

Quarterly Commentary – 30th June 2025

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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.

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%

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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 1.7% over the quarter and is up 3.8% year-to-date.

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. Therefore, when the risks 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.

Beta

The Fund makes no allocation to the Beta Portfolio.

Diversifier

The Fund seeks to monetise a consistent and underappreciated source of return in commodity markets: the shape of the futures curve.

Most commodity investors don't actually take delivery of barrels of oil or tonnes of sugar. Instead, they gain exposure via futures contracts, which are typically priced higher the further out you go, a market structure known as contango. This shape reflects real-world frictions such as storage costs and producer hedging, and tends to be not just upward-sloping, but also concave; front of the curve is steeper than the back.

Because of this curve shape, some futures contracts lose value faster as they near expiry than others. The Fund exploits this by going short the more expensive front-end contracts (which suffer from steep roll decay) and long the more stable contracts further out. This approach is designed to capture structural inefficiencies and importantly is largely insulated from broader market direction or parallel shifts in commodity prices.

This strategy earns a return that many passive commodity funds actually give away. For example, traditional commodity trackers must keep rolling their contracts forward to maintain exposure, often locking in a loss as they "roll up" the curve. Over time, this erodes returns. Oil is a good example of illustrating where the difference between spot prices and tracker fund returns illustrates this "roll cost" effect.

Natural Gas was a key driver of returns during the quarter. March forecasts for warmer weather in the US and Europe weakened spreads, with April performance boosted by a +0.48% return from NG as prices declined and the front of the curve sold off. Although NG initially detracted early in April, those losses were reversed as bearish weather and strong production signals hit the front contract.

Corn was a strong performer earlier in the year amid spread tightening, supported by falling prices due to tariff uncertainty. However, entering April, a pause in Trump's tariff plans and tariff cuts drove a front-month rally, resulting in temporary losses. That reversed through May as the curve steepened and spreads sold off, allowing the strategy to monetise the return premia once more.

In June, crude oil and NG detracted mid-month due to shifting geopolitical dynamics and production updates, but this was later offset by gains towards month-end, following a ceasefire between Israel and Iran, bearish weather, and higher EIA-reported production.

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Outlook

The strategy has had much to contend with over the past 6 months with the coldest winter in 50 years in southern American states, various wars and geopolitical tensions flaring and an unprecedented amount of uncertainty over tariffs. Despite this the Fund has returned 3.8% this year so far and is annualising at ~7%. Periods such as this illustrate perfectly that while the strategy is not without risk, much of it tends to be separate to the risks driving the traditional betas within a multi-asset portfolio. Energy, and in particular the oil complex, continues to prove challenging given spreads being heavily backwardated and offering no roll yield. However, this does mean that if growth were to take a hit and demand dry up, the strategy is very well positioned to benefit from this.

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