

Quarterly Commentary – 31st March 2026

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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 Commodity Absolute Return Fund returned -17.8% over the period.

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%

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Income

The income portfolio returned 0.7% over the first quarter of 2026 and the current yield of the book is 4.0%.

Diversifier

The Diversifier portfolio returned -18.5%.

Q1 presented two distinct exogenous shocks to the strategy: first, an extreme weather-driven dislocation in US natural gas markets, and second, a truly unprecedented geopolitical shock that triggered the largest commodity curve dislocation on record.

Across both episodes, the strategy behaved in line with its design, with the construction dampening risk relative to traditional carry implementations.

1. Polar Vortex and Natural Gas Dislocation (January)

The first shock came via an extreme and highly atypical weather event in the US. A late-emerging polar vortex followed a period in which winter had effectively been 'priced out,' leaving positioning heavily skewed short across the complex.

This resulted in an approximate 6σ move in front-month natural gas, driven by:

- Crowded short positioning (including systematic strategies)
- A sudden and extreme shift in weather expectations

While the Fund did experience drawdown, the impact was mitigated by positioning:

- Exposure was initially in deferred contracts rather than the front
- The strategy maintained a structurally less aggressive short in the front of the curve

Importantly, no reactive de-risking was undertaken at the peak of the move. As weather normalised and Heating Degree Day expectations declined, prices mean-reverted sharply, with the Fund recovering a significant portion of the drawdown.

This episode is instructive: a significant but ultimately transient dislocation, where disciplined positioning was additive to outcomes.

2. Iran Conflict and Commodity Curve Dislocation (March)

The second shock was of an entirely different order of magnitude.

The escalation of conflict involving Iran, including the effective closure of the Strait of Hormuz and disruption to key energy infrastructure, triggered an immediate and severe repricing of global energy markets. Front-month contracts moved violently higher (e.g. Brent and WTI moved >70%) reflecting both acute supply risk and an limited inventory backdrop.

However, for the strategy, the critical dynamic was not outright price, but the behaviour of the curve.

Time spreads across oil markets moved to the most extreme levels ever observed, representing:

- A front-end supply shock of unprecedented proportion
- A $\sim 9\sigma$ dislocation in curve shape

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During this period, the strategy experienced its largest ever drawdown. While significant in absolute terms, this represented **material outperformance versus peers**, reflecting both design and positioning at entry:

The strategy entered the event broadly neutral with an underweight to front-month shorts and long exposure positioned closer to the front on aggregate than traditional implementations. This more defensive construct meant that as the front of the curve repriced aggressively, the Fund was materially insulated relative to dollar-neutral carry strategies.

Risk Management and Positioning Adjustments

As the shock evolved, risk was actively managed within framework constraints:

- Exposure was shifted further towards the front in long positions (greater F3 weighting)
- The strategy moved toward a more beta-neutral stance

These adjustments proved effective, particularly during periods of extreme intraday volatility (e.g. oil briefly approaching \$120), where drawdowns remained contained relative to peers, particularly intraday versus listed vehicles.

Persistent Dislocation and Current State

Since the initial shock, the defining feature of markets has been the persistence and extension of extreme backwardation:

- Front-end contracts continue to reflect acute physical scarcity and hedging demand
- Deferred contracts have repriced higher but still imply a relatively rapid normalisation
- Curve convexity remains elevated, continuing to pressure traditional carry strategies

This remains the largest dislocation ever observed in commodity curves, driven by both:

- A genuine supply shock
- A broader logistical disruption (shipping, insurance, refining constraints)

Even in a reopening scenario, normalisation is unlikely to be immediate.

Strategy Behaviour and Structural Considerations

The strategy continues to behave as expected.

It is important to reiterate that:

- Returns are driven by **relative behaviour across the curve**, not outright price direction
- The strategy structurally underweights the short leg, reducing sensitivity to front-end spikes
- Negative beta in extreme environments is more a function of curve dynamics, not directional exposure

While painful, current performance reflects an inversion of a long-standing and intuitive premia, rather than a breakdown of the premia itself. This is largely consensus amongst market participants; the dislocation is being driven by an extreme, front-end specific shock rather than a structural long-term impairment of carry.

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Outlook

Near-term visibility remains limited and outcomes are inherently path-dependent. However, the mechanisms for normalisation are clear:

- Front-end prices decline as supply constraints ease
- Deferred contracts reprice higher
- Elevated prices induce demand destruction

In all cases, adjustment occurs via normalisation of curve shape, rather than requiring a specific directional call on commodities.

From an opportunity set perspective, current conditions are highly compelling:

- Curve dislocations are at unprecedented extremes
- Forward return potential from normalisation is correspondingly elevated

That said, the absence of true precedent argues for caution in timing. The strategy has therefore balanced maintaining exposure to the opportunity with risk management, reducing timespreads and moving more beta-neutral. In addition, the scheduled roll out of front-month May exposure in early April (in line with BCOM) will mechanically reduce front-end concentration, providing a natural de-risking should volatility re-escalate as well as reducing the negative carry from backwardation at extremes.

Q1 has seen a significant event followed by a generational one. Across both, the strategy has performed in line with its design and has delivered materially improved outcomes relative to traditional implementations.

While the path to normalisation is likely to remain volatile, history would suggest that current dislocations in term structure represent one of the most attractive entry points seen in many years. That said, the lack of true precedent warrants some caution in sizing and timing, even as the construct remains explicitly designed to capture the eventual normalisation of these unprecedented dislocations.

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