

Defined Returns are brilliant, but...

- The Fortem Progressive Growth Fund is likely to produce positive returns in all but the very worst market conditions.
- Those conditions are significant falls (>30%) that, crucially, equities do not recover from.
- History would suggest that this is extremely unlikely – insert usual caveat regarding history not being a reliable guide to the future.
- However, there is still journey risk due to equity market exposure and the fact that capital protection barriers are only observed at maturity for the individual underlying strategies.
- Investors are potentially exposed to significant drawdowns over the short term due to Fund delta (sensitivity to the underlying indices).

Delta is Dynamic!

- Delta is not static and will move with markets and the passage of time.
- In fact, a fall in markets will naturally increase Fund delta and therefore sensitivity to the underlying equity indices.
- This would leave an investor even more exposed to a further fall in equities.

The Fund uses Diversifiers to counteract this and manage Delta more effectively...

- The Fund will invest a maximum of 20% in a portfolio of Diversifiers that will dampen down equity market exposure, as well as have the ability to produce positive returns in all market conditions, especially during a downturn.

How do they do that?!

- They are 'Structural Alternative Beta' strategies that are fundamentally uncorrelated to equity.
- Alternative Beta is just a piece of nomenclature referring to any source of return other than traditional Beta.
- This is already present across asset classes in portfolios, but by removing traditional Beta, it can be isolated and taken advantage of.
- The Fund will only invest in Diversifiers that are either negligibly or negatively correlated to equities.

And what makes them Structural?

- The strategy will provide maximum diversification benefit if they are both statistically and fundamentally uncorrelated to equity.
- The strategies are all based on the physical make-up of a market, rather than any macroeconomic influences on it.
- Commodities are a good example – these markets are driven by 'real' players (OPEC etc) who dwarf investors in size.
- By ensuring the strategies are structural in nature, we further ensure that the Diversifiers are completely unrelated to the factors driving price movement in the Core portfolio of Defined Return Autocall-like strategies.

	Correlation to Equities	Correlation to Commodities	Correlation to Global Bonds
Diversifiers	-0.06	-0.16	0.07

Data from 16.10.2015 to 29.01.2020
Source: Fortem Capital, Bloomberg

MSCI World Index Bloomberg Commodity Index Bloomberg Barclays US Aggregate Bond Index

If they are so good, why not just do a fund of them?

- We do! The Fortem Capital Alternative Growth Fund.

Summary

- The fund is, and always will be, predominantly exposed to defensive equity linked investments.
- By employing genuine diversifiers we can improve the stability and consistency of the portfolio during times of equity market stress.
- This should allow us to achieve the return objective with less volatility, a smoother journey for those who hold the fund, and easier conversations in meetings for our clients!
- We, along with our clients, would hope that the diversifiers are not necessary; history tells us that they are, and that our future selves will thank us for doing something today.

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