

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 Progressive Growth Fund returned -2.5% 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 period and the yield is aligned with the cost of equity funding.

Beta

The Beta portfolio returned -2.0% over the period.

This is broadly in line with what we would expect in a quarter in which global equities fell 3.5%.

The portfolio retains heavy levels of protection with cover to growth and protection both sitting ~37%.

The Beta portfolio carries overweight to Europe and Japan versus peers, the two regions where pricing has been richest and where investments were struck with rates at high levels. This is crucial for forward looking returns. Even if there were to be falls in these markets such that they remained in the portfolio for multiple years, returns higher than target would be embedded. This is the exact opposite of what occurred in 2021 when returns significantly lower than target were embedded. One can see this clearly in the GRY grid in the outlook section; forward looking returns are attractive.

Risk Overlay – Diversifier + Protection

The risk overlay is where we saw a highly unusual move during the period, returning -1.1% at Fund level.

Investors will know that a core diversifier within our books is that of Commodity Curve. The premia experienced its worst ever drawdown, driven by an unprecedented $\sim 9\sigma$ dislocation in energy curves. The Fortem implementation materially outperformed traditional implementations, but the moves were so severe that our implementation was not immune. What is widely accepted is that following dislocations of this magnitude, commodity term structures use price discovery to right themselves, and it is likely we will see the best entry to the premia for some time, particularly if growth is dampened as a result of higher input costs.

Elsewhere, moves in equity markets and volatility remained fairly muted such that the protection book did not kick in, nor was it required to.

Outlook

The Fund behaved as expected over the quarter even with an unprecedented dislocation in one of its core diversifier positions.

With regards to outlook, defined return funds allow for a slightly more prescriptive approach to be taken by investors, as at any point one is able to ask of a fund of this ilk:

1. What is the risk
2. What is one currently being paid to take that risk

With regard to the risk at any point in time. Within the Progressive Growth Fund, one takes credit risk to high-grade sovereigns, given that it is fully backed by sovereign debt. That currently extends to the governments of the US & UK. With regards to the beta portfolio, one is exposed to deep OTM puts on major developed indices, so the key is where the portfolio currently sits with regards to the strikes of those puts. Currently, there is plenty of protection as was alluded to in the beta section. So then what is one currently being paid to take on that risk? Significantly more than the last time we published:

Gross redemption yield of Beta portfolio:

Immediate spot moves	-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
Return (%)	36.7%	29.5%	22.5%	15.4%	10.9%	8.6%	6.9%	6.7%	6.7%
Time to Maturity (Av. yrs)	3.8	2.9	2.1	1.3	0.8	0.6	0.4	0.4	0.4
GRY to Maturity (Av. %)	8.7%	9.3%	10.1%	11.5%	13.4%	15.0%	17.1%	17.4%	17.4%

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