Fortem Capital Alternative Growth Fund

Monthly Commentary – 28th February 2022

UK & EU – For professional and institutional investors only
Switzerland – this is an advertising document for professional and institutional clients as defined by the Swiss Financial Services Act only

Total Return	2022	Feb
UK 100	1.4%	0.3%
US 500	-8.1%	-3.0%
Europe 50	-8.5%	-5.9%
Japan 225	-7.8%	-1.7%
Hong Kong 50	-2.9%	-4.6%
US 2000	-8.7%	1.1%
Swiss 30	-6.9%	-1.9%
BCOM	15.5%	6.2%
US Treasury	-3.3%	-1.1%
Euro Property	-6.4%	-2.8%
PGF	**-3.0%**	**-1.8%**
AGF	**-0.2%**	**0.1%**
Real Estate	**-8.2%**	**-2.5%**
US Equity Income	**-8.0%**	**-3.1%**

Equity and bond markets once again sold off simultaneously in February. First, concerns around inflation and the potential need for more rate hikes slowing future growth continued, before the potential and then realised Russian invasion of Ukraine dominated sentiment. Global equities, led by Europe, suffered significant falls, leaving most down fairly heavily for the year. Bonds also struggled as the war fanned inflation fears further and central banks have little room for manoeuvre with regards to rates. Credit markets behaved relatively well, IG spreads widened somewhat, but less than in January.

The big moves came in commodities where backwardation entered its 99th percentile, and at the time of writing there have been various unprecedented moves where timespreads are concerned, perhaps unsurprising given one of the world's foremost energy & grain producers has invaded one of its other large grain producers.

The Fund returned 0.1%.

The rates volatility strategies were positive contributors, providing positive performance in spite of yields' late dive downwards during the month. Interestingly, even as the situation has escalated through early March, yields have returned to their upward trajectory; investors simply cannot count on traditional 60/40 diversification in a scenario which puts more pressure on prices in a previously inflationary environment.

At the end of the month the Fund's long CDS positions were increased. These positions benefit from stress in credit markets as spreads widen. As previously mentioned, credit has been relatively well behaved thus far, with spreads sitting at levels less than 50% of where they reached in March 2020, and lower than they reached at the end of 2018. The CDS positions have posted moderate returns this year. However, if there were to be further escalation, or indeed given the generally inflationary and debt-ladened backdrop with nowhere to go for yields, credit markets are highly unlikely to escape unscathed in any crisis.

The Fund's commodity strategies were detractors. These together form the Fund's highest risk weight. These strategies are some of the oldest, staple, persistent risk premia there are. They are also negatively correlated to risk through time. Investors will be aware that this Fund is not one in which macro calls are being made in order to time in and out of risk premia, but rather tilts to risk are made. The commodity strategies currently represent less than half of their permitted risk tolerance. The entry point as at the end of February was the best of the past 40 years, and has since improved further. As events unfold it is likely they will be added to in light of this.

The Fund's equity volatility strategies were detractors. The US version in particular is long 'the wings' whilst selling closer to the money, meaning that for moves such as those seen thus far it is likely to drift somewhat before benefitting in 'tail events', the magnitude of which has not yet been reached.

It is currently difficult to tell whether unfolding events will increase the speed and magnitude of rate rises and/or tapering in order to try to cool prices, or whether it will have the opposite effect as central banks attempt to continue to support economies. What is clear is that the timing of the invasion has left central banks at a crossroads; they may feel that they must temper planned rises in order to not turn the current correction into a truly stressed market scenario, but clearly this comes at a cost to the end consumer. In the long run, the old adage that 'high prices cure high prices' tends to run true, it is just that the cure tends to be a massive recession (see the commodity strategies being negatively correlated to risk). Either way, maintaining assets in portfolios that are truly uncorrelated to equities and bonds has seldom been more important.

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