Fortem Capital Dynamic Growth Fund

Quarterly Commentary – 30th September 2026

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The third quarter was characterised by an unusual divergence between equity and government bond markets. Despite renewed geopolitical uncertainty, higher energy prices and a marked increase in global borrowing costs, equity markets remained relatively resilient. Strong corporate earnings and continued investment in artificial intelligence supported risk appetite, while government bonds experienced significant selling pressure as investors reassessed the outlook for inflation and monetary policy.
Having eased towards the end of the second quarter, tensions in the Middle East returned to the forefront of investor attention as negotiations between the US and Iran lost momentum. Oil prices recovered sharply, with Brent crude returning above $100 per barrel, while further disruption to energy supply and refining capacity placed renewed pressure on inflation expectations. Higher energy costs once again highlighted the vulnerability of economies to a prolonged supply shock, particularly in Europe, where dependence on imported energy remains significant.
The recovery in inflation expectations prompted a further reassessment of monetary policy. Both the Federal Reserve and the European Central Bank increased interest rates by 25 basis points in September, while the Bank of England maintained rates at 3.75%, acknowledging the growing risk of more persistent inflation. Government bond yields rose sharply across developed markets, with the US 10-year Treasury yield moving above 5% and longer-dated yields reaching levels not experienced for many years. The sell-off was exacerbated by fiscal concerns and increased borrowing requirements, including substantial debt issuance associated with the expansion of AI infrastructure.
Nevertheless, equity markets continued to demonstrate resilience. Corporate earnings remained strong, particularly in the US, where continued investment in data centres, semiconductors and related infrastructure supported economic activity. However, performance became increasingly differentiated. Rising bond yields favoured Value over Growth, while smaller companies and other interest-rate-sensitive assets faced greater headwinds. European equities lagged, reflecting a more challenging combination of earnings growth, energy costs and borrowing conditions, while Japanese equities remained relatively well supported.
An important development is the changing nature of the AI investment cycle. While investment commitments remain substantial, the growing reliance on external financing and a higher cost of capital are making the distinction between companies benefiting directly from this expenditure and those ultimately capable of generating sustainable economic returns increasingly important. The scale of investment continues to support growth, but this increasingly needs to be assessed alongside the prospective returns on that capital.
Looking forward, the principal risk is that the combination of persistent inflation, elevated interest rates and geopolitical uncertainty begins to weigh more materially on economic activity and corporate profitability. Equally, resilient earnings and continued investment may allow equity markets to absorb a more restrictive monetary environment for longer than anticipated. This creates a more complex backdrop for investors, in which diversification across different sources of return, rather than reliance on any single macroeconomic outcome, is likely to become increasingly important.

Total Return	2026	Q3
UK 100	9.5%	1.8%
US 500	12.5%	2.2%
Europe 50	10.3%	-0.7%
Japan 225	34.2%	-4.2%
Hong Kong 50	-1.5%	8.6%
US 2000	13.7%	-7.2%
Swiss 30	7.5%	-2.4%
Global Equity	11.8%	1.9%
Global Bond	-2.9%	-3.5%
Commodities	29.3%	15.1%
PGF	**3.6%**	**1.5%**
AGF	**-1.9%**	**3.6%**
DGF	**-0.8%**	**8.8%**
USI	**11.5%**	**1.7%**
ARF	**12.0%**	**-3.2%**
CARF	**-12.9%**	**-1.0%**
LAF	**14.0%**	**-1.8%**

The Dynamic Growth Fund returned 8.8% over the period.

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Income

The Income portfolio contributed 79bps over the quarter, with the current yield of the book at 4.1%.

Beta

The Beta portfolio contributed 138bps. Global equity markets continued to demonstrate resilience despite the sharp rise in government bond yields and renewed concerns around inflation. The Fund's Beta portfolio participated through its existing defined return investments and alternative equity risk premium exposures.

Diversifier

The Diversifier portfolio contributed 639bps over the quarter. Following the introduction of our Diversifier Framework in the previous quarter, the portfolio has increasingly been assessed according to its exposures to Carry, Trend and Mean Reversion return drivers. This approach is intended to reduce reliance on any single economic regime or market outcome. The third quarter provided a particularly relevant environment in which to assess this diversification. Renewed strength in energy markets created divergent outcomes for commodity carry and trend strategies, while rising government bond yields and changes in interest-rate volatility affected the Rates Volatility allocation. Currency and equity factor strategies were similarly exposed to a changing relationship between interest rates, growth expectations and market leadership.

Protection

The Protection portfolio contributed -8bps over the period. Despite continued strength in equity markets, the rise in bond yields and more persistent inflation risks underline the importance of maintaining protection. This is particularly relevant in an environment where conventional government bonds may offer less reliable diversification against an inflation-driven equity correction.

Outlook

The Fund continues to combine defined return Beta exposure with a diversified collection of systematic strategies and dedicated Protection.

While equity markets have so far absorbed the increase in borrowing costs, their continued resilience is increasingly dependent on corporate earnings growth remaining sufficiently strong to offset tighter financial conditions. Maintaining diversified return drivers alongside equity participation therefore remains central to the Fund's construction.

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