Fortem Capital Commodity Absolute Return

Quarterly Commentary – 31st December 2025

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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 1.7% over the quarter and 8.8% 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. 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.

The income portfolio returned 0.6% over the final quarter of 2025, and the current yield of the book is 4.1%.

Diversifier

The Fund seeks to monetise a persistent and underappreciated source of return in commodity markets: the shape of the futures curve. Most commodity exposure is obtained via futures rather than physical delivery. These futures curves are naturally upward-sloping, a structure known as contango, reflecting real-world frictions such as storage costs, financing, and producer hedging activity. Importantly, this contango is typically concave, with the front of the curve steeper than the back. As futures contracts approach expiry, they converge toward spot prices, meaning contracts at different points on the curve decay at different rates. The Fund exploits this dynamic by systematically shorting fast-decaying front-end contracts and holding positions further out the curve where roll decay is materially lower. Returns are therefore driven by differential roll yield rather than outright price moves.

This premia is structural in nature and is the inverse of the roll cost embedded in many traditional commodity trackers, which are forced to repeatedly roll exposure forward and, over time, give up carry. The strategy is designed to be largely insulated from parallel shifts in the commodity price level and does not rely on bullish spot outcomes.

On the surface, when one looks at the attribution of performance across the commodity complex, it would show precious metals adding most performance, with energy relatively flat. However, it was energy which drove most of the mark-to-market:

First, US sanctions against Russian oil producers led Chinese refiners to suspend purchases, given thawing trade tensions between the US & China. Oil prices spiked on the expectation of a marked drop in Russian flows to the detriment of the strategy. We then saw a more normal bout of seasonal volatility as weather forecasts trended colder in the US and caused spikes in front-month natural gas futures.

Later in the quarter, weather patterns turned warmer, and as expected, natural gas spreads weakened, leading to gains for the strategy.

Overall, for 2025, returns were reasonable at 8.8%.

Most of the return was delivered from natural gas; this is not surprising, given that it is the hardest commodity to store, and the strategy harvests a storage premium. However, it is in oil where we continued to see almost all losses as the market remained in stubborn backwardation, where it has sat since 2022. We shall revisit this in the outlook.

Outlook

The Fund has achieved reasonable returns since its inception, and indeed, the premia itself has been a top performer in Fortem's strategies since the inception of the firm.

However, since 2022, there have been significant structural headwinds for it to contend with, namely the oil complex's stubborn refusal to exit backwardation. Looking forward, oil has started to display characteristics of an oversupplied market, and with the potential for regime change and peace deals that might bring more sanctioned oil online, it is easy here to get constructive on the oil curve premia for the first time since Covid. With oil and its derivatives making up over 20% of the Fund, this is a significant shift, and oil has already exited backwardation with room to steepen into contango further.

Commodity curve carry strategies are naturally counter-cyclical because they tend to exhibit a modest short beta to the commodity complex, benefiting from environments in which spot prices weaken. During economic slowdowns and recessions, demand destruction typically weighs on near-dated prices, while inventory availability and reduced urgency for physical supply push futures curves into contango. This combination steepens front-end curves, directly enhancing the return potential of short time-spread strategies. As a result, periods that are challenging for risk assets are often supportive of commodity carry-based returns. This inherent asymmetry makes commodity curve carry an effective diversifier in late-cycle portfolios, as its performance is driven by spot price convergence and curve shape rather than by commodity price appreciation or cyclical growth momentum. In the meantime, it has proven itself to work in a year in which equities annualised above 20% once more, even though this would typically not be its happiest hunting ground.

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