Fortem Capital Absolute Return Fund

Quarterly Commentary – 31st March 2026

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Total Return	2026	Q1
UK 100	3.4%	3.4%
US 500	-4.4%	-4.4%
Europe 50	-3.6%	-3.6%
Japan 225	2.0%	2.0%
Hong Kong 50	-3.0%	-3.0%
US 2000	0.9%	0.9%
Swiss 30	-2.4%	-2.4%
Global Equity	-3.6%	-3.6%
Global Bond	-0.1%	-0.1%
Commodities	23.3%	23.3%
PGF	-2.5%	-2.5%
AGF	-3.4%	-3.4%
DGF	-8.3%	-8.3%
USI	-4.6%	-4.6%
ARF	4.9%	4.9%
CARF	-17.8%	-17.8%
LAF	7.3%	7.3%

Markets entered 2026 in a position of strength, but also of complacency. The dominant narrative; fiscal expansion, resilient growth and eventual monetary easing, had already been fully priced in. Valuations were elevated, risk premia compressed, and positioning increasingly one-sided.

This starting point matters. Beneath the surface, the cycle was already maturing; growth momentum was softening, policy transmission remained somewhat muted by higher long-end yields, and much of the anticipated support was already priced rather than prospective. Markets were not early-cycle; they were priced as if the cycle had no end.

Into this, we have introduced a genuine exogenous shock.

The escalation involving Iran is not another transient geopolitical flare-up. It is a disruption to the global energy system, and in the current regime, oil is the transmission mechanism through which everything else flows. What we are observing is not a standard repricing of demand, but a break in market structure. The extreme dislocation in energy time spreads is the clearest signal of that; this is a front-end supply shock, not a growth story.

However, it does create a fundamental tension at the heart of the growth outlook.

The pre-existing narrative assumes growth will be sustained by fiscal impulse, with a meaningful contribution from AI-driven capex and its eventual return profile. The reality is that a supply-driven energy shock acts as a tax on that growth. The transmission is mechanical: higher energy costs tighten financial conditions, compress real incomes and weaken demand, even as they push inflation higher.

This matters because, as we have written previously, the growth that is priced is doing more work than it should. It is not just fiscal, it is increasingly reliant on the successful monetisation of a large and still unproven AI investment cycle. Those returns are uncertain and likely back-end loaded. In other words, the growth embedded in markets is not a given; it is conditional.

For policymakers, this is the mirror image of the 2021 “transitory” error. Then, inflation was dismissed as supply-driven and temporary, when in reality it was being fuelled by excess demand. Today, inflation is genuinely supply-driven, yet the risk is that it is treated as something to be countered through tighter policy. Tightening into it would simply accelerate the slowdown.

Positioning and valuations remain anchored to a benign baseline in which growth persists and inflation normalises. What is not priced is the cost of sustaining that growth in a world where energy supply is uncertain, policy flexibility is constrained, and second-order effects are still to come.

The key dynamic for Q1 is therefore not the conflict in isolation, but its interaction with an already fully priced macro environment. Markets are being forced to reconcile two incompatible realities: a late-cycle economy priced for continuation, and a supply shock that historically marks the opposite.

The Absolute Return Fund returned 4.9% over the period.

The Fund is constructed in line with our core framework:

Expected Return = Income + Beta + Diversifier

- Income is generated through the collateral and funding book
- Structural beta is maintained at ~30% net long equities
- Diversifiers are delivered through USD exposure and non-growth style factors (quality, value, momentum and size)

The equity long/short sleeve remains the core driver of returns, implemented as a systematic, factor-tilted long book against a short in the MSCI World. Over the quarter, this performed strongly, with the long leg returning +1.1% versus -3.6% for the MSCI World, demonstrating the benefit of factor selection within a declining market.

Factor decomposition highlights that returns were primarily driven by exposure to momentum and value, with additional contribution from quality and size. This reflects the intended positioning of the strategy: diversified across non-growth factors that are less reliant on continued multiple expansion and more resilient in periods of tightening financial conditions or factor rotation.

Importantly, USD exposure behaved as intended. During March, as equity beta came under pressure, dollar strength provided a meaningful offset, helping to dampen overall portfolio sensitivity. This remains a key component of the strategy's diversifier toolkit, particularly in environments characterised by risk aversion and liquidity tightening.

As a result, while the Fund maintains a modest structural beta and may participate in benign "Goldilocks" conditions, its return profile is not solely dependent on growth-led equity markets. Instead, performance is driven by a combination of factor premia and currency exposure, both of which have historically provided resilience during periods of regime shift.

Outlook

The key questions for the strategy remain to some extent the path of equity returns but, critically, the leadership within them.

The past decade has been defined by a narrow and persistent dominance of large-cap growth, creating a structurally challenging backdrop for systematic exposures to value, quality, momentum and size. That concentration remains extreme today, with a small subset of stocks continuing to drive a disproportionate share of index-level returns.

However, the current macro environment introduces a potential inflection point. The emergence of a supply-driven energy shock into a late-cycle system creates conditions under which factor leadership can broaden. Higher rates, tighter financial conditions and increased macro volatility have historically been associated with periods of factor rotation away from growth and towards more diversified leadership.

The experience of the past quarter is instructive. Despite relatively contained equity index moves, the underlying factor exposures and USD positioning behaved as intended, with the long book outperforming the parent index and the dollar providing a meaningful offset during periods of stress. This reinforces the role of the strategy as a diversifier which is designed to like the regime that markets find themselves in most often historically.

Looking forward, outcomes are likely to be path-dependent. If equity beta continues to deliver positive returns, the Fund will participate through its structural exposure. However, in an environment where leadership broadens or rotates away from growth, the factor tilts embedded in the long book are likely to become increasingly additive.

Equally, should markets move into a more challenging regime, whether driven by tighter policy, weaker growth or further exogenous shocks, the combination of USD exposure and diversified factor premia provides a source of resilience that is not reliant on continued multiple expansion in a narrow set of stocks.

In that context, the Fund remains well positioned. It is designed to benefit from a wider range of equity outcomes; participating in benign environments, but with the potential to outperform materially in periods of factor rotation or market stress, where traditional beta-heavy allocations are more vulnerable.

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