set up to develop this technology. The shift to CRISPR genome editing and the rapid expansion of its use is expected to have a disruptive and far reaching impact on multiple branches of science and medicine. There are to be sure numerous moral hazards, and it will certainly not fit all ethical trading models, however the possibilities truly are endless.

2018 here we come...

Throughout 2017 our clients have pushed us to provide something a little different alongside the traditional offerings. Darwin wrote that diverse groups of animals evolve from one or a few common ancestors, and this is no different in our market. Strong competition and increasingly challenging pricing environments have encouraged our clients, our partner banks and ourselves to work harder on value added ideas to ensure the best possible returns for end investors. We have plenty of Ideas that we are very excited to explore in 2018, hopefully in collaboration with you our clients. Some have been mentioned in previous pieces, while others will be new. It is up to you the reader, to provide the natural selection for these developing products and we hope work with us to ensure what we show next year is exactly what you'd like to see.

Contact

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Advisory & Analytics **T** 020 8050 2904 **E** advisory@fortemcapital.com Sales **T** 020 8050 2905 **E** sales@fortemcapital.com

Friday Night 'Lights

24th November 2017



Before the year is out we will be producing a thorough summary of each of our banks' global outlooks for 2018, which we hope will be of interest. Please see below for a summary of our most recent trades:

Trade Description
Santander UK 6yr WO S&P 500/Eurostoxx 50 Autocall EIS - 7.80%
Soc Gen 6yr WO FTSE/Eurostoxx Autocall EIS - 8.82%
Citigroup 6yr WO FTSE/Eurostoxx Autocall EIS 8.10%
CIBC 6yr WO FTSE/Russell Autocall EIS - 8.10%
Soc Gen 6yr WO FTSE/Eurostoxx Autocall EIS - 10% / 6.9%
Morgan Stanley 6yr FTSE 70/100 CS GBP EIS – 185% ppn

Please ask us for any more details on the above products.

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