Fortem Capital Progressive Growth Fund

FORTEM CAPITAL

Quarterly Commentary – 29th September 2023

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Total Return	2023	Q3
UK 100	5.5%	2.2%
US 500	12.7%	-3.4%
Europe 50	12.6%	-4.9%
Japan 225	24.0%	-3.4%
Hong Kong 50	-7.0%	-4.3%
US 2000	2.5%	-3.4%
Swiss 30	5.4%	-2.7%
BCOM	-7.1%	3.3%
US Treasury	-1.2%	-3.2%
Euro Property	-7.0%	3.6%
PGF	**7.5%**	**0.1%**
AGF	**-0.8%**	**1.2%**
DGF	**1.9%**	**0.2%**
US Equity Income	**12.0%**	**-3.6%**

After an extraordinary start to the year, with the Federal Reserve not only halting but reversing balance sheet tightening, it is perhaps unsurprising that equity markets took something of a breather in Q3. Developed market indices were down across the board, barring the energy-heavy UK 100, as rising bond yields once more put pressure on risk assets and upside surprises in data as well as increased energy prices gave cause for question over whether the battle against inflation has been truly won, at least to the extent that policy is set to return to the 'new normal' of the past 15 years any time soon.

Of perhaps greater note with regards to fixed income was the emergence of issuance of US government debt as a consideration. Both the announcement of over $1trn of borrowing in Q3 ($300bn higher than May's estimate) and that the issuance is likely to occur further out on the curve, given how heavy bill issuance has been thus far in 2023, has given the market something of a reality check, even for those predicting either a soft landing or no landing at all. Supply must also be considered with regards to bonds, particularly now.

Despite the deterioration in the Fund's underlying indices, it returned 0.1% over the quarter, and has returned 7.5% year-to-date.

As markets have recovered this year, so too has the number of investments maturing early. Of the ten investments that observed over the period six matured early. Those investments that matured had annual coupons of 6-6.6% and were replaced by investments with more protection and coupons in high single digits and even low double digits, illustrating that the environment remains attractive to strike new investments.

The environment that had characterised the year-to-date was one of falling volatility across asset classes, in particular equity. The opportunity was taken to slightly realign the protection overlay in order to take advantage of the relative value in equity volatility through a put spread. The Fund now has protection in two forms; credit default swaps on both US and European companies, as well as a put spread on the US 500.

The opportunity was also taken to restructure the Hang Seng position in the portfolio. The position was rolled into a new investment linked to the US 2000 & Swiss 30 with an annual coupon of 9.51% per annum. The terms that were available to roll on meant that the Fund's GRY grid was greatly improved for the more neutral and bearish scenarios for markets. Given the darkening skies over the global economy, this was seen as an opportune moment:

Immediate spot moves	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Return (%)	39.8%	36.3%	31.2%	25.2%	18.8%	12.9%	10.1%	9.7%	9.7%
Time to Maturity (Av. yrs)	4.4	4.0	3.3	2.6	1.7	1.0	0.6	0.5	0.5
GRY to Maturity (Av. %)	**8.0%**	**8.2%**	**8.5%**	**9.2%**	**10.6%**	**13.3%**	**18.1%**	**19.3%**	**19.3%**

In spite of the gathering clouds over the global economy at a time when rates are set to remain elevated, the reaction of equity and credit markets has been muted. As we consistently argue, it is foolhardy to make absolute predictions as to where equity markets are headed over the medium term. However, given that the equity risk premium is so depressed currently, and that the era of profligate policy (at least relative to the post-GFC period) is over, one must take seriously the increased likelihood that equities will struggle to annualise at the levels investors have become accustomed to over the next few years. The Fund maintains an incredibly attractive profile even if this is the case and can provide investors with significant positive returns if the path is in fact down from here.

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