

# Fortem Capital Alternative Growth Fund

Monthly Report – 31<sup>st</sup> December 2019

For Professional Investors and Institutional Clients only



## Investment Objective

The Fund aims to provide positive returns of 4% over the medium to long term, whilst maintaining negligible equity market beta. It will invest in a core portfolio comprised of alternative beta strategies sourced from across the asset class spectrum that provide capital growth, independent of equity market cycles and macroeconomics. The Fund will make a smaller allocation to opportunistic investments that also meet strict capital preservation and investment return criteria.

## The Fund Will

- Invest in structural risk premia – i.e. sources of return that are not dependent on equity markets or macroeconomics.
- Take advantage of opportunistic trades caused by structural distortions in derivative markets.
- Employ stringent counterparty controls, limiting credit exposure to high grade sovereign risk.

## Monthly Update

The month of December was another exceptionally strong month for risk assets. Another round of trade deal rumours, seasonal factors and accelerated Fed balance sheet expansion all combined to finish off a record breaking year. With credit spreads and cross asset volatility now close to all time lows, equity multiples near all time highs, and technically overbought levels, the Fed may find it impossible to retreat from repo liquidity injections unless economic data improves substantially, for fear of destabilising equities.

However, December's economic data was mixed at best and yet to show anything like the strong cyclical recovery that has already been priced in. On the plus side, the dollar, which is critical to alleviate offshore funding stress as much as the Fed's repo actions have helped onshore, did show some softness in December and is the best indication yet that the global economy has turned the corner or at least found a floor.

Within factor space, as expected those factors most sensitive to the easing of financial conditions and therefore most correlated to equities, such as carry and short volatility strategies, continued to rally over the month. However, value strategies that typically perform in a reflationary economic environment remained muted, mirroring the mixed economic data.

The Fund strategies behaved as expected; the best performing strategy was commodity congestion, which added 21bps. This strategy seeks to gain from the buying pressure from passive index roll schedules. If curves are backwardated, it rolls its positions after the index money, rather than before when contangoed. While congestion returns are less in this scenario, if there is a spike in the commodity during the roll (common if the curve is backwardated), the strategy can benefit.

## Platform Availability

Zurich

Nucleus

Transact

Allfunds

Novia Fin'l

Ascentric

Aviva

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Fortem Capital Limited registration number 10042702 is authorised and regulated by the Financial Conduct Authority under firm reference number 755370

## Key Facts

Investment Manager	Fortem Capital Limited
Unit NAV	Class A: £1.0101 Class C: £1.0088
AUM	£25,460,600
Launch Date	10 <sup>th</sup> May 2019
Fund Type	Irish Domiciled UCITS V ICAV
Base Currency	GBP
Liquidity	Daily
Dealing Deadline	10:30 am Irish Time
Pricing	Daily COB
Share Type	Class A: Accumulation Class C: Accumulation
Initial Share Price	£1.000
Minimum Subscription Amount	Class A: £5,000,000 <sup>^</sup> Class C: £5,000,000 <sup>^</sup>
Annual Management Charge	Class A: 60bps Class C: 30bps
OCF	Class A: 80bps Class C: 50bps + 15% Perf Fee*
Reporting Status	Registered with HMRC
ISIN	Class A: IE00BJ116W86 Class C: IE00BJ116X93
Bloomberg	FCAGFAA ID <equity> FCAGFAC ID <equity>
Dealing Line	+353 (0)1434 5124
Dealing Email	<a href="mailto:davy.ta.queries@ntrs.com">davy.ta.queries@ntrs.com</a>
Depository, Admin, Registrar & TA	Northern Trust
Auditor	Deloitte

\*15% of NAV growth subject to a high water mark, see Fund Supplement for more details

<sup>^</sup>Minimum sizing can be waived upon request

## Monthly Update - continued

Other commodity strategies also edged higher as commodity curve shapes were reasonably stable, allowing for a modest return from the roll yield.

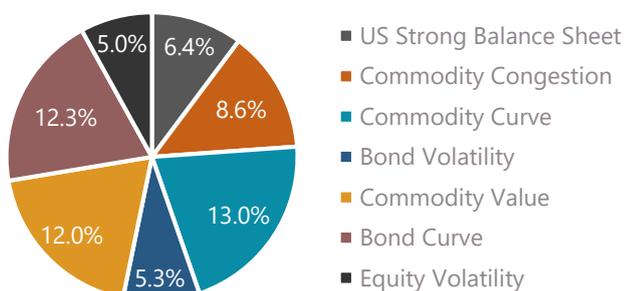
The volatility of all asset classes pushed lower over the month, reaching record breaking low levels. As such, the Fund's long rates volatility strategy was down 26bps and the worst performing strategy. As the rates volatility curve downward slopes, the structural return from this strategy derives from the fact that the strategy can roll up the curve, generating positive carry (which is unique for a long vol trade). However, in short time periods, the strategy can underperform if volatility collapses, which typically happens if the Fed is active.

With risk assets very well supported, market neutral strategies in the Fund outperformed the more defensive strategies. As a result, the Fund was down 0.22% over the month, owing to its slightly defensive tilt.

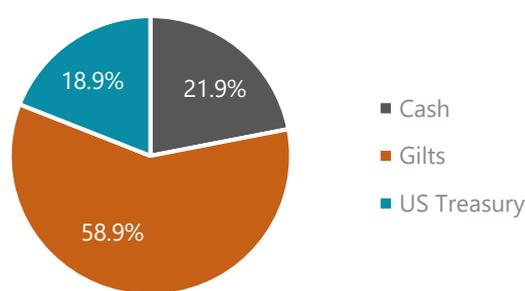
The funding portfolio of government bonds added 18bps over the month to the Fund.

## Portfolio Breakdown

### Alternative Beta Allocation – Risk weights



### Credit Exposure



## Summary of Strategy Risk and Attribution

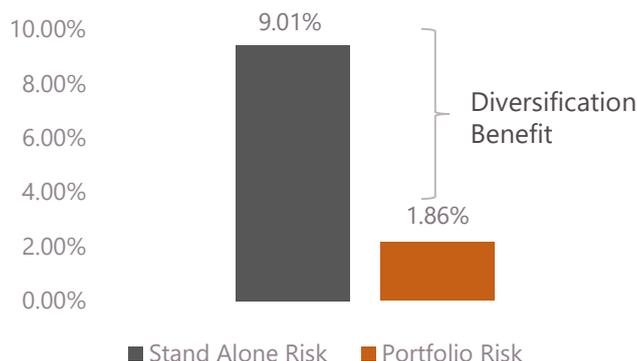
Strategy	Weighting (Risk Based)		Contribution to Return	
	Weighting	Visual	Contribution	Visual
US Strong Balance Sheet	17.04%	████████████████████	-0.08%	████
Rates Curve Strategy2	14.22%	██████████████████	-0.24%	████████
Long Rates Volatility	11.71%	████████████████	-0.26%	████████
Commodity Congestion	11.49%	████████████████	0.21%	████████
Commodity Curve Strategy1	7.70%	██████████████	0.08%	████
Rates Curve Strategy1	7.41%	██████████████	-0.05%	████
Equity Short Call Strategy	7.33%	██████████████	0.01%	███
Commodity Seasonal Strategy1	7.29%	██████████████	-0.05%	████
Commodity Curve Strategy2	6.79%	██████████████	-0.01%	███
Rates 5/30s US steepener	5.86%	██████████████	0.03%	███
Commodity Seasonal Strategy1	3.16%	██████████	-0.04%	███

NAV Return -0.22%

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## Portfolio Risk



Portfolio Risk	1.86%
Gross Portfolio Exposure	125%
Portfolio Daily VaR (99%)	0.27%

- **Portfolio Risk** is the expected standard deviation of the portfolio NAV, expressed on an annualised basis. It is calculated using a 10 year correlation matrix
- **Portfolio Stand Alone risk** is the expected standard deviation of the portfolio if there were no diversification benefits between strategies. This occurs if all correlations are at 1.
- **Daily VaR (99%)** is an alternative measure of risk that looks at maximum expected loss. At 99% confidence, one can expect that there will be at least 1 day in a 100 where the daily loss on the Fund can be expected to be greater than the calculated VaR
- **Gross portfolio exposure** measures that total notional value of all the swap positions as a percentage of the portfolio NAV

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