Fortem Capital Alternative Growth Fund

Quarterly Commentary – 30th June 2025

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Total Return	2025	Q2
UK 100	9.5%	3.2%
US 500	6.0%	10.8%
Europe 50	10.4%	2.7%
Japan 225	2.4%	13.8%
Hong Kong 50	22.7%	5.7%
US 2000	-1.8%	8.5%
Swiss 30	5.9%	-3.7%
Global Equity	9.5%	11.5%
Global Bond	7.3%	4.5%
Commodities	3.3%	-4.1%
PGF	**4.8%**	**3.2%**
AGF	**3.3%**	**0.7%**
DGF	**2.6%**	**1.9%**
USI	**5.7%**	**10.6%**
ARF	**3.4%**	**2.8%**
CARF	**3.8%**	**1.7%**

14th July 2025

'I might do it, I might not do it, I might have done it already…nobody knows.'

Trump Tzu

The second quarter of 2025 was extraordinary; global equity finished the quarter around 12% higher than it began it, while global bonds posted a similarly impressive 5%. However, the numbers themselves conceal more than they reveal. The real story lies in policy, policy u-turns, volatility and a growing sense that markets remain euphoric against a backdrop that is mixed at best.

Rarely has there been more flux for investors to contend with, driven by a non-exhaustive list that includes growth, inflation, tariffs, wars, and the increasingly entangled web of Fed policy and politics. Price moves in copper in the past week show just how quickly and materially markets can change based on as little as a passing comment. In the Trumpian world in which we live, it remains prudent to keep positioning relatively light and be ready to act when required and indeed update views when necessary.

The original plan of the US administration:

- Frontload pain via tariffs and fiscal austerity
- Reprice global growth downward, creating a disinflationary backdrop
- Force the Federal Reserve's hand into a meaningful cutting cycle
- Come to the rescue by reigniting the private sector through lower rates, tax cuts and deregulation

March 2025:

Whether the administration are playing '3D chess' or overseeing the most shambolic policy of modern times comes second to the fact that the administration's stated policy and aims are anti-growth and, without a significant policy pivot, an economic slowdown is unavoidable this year. The question has become how deep that slowdown will be.

The US policy stance has since undergone something of a pivot; what began as an outline of fiscal restraint and a clear aim to shrink the size of government has lost its ambition. However, the Big Beautiful Bill is fairly neutral in aggregate; what is cut in spending is offset in tax. The fiscal austerity piece of the frontloading of pain has been lost, but importantly not reversed.

Tariff uncertainty remains and has been reborn in July. It transpired that the frontloading of pain was exclusively for trading partners rather than domestic voters, at least that is the idea. However, in that sense a 50% tariff on copper when the US is responsible for 5% of global supply & 7% of demand seems particularly unhinged; copper cannot simply be onshored. The point investors must remember with regards to the realignment of global trade is that tariffs are a tax and are unequivocally anti-growth and if price increases cannot be passed on to a weakening consumer, margins will be where they show up.

Although we are now seeing signs of a slowing, it has not translated thus far into a fully blown slowdown in the data, although this will always lag. Even against a tariff-heavy backdrop, inflation has remained subdued. However, again there are arguments that any price increases are yet to be felt. Investors should question who will pay for this; consumers or margins. Neither would be good news.

The administration have not slowed growth sufficiently to force the Fed's hand, at least yet. Instead, we are witnessing a very public dressing down of the supposedly independent Fed with the looming appointment of the next chair encouraging trump appointees to publicly back the administration over the institution. The Fed's drift into politicisation risks any central banks single non-negotiable asset; credibility. Once credibility is eroded, expectations become unanchored, markets second guess, and the transmission mechanism breaks down. A politically influenced Fed is no longer an institution there to guide through storms but rather becomes the weather itself.

Phone: 0208 050 2905 Email: sales@fortemcapital.com

What has also not changed is that economic data neither justifies markets re-testing their all-time highs nor does it yet look poor enough to justify monetary intervention through lower rates. However, as has become customary, the market is front-running the Fed aided by comments coming from the White House. There can be no mistaking that market participants now see the role of policymakers as including being supportive of asset prices irrespective of the financial stability mandate.

Wherever one cares to look asset prices look stretched; equities, commodities, credit and this is at a time when we are now beginning to see slowing show up in the data. There remains three possible outcomes:

- Soft landing
- Hard landing
- Higher for longer

The market has returned to pricing the first scenario with near certainty, it stands to reason that the value is in the others.

The Fund returned 0.7% over the quarter and is up 3.3% year-to-date.

Income

The Fund is fully collateralised by short-dated, high-grade debt. As such, its liquidity profile extends to the liquidity profile of the Income portfolio.

Aligned with the house view, the income portfolios are heavily skewed towards short-dated, high-grade sovereign debt currently. The guidelines within which the collateral of the Funds operate are both strict and conservative, and currently positioning is towards the conservative end of what are already conservative limits. However, given that inflation remains stubbornly above central bank targets, there is considerable yield to be harvested towards the front of the highest-grade yield curves.

Diversifier

The Diversifier Portfolio has its main exposure to core, structural alternative risk premia strategies, proven through various cycles over decades.

As was alluded to in the previous commentary, much work had been done which saw significant activity with the addition of two new premia, as well as another rates volatility implementation.

The classic staple premia of equity quality was added. The premia has been held previously in the same implementation and served the portfolio particularly well during the growth-related sell off in March 2020. The position further enhances the defensive quality of the diversifier book at a time it is likely to be needed.

Rates volatility term structures have a unique feature in that they are downward sloping (long dated volatilities trade at a discount to shorter dated). While equity and FX options trade show a volatility risk premium (volatility realises below implied across expiries) this is only true of short expiries within rates. Volatility on longer expiries tends to realise higher than is implied. This allows strategies to be constructed that are diversifiers in the truest sense; they have carry components that tend to be fairly uncorrelated to more traditional types of carry found in equity volatility term structures as well as protection components that do not suffer bleed. To date, this phenomena has been most prevalent on the USD rates volatility term structure. However, the EUR structure now shows a similar slope and given the structural changes in Europe with regards to spending and regulations, EUR rates volatility strategies were added to the portfolio and are already performing well.

Lastly, a second commodity premia was added which targets dislocations between commodity pairs with fundamental linkages. Initial tariff news caused dislocations to widen significantly and gave a good entry point to fade these dislocations. Since its addition, the strategy has been the best performing in the Fund.

During periods in which the actions of policymakers mute returns from anything other than beta and volatility selling, truly uncorrelated diversifiers tend to be crowded out. However, we are emerging from this regime and for the first time in a few years opportunities abound, which is already showing up in the numbers this year.

Beta

The Fund does not allocate to the Beta Portfolio.

Protection

The Fund's Protection Portfolio is made up of put options linked to the US 500 index as well as CDS on benchmark US and European credit indices. During the Q1 turbulence, the protection portfolio began to kick in in earnest before some profit was taken with volatility at its highs. Protection has since been reloaded using the full proceeds meaning that the portfolio has more embedded protection now than it entered the current turbulence with.

Outlook

March 2025:

While at various times over the past few years there has been the threat of a slowdown in economic conditions, each time policymakers were able to step in, as has become the norm. The danger this has brought upon both markets and their underlying investors is the implicit assumption underpinning prices of both a willingness and ability of policymakers to do this into perpetuity. There are fundamental risks to this assumption as illustrated by the Fed's last attempt to loosen conditions at the start of the cutting cycle having the opposite effect to that which was intended. Markets have experienced the odd wobble here and there but have generally priced the odds of a hard landing at or near zero through the entire course of the cycle; that is a misprice. While this doesn't mean with any certainty that a hard landing is where the economy is heading, it does mean that there is significant value in maintaining at least some allocation in portfolios with a view that one may be the final destination.

There has since been a pivot on the fiscal side, and markets have reacted accordingly. However, with rates remaining elevated and the unpredictable Trump in office, it is difficult to get excited about risk assets here. A well thought out macro view can be kiboshed with a single post or comment, thus it continues to make sense to remain nimble and keep positioning light and to err on the defensive side.

Phone: 0208 050 2905 Email: sales@fortemcapital.com

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