Fortem Capital Absolute Return Fund

Quarterly Commentary – 31st December 2025

UK & EU – For professional and institutional investors only
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Total Return	2025	Q4
UK 100	25.8%	6.9%
US 500	17.4%	2.6%
Europe 50	21.2%	5.1%
Japan 225	28.2%	12.2%
Hong Kong 50	33.5%	-3.3%
US 2000	12.8%	2.2%
Swiss 30	18.0%	9.6%
Global Equity	21.1%	3.1%
Global Bond	7.3%	1.1%
Commodities	11.1%	4.8%
PGF	**8.9%**	**1.9%**
AGF	**0.4%**	**-1.5%**
DGF	**-0.7%**	**-1.3%**
USI	**16.7%**	**2.4%**
ARF	**9.2%**	**1.8%**
CARF	**8.8%**	**1.7%**
LAF	**8.4%***	**4.4%**

Markets navigated an unstable backdrop incredibly well during 2025.

Trade tensions escalated materially in the first half as US tariff rates rose to levels not seen since the 1930s, triggering a sharp but ultimately short-lived risk-off episode in April. At the same time, geopolitical stress intensified, and long-dated yields remained stubbornly high, reducing the transmission mechanism of looser monetary policy. These headwinds weighed heavily on sentiment early in the year but proved insufficient to derail broader risk appetite.

By mid-year, markets had pivoted decisively toward policy support and broad optimism. Fiscal expansion and the prospect of easier monetary conditions, combined with renewed enthusiasm around artificial intelligence, drove a synchronised re-rating across equities, credit and commodities. Emerging markets led equity performance, while developed markets recovered from early losses to post strong full-year gains.

The strongest signal of investor behaviour came through real assets. Precious metals significantly outperformed, and commodity returns remained positive despite falling energy prices. Fixed income also generated positive returns as inflation fears moderated and currency effects supported non-US investors, making 2025 the first year since the pandemic in which all major asset classes posted gains; an 'everything rally'.

By year-end, investor positioning appeared increasingly predicated on the assumption that fiscal impulse will deliver the growth outcomes now embedded in market prices. Large deficits, sustained public investment and continued AI-related capex are widely treated as sufficient offsets to possible tighter financial conditions, and this optimism is reflected in elevated valuations and compressed risk premia across asset classes; positioning is highly stretched – over 2/3 of the individual country equity indices comprising the global benchmark are at record highs. What is less clearly priced is the cost of delivering that growth: higher funding costs, constrained monetary support, and the risk that investment proves lower-return or slower-to-realise than expected. As a result, markets enter the next phase with expectations anchored to an undying fiscal impulse. The narrative restates what is already priced, and ignores any risks which are inconvenient to it.

The Fund returned 1.8% over the quarter and 9.2% over the course of 2025.

Income

The Fund is fully collateralised by very short-dated, high-grade debt. As such, its liquidity profile extends to the liquidity profile of the Income Portfolio. The Fund has a 70% overhang of cash to deploy within the Income portfolio. Therefore, when the risk-free rate is high, so is the base level of return available to the strategy. It allows investors to somewhat 'have their cash cake and eat it' within an alternative allocation.

Diversifier

The Fund's Diversifier Portfolio consists of a US dollar equity long/short strategy with a low and stable beta of ~0.2 to global equities. That beta has been very stable through time and environments and is maintained through monthly rebalancing of the long and short legs back to target weights.

The long leg, which overweights the factors of quality, value, momentum and size (favouring smaller companies) whilst maintaining the same ex-ante volatility of the parent index, has outperformed the heavily large-cap and growth-biased parent index over the first three quarters of 2025 by 2.3%. This has allowed the beta overhang to perform well in absolute terms. However, the equity long short is global and dollar-exposed, thus the Fund will pick up some mark-to-market from dollar moves. This year, the mark-to-market has not been in the Fund's favour as the dollar exposure has cost ~2.6% in sterling terms.

The structural, low and stable positive beta was a benefit to the Fund during a quarter which was so profitable for risk assets.

However, of perhaps more note was the factor rotation seen during November and December. The outperformance of growth of target factors meant that the long leg outperformed the parent global equity index by 0.5% over the quarter and 2.5% over the last two months of the year. It has been noted in previous outlooks that the strategy has faced structural factor-based headwinds and that any change here would be to its benefit; that change may have begun.

Outlook

It is notable that over a ten-year period, the systematic long sleeve of the Fortem strategy has been in a structurally unfavourable environment, underperforming the short leg by ~ 2% p.a.(~40% cumulatively over the period). This is unsurprising given large-cap growth dominance versus a long leg that specifically targets small size and non-growth factors.

Crucially, 2022, a year in which duration struggled as global equities fell ~18% and beta was a significant drag, saw the backtested strategy produce a positive return. This was a period characterised by a sharp factor rotation away from growth and into value/quality, precisely the environment that rewarded the systematic long leg.

The long leg is designed to have consistently positive active exposures to value, quality, momentum and size (small versus big) versus the parent, which is now concentrated and dominated by a few stocks, given that the Mag 7 accounts for more of the global equity benchmark than the stocks of Japan + UK + France + Canada + Germany combined. In order to have a diversifying exposure in one's alternatives allocation alongside a low but positive beta, it makes sense to target factors outside of those that are driving almost every delta1 equity allocation currently.

Going forward, if beta continues to produce a positive premium, the Fund will be a beneficiary of that. In an environment in which this is the case, and there is some rebalancing amongst the equity factors away from growth, the Fund is likely to produce particularly strong returns. However, it is the same factor phenomena which means that in spite of its structural beta overhang, it may serve portfolios well as a diversifier even in an environment in which beta struggles and at least holds its own.

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