

Fortem Capital Absolute Return Fund



Quarterly Commentary – 28th June 2024

UK & EU – For professional and institutional investors only

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Q2 began with a shadow of doubt over the soft-landing narrative as a reacceleration in consumer prices, particularly essential goods, caused policymakers to row back on their declarations of victory in the battle against inflation and investors to heavily discount their rate cut expectations for the year. Data in April proved strong and was received poorly as this provided confirmation in investors' minds that the turn in the rate cycle was indeed further away than was priced in and conditions would remain 'restrictive' for longer.

In reality, financial conditions remain loose and, as the quarter wore on, markets repriced higher, driven by an ever-shrinking cohort of very large companies. The more rate sensitive parts of the market struggled, namely bonds and smaller cap equities, as higher for longer took hold, but equity positioning remains extreme and the market remains squarely in the soft-landing camp at a time when data is weakening and revisions suggest that this began earlier than was initially believed or priced.

Bonds continue to struggle against stubborn price rises, monetary authorities that have been burned declaring inflation over early, and supply more akin to wartime than the end of the cycle. The assumption that duration is an investor's friend during times of slowing growth cannot be relied upon with unwavering confidence given the dramatic fiscal difference in this cycle versus previous ones; this is likely the reason that investors are more cautious in their duration positioning than in previous cycles also.

The Fund decreased in value by -0.6%.

Income

The Fund is fully backed by short-dated high-grade debt. As rates have risen, so has the return available from the Fund's collateral, with the collateral yielding 5.3% as at quarter end.

Beta

The Fund does not allocate to the beta portfolio.

Diversifier

The Fund's diversifier portfolio consists of an equity long / short strategy with a low and stable beta of ~0.2 to global equities. That beta has been very stable through time and environments and is maintained through monthly rebalancing of the long and short legs back to target weights.

The long leg, which overweights the factors of quality, value, momentum and size (favouring smaller companies) was positive for the quarter with quality and value adding positively as factors whilst trend suffered as equities mean reverted after a difficult start while smaller companies, that tend to be more sensitive to rates, struggled as higher for even longer took hold.

The short leg is to benchmark global equities, which has much more of a tilt to growth given that the benchmark is so dominated by a cohort of very large growth stocks. During periods in which those growth stocks perform so strongly, it would be expected that the benchmark index would outperform the long leg which actively targets factors other than growth, the factor that drives the fortunes of the rest of a multi-asset portfolio.

During the quarter the long leg contributed 0.6% and the short leg -1.9% as a result of the continued strong performance of the growth factor within an ever-shrinking number of stocks that account for an ever-growing portion of the market.

Total Return	2024	Q2
UK 100	7.9%	3.7%
US 500	15.1%	4.2%
Europe 50	10.4%	-2.1%
Japan 225	19.1%	-1.8%
Hong Kong 50	6.2%	8.9%
US 2000	1.5%	-3.3%
Swiss 30	11.0%	4.0%
Global Equity	11.8%	2.6%
Global Bond	-3.2%	-1.1%
Commodities	2.4%	1.5%
PGF	4.0%	1.7%
AGF	0.8%	0.0%
DGF	3.4%	0.5%
USI	14.3%	3.8%
ARF	3.9%	-0.6%

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Protection

The Fund makes no allocation to protection.

Outlook

The Fund has delivered significant positive returns with no beta to equity since its launch. That has been achieved through a combination of returns from the income, diversifier portfolios with the consistent low beta overhang contributing positively during a period in which the factors which the Fund targets continue to lag growth.

Moving forward if there is a reversal in fortune for growth and therefore for the benchmark equity and much of the equity content in multi-asset portfolios, the Fund should be a beneficiary of that move. If, as it did in 2022, that coincides with a sharp move lower in equity then the exposure to the non-growth factors as well as income should mean that the Fund weathers the storm effectively, indeed as it would have done in 2022, during which time its return would have been positive. It makes a lot of sense for investors to take exposure to factors other than growth within alternatives given its prevalence elsewhere in portfolios currently.

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