

## Quarterly Commentary – 31<sup>st</sup> December 2025

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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 4.4% over the quarter and 8.4% since its inception in July 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 combines three classic liquid alternatives implemented in a cost-efficient, highly liquid format: equity long /short, managed futures and gold.

First, 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.

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%
<b>PGF</b>	<b>8.9%</b>	<b>1.9%</b>
<b>AGF</b>	<b>0.4%</b>	<b>-1.5%</b>
<b>DGF</b>	<b>-0.7%</b>	<b>-1.3%</b>
<b>USI</b>	<b>16.7%</b>	<b>2.4%</b>
<b>ARF</b>	<b>9.2%</b>	<b>1.8%</b>
<b>CARF</b>	<b>8.8%</b>	<b>1.7%</b>
<b>LAF</b>	<b>8.4%*</b>	<b>4.4%</b>

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The managed futures sleeve provides exposure to another of the core, long-standing liquid alternative strategies: trend following across global futures markets. This style of investing has been used by institutional investors for decades as a way of harvesting returns from persistent price trends across equities, bonds, commodities and currencies, and as a means of diversifying equity-centric portfolios across macro and policy regimes.

Rather than allocating to discretionary or opaque hedge fund managers, the Fund implements managed futures via a systematic, rules-based replication of the core CTA beta. This approach seeks to capture the economic exposure of trend-following while delivering it in a liquid, transparent and cost-efficient UCITS format. The result is a diversifying return stream that is structurally different from equity factor premia and which tends to perform well during periods of macro transition, regime change and sustained directional moves across asset classes.

The gold sleeve provides exposure to another classic liquid-alternative building block: real-asset store-of-value beta. Gold has a long history as a diversifier to financial assets, particularly in periods of monetary instability, inflationary pressure and declining confidence in fiat currencies, and is widely used by institutional investors as a strategic hedge within multi-asset portfolios.

Over the quarter, all three elements of the portfolio were additive; equity long/short added 1.1%, managed futures 1.1% and gold 1.4%.

### Outlook

The investment environment ahead is characterised by heightened uncertainty around growth durability, policy transmission, and the effectiveness of traditional diversification. Late-cycle dynamics, elevated debt burdens, and asymmetric policy risks increase the likelihood of regime shifts. In this context, portfolios overly reliant on equity beta or duration as primary return and diversification drivers face a narrower margin for error.

The Liquid Alternatives Fund is positioned to address this challenge by combining complementary sources of return whose key drivers are structurally distinct from traditional asset classes and from each other. Equity factor premia provide a disciplined, evidence-based return stream that is resilient across cycles when implemented with controlled market exposure. Managed futures offer exposure that tends to benefit during periods of macro regime shift and sustained directional moves across asset classes, particularly when policy divergence or market dislocation reshapes return patterns. Gold contributes a real-asset hedge that has historically provided ballast during episodes of monetary instability and declining confidence in financial assets.

Crucially, these strategies respond differently to economic slowdowns, inflation surprises, and market stress, reducing reliance on any single macro outcome. The Fund's emphasis on liquidity, transparency, and cost efficiency further enhances its suitability as a core allocation rather than a tactical satellite. On a forward-looking basis, this combination offers a robust and pragmatic approach to diversification, designed to provide core portfolio diversification as markets navigate a more volatile and less predictable phase of the cycle.

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