Fortem Capital Absolute Return Fund

Quarterly Commentary – 30th June 2026

UK & EU – For professional and institutional investors only
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Total Return	2026	Q2
UK 100	7.6%	4.0%
US 500	10.0%	15.1%
Europe 50	11.1%	15.2%
Japan 225	40.1%	37.3%
Hong Kong 50	-9.3%	-6.5%
US 2000	22.6%	21.5%
Swiss 30	10.1%	12.9%
Global Equity	9.7%	13.8%
Global Bond	0.6%	0.7%
Commodities	12.3%	-8.9%
PGF	**2.1%**	**4.7%**
AGF	**-5.3%**	**-1.9%**
DGF	**-8.9%**	**-0.7%**
USI	**9.7%**	**15.0%**
ARF	**15.7%**	**10.3%**
CARF	**-12.0%**	**7.0%**
LAF	**16.0%**	**8.1%**

The second quarter was characterised by a marked recovery in risk appetite. Concerns surrounding the conflict in the Middle East gradually eased and energy markets normalised, as crude in particular retraced much of its earlier spike and fears of a sustained supply shock faded. At the same time, investor attention returned decisively to AI as another wave of investment announcements from the major US technology platforms reinforced confidence that the current capital expenditure cycle remains intact.

The result was a broad recovery in risk assets. Developed market equities delivered strong returns, led once again by technology, while emerging markets significantly outperformed. Unlike more traditional periods of EM strength, performance was driven overwhelmingly by Asian technology exporters, particularly Taiwan and Korea, as investors continued to favour semiconductor, memory and electrical equipment companies central to the AI infrastructure build-out, whilst more commodity-oriented emerging markets lagged as energy prices retreated.

However, beneath the strength in headline markets, an important shift has begun to emerge. The market narrative has evolved from rewarding AI investment almost indiscriminately towards questioning where the long-term economic returns from that investment will ultimately accrue. During the earlier stages of the cycle, simply participating in the build-out of AI infrastructure was sufficient to attract capital. Increasingly, investors are becoming more selective, distinguishing between those enabling AI investment and those ultimately capable of monetising it through sustainable earnings growth and productivity improvements. This distinction is likely to become increasingly important. AI undoubtedly represents one of the most significant technological developments of our lifetime, but history suggests that transformative technologies often experience periods where investment materially outpaces realised economic returns. As capability continues to improve rapidly and the cost of intelligence declines, the debate is gradually shifting from the scale of investment towards the sustainability of future cash flows.

Elsewhere, the macroeconomic backdrop remains broadly balanced, but increasingly reliant on the AI investment cycle to remain so. Inflation has moderated from the highs experienced earlier in the year as energy markets stabilised, whilst labour markets continue to cool gradually. At the same time, AI-related capital expenditure is doing much of the heavy lifting for both economic activity and corporate earnings, offsetting signs of moderation elsewhere in the economy. As a result, the key macro debate is no longer whether AI is supporting growth, it clearly is, but how durable that support proves to be once the current investment cycle begins to mature and markets increasingly demand evidence of sustainable returns.

The Absolute Return Fund returned 10.3% over the period.

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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 +20.4% versus +13.8% for the MSCI World, demonstrating the benefit of factor selection.

Factor decomposition shows that returns were primarily driven by momentum, which was the strongest-performing factor globally over the quarter and benefited from continued leadership in technology and semiconductor stocks. Quality, value and size detracted, with size representing the most meaningful drag, reflecting the Fund's active overweight to smaller-cap companies relative to the parent index. Overall positioning remains consistent with the strategy's objective of maintaining diversified factor exposure rather than relying solely on market beta. The largest factor tilts remain to momentum and quality. Momentum continues to capture the prevailing market leadership, while quality is intended to provide a more defensive counterbalance should that leadership weaken.

Importantly, USD exposure remains a key component of the strategy's diversifier toolkit, providing a return source distinct from the Fund's equity beta and factor exposures. During Q2, the dollar was supported by renewed inflation concerns following the spike in oil prices, alongside a more hawkish Federal Reserve narrative in June that reduced expectations for policy easing and reinforced a higher-for-longer rate outlook. This allowed USD exposure to contribute positively even as equity markets rose, demonstrating that its diversifying role is not limited to periods of risk aversion and liquidity tightening.

The Fund maintains a modest structural beta exposure, enabling it to participate in benign "Goldilocks" and broader risk-on environments in addition to the returns generated through factor selection. Q2 performance benefited from the rally in the broader equity market. Overall, the quarter demonstrated the complementary nature of the Fund's return drivers: structural beta participated in the market rally, momentum supported relative performance, and USD exposure provided an additional differentiated source of return.

Outlook

The key question for the strategy remains not only the direction of equity markets, but whether the current AI- and semiconductor-led market leadership can persist or begins to broaden.

The strong performance of momentum may become more difficult to sustain if markets begin to question whether the scale of investment in AI will translate into sufficient long-term economic returns. This would likely challenge the technology and semiconductor stocks that have driven recent market leadership. However, the Fund is not reliant on momentum alone and remains diversified across a broader range of factor exposures. In such an environment, quality and more defensive characteristics could become increasingly supportive, leaving the Fund well positioned should market leadership broaden or economic growth expectations weaken.

Inflation and interest-rate expectations are likely to remain sensitive to energy prices as the conflict evolves. If higher energy costs sustain inflationary pressure and keep Federal Reserve policy tighter for longer relative to other developed markets, the US dollar should remain supported. This would benefit the Fund and reinforce USD exposure's intended role as a differentiated source of return during periods of macroeconomic uncertainty. Conversely, easing energy prices or a more dovish repricing of US policy could reduce this contribution.

Should markets move into a more challenging regime, whether driven by tighter policy, weaker growth or further exogenous shocks, the Fund is not solely reliant on continued multiple expansion within a narrow group of stocks or sustained returns from equity beta. Instead, its USD exposure and diversified factor allocation are intended to provide alternative sources of return and help moderate the impact of weaker equity beta.

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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