Fortem Capital Alternative Growth Fund

FORTEM CAPITAL

Quarterly Commentary – 28th June 2024

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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%**

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 was flat over the quarter.

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 4.9% as at quarter end.

Beta

The Fund makes no allocation to the beta portfolio. This is one reason that it has provided investors with positive convexity at all points of market turbulence, irrespective of the cause.

Diversifier

The Fund's rates volatility strategies added the most value during the period; the rates volatility term structure has rerated higher as a return to zero interest rate policy becomes less likely.

The commodity strategies posted negative returns as natural gas timespreads strengthened on warmer than normal weather meaning demand for cooling was higher than is usual for the time of year. Since the end of the quarter this has already reversed and the strategies are positioned to take advantage of the winter premium given storage levels are seasonally high.

The majority of the Fund's negative returns within the Diversifier Portfolio emanated from the FX strategies. The long Yen position, as it has for much of the past 18m, was a detractor as the Yen went to multi-year lows against USD. However, Japanese wages are rising at their fastest pace in more than 30 years at a time when inflation has woken from its slumber and the central bank are on a path of monetary tightening at the point the rest of the world by and large is looking to when it will begin to loosen. Much of that mark-to-market in Yen underperformance that the Fund has worn could be set to return, particularly if the Yen behaves in its typical safe haven way if we enter a period of economic turbulence.

The Fund's rates curve position, a steepener option on the US 10s2s, was a detractor as the yield curve remains stubbornly inverted and has now been inverted longer than any period since the 1970s.

Protection

The Fund's protection portfolio was a detractor over the period as risk assets brushed off the combination of 'higher for longer' and worsening data (particularly when revisions are accounted for).

Outlook

The Fund remains positioned to benefit most from significant turbulence that manifests in either of the traditional asset classes, if not both. The bias remains towards long volatility strategies across equity, rates and commodities with dedicated protection that remains at the top of its range.

If the prognosis from here is a soft or even no landing, then where the portfolio is positioned will likely mean the return profile is at its most muted, but still positive. Even in that scenario, there is no longer a guarantee that the 60/40 continues to flourish given upcoming Treasury issuance and the rise in term premium that might follow, and indeed global bonds suffered another quarter of negative returns in Q2.

But, as previously, the Fund will currently do best and is currently positioned for something other than a soft or no landing. Having zero allocation to traditional beta means that during periods such as the majority of those since launch, the Fund will not enjoy the additional uplift that comes from those periods in which traditional asset classes have supernormal returns. However, given the stage in the cycle and how one sided positioning is currently, investors must have exposure within their alternatives to at least one strategy that does not take on that correlation.

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