Fortem Capital Alternative Growth Fund

Monthly Report – 31th October 2019

For Professional Investors and Institutional Clients only

Investment objective

The Fund aims to provide positive returns of 4% over the medium to long term, whilst maintaining negligible equity market beta. It will invest in a core portfolio comprised of alternative beta strategies sourced from across the asset class spectrum that provide capital growth, independent of equity market cycles and macroeconomics. The Fund will make a smaller allocation to opportunistic investments that also meet strict capital preservation and investment return criteria.

The Fund will

- Invest in structural risk premia – i.e. sources of return that are not dependent on equity markets or macroeconomics.
- Take advantage of opportunistic trades caused by structural distortions in derivative markets.
- Employ stringent counterparty controls, limiting credit exposure to high grade sovereign risk.

Monthly update

The month of October was an extraordinary month for central bank activity with the Fed cutting rates and restarting a bond buying programme to ease the liquidity crisis in the repo market. Combined with constant trade deal tweeting from Trump, market sentiment switched from pessimism to extreme optimism in astonishing time. As such, risk assets rallied hard and all defensives declined.

The fact that all defensive strategies (in alternative and traditional space) declined is highly unusual and indicative of the market pricing in a reflationary environment, which typically happens during periods of central bank hyper activity. A large disconnect has now opened up between declining real economic data and forward expectations of growth (especially earnings) priced into markets. Markets are clearly betting that the Fed and a Trade deal can arrest the economic decline.

The majority of invested strategies behaved as expected but given the defensive bias to the portfolio, the Fund was down 0.53% over the month.

The best performing strategy was commodity congestion adding 22bps to the Fund. This strategy seeks to gain from the buying pressure from passive index roll schedules. However, if curves are backwardated, it rolls its positions after the index money, not before. While congestion returns are less in this scenario, if there is a spike in the commodity during the roll (common if curve is backwardated), the strategy can benefit. This month, NatGas markets spiked on hurricane fears and due to the post roll, the strategy was long the front month futures, capturing the return. Other commodity strategies were flat over the month as commodity curve shapes were reasonably stable. Given that these strategies are purely structural in nature (i.e. no residual correlation to equities), this is not unusual.

Key Facts

Investment Manager	Fortem Capital Limited
Unit NAV	Class A: £1.0142 Class C: £1.0117
AUM	£24,333,259
Launch Date	10th May 2019
Fund Type	Irish Domiciled UCITS V ICAV
Base Currency	GBP
Liquidity	Daily
Dealing Deadline	10:30 am Irish Time
Pricing	Daily COB
Share Type	Class A: Accumulation Class C: Accumulation
Initial Share Price	£1.000
Minimum Subscription Amount	Class A: £5,000,000^ Class C: £5,000,000^
Annual Management Charge	Class A: 60bps Class C: 30bps
OCF	Class A: 80bps Class C: 50bps + 15% Perf Fee*
Reporting Status	Registered with HMRC
ISIN	Class A: IE00BJ116W86 Class C: IE00BJ116X93
Bloomberg	FCAGFAA ID <equity> FCAGFAC ID <equity>
Dealing Line	+353 (0)1434 5124
Dealing Email	davy_ta_queries@ntrs.com
Depository, Admin, Registrar & TA	Northern Trust
Auditor	Deloitte

*15% of NAV growth subject to a high water mark, see Fund Supplement for more details

^Minimum sizing can be waved upon request

Platform Availability

Zurich	Nucleus	Transact	Allfunds	Novia Fin'l	Ascentric	Aviva

Past performance is not necessarily a guide for the future. Forecasts are not reliable indicators of future performance. The value of investments, and the income from them, can go down as well as up and the investor may not get back the amount originally invested. The data is sourced from Fortem Capital Limited and external sources. The data is as at the date of this document and has been reviewed by Fortem Capital Limited.

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Fortem Capital Alternative Growth Fund

Monthly Update - Continued

The volatility of all asset classes declined over the month. As such the Fund's long rates volatility strategy underperformed. This is to be expected. As the rates volatility curve downward slopes, the structural return from this strategy derives from the fact that the strategy can roll up the curve, generating positive carry (which is unique for a long vol trade). However, given the mean reverting nature of volatility, this structural return can be offset or compounded by volatility materially decreasing or increasing across the curve, dominating the PnL.

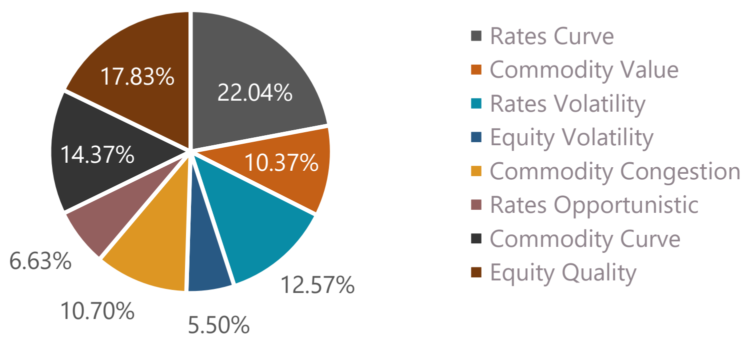
The Fund's Equity quality, a defensive long short strategy that replicates a short position in high yield credit without the negative carry, underperformed in the month as credit spreads tightened. Similar to rates volatility, mark to market moves in credit spreads can hide the structural return. For a detailed analysis on the structural return of this strategy, see this months **Factor Focus**). However, even with extreme central bank support, it was interesting to note that the high yield credit markets have lagged equities in this rally. A funding squeeze in the riskier parts (Leveraged loans, CCC credit, VC funding, Shale credit) seems to be in play reflecting the huge structural issues in US credit that this strategy seeks to profit from.

Rates curve strategies underperformed in the month, giving back some of their recent returns. These strategies profit from the slope of bond curves but require a stable curve environment (either flattening or steepening). Bond curves reversed direction and steepened in October (a classic reflationary signal). This reflation helped the Fund's tactical hedge – the 5/30s steepener trade, in the portfolio specifically to hedge Fed induced market mania, but speed of the curve steepening hurt the curve strategies as they have been positioned for flattening.

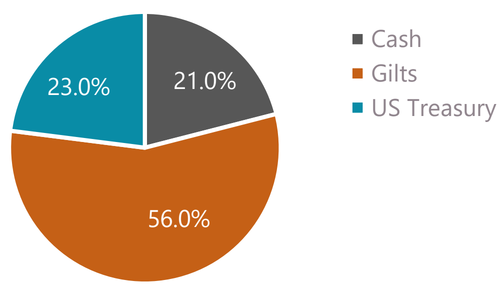
The violent correction in bond yields also led to a small loss on our government bond collateral portfolio of 12bps. Even though duration on this portfolio is kept under 1 year, given the size of the yield correction, some loss was expected.

Portfolio Breakdown

Alternative Beta Allocation – Risk weights



Credit Exposure



Summary of strategy risk and attribution

Strategy	Weighting (Risk Based)	Contribution to Return
Equity Quality	17.83%	-0.18%
Rates Curve Strategy2	14.69%	-0.21%
Long Rates Volatility	12.57%	-0.17%
Commodity Congestion	10.70%	0.22%
Commodity Curve Strategy1	7.56%	0.01%
Rates Curve Strategy1	7.36%	-0.22%
Commodity Seasonal Strategy1	7.19%	0.01%
Commodity Curve Strategy2	6.81%	0.00%
Rates 5/30s US steepener	6.63%	0.07%
Equity Short Call Strategy	5.50%	0.02%
Commodity Seasonal Strategy1	3.18%	-0.01%

NAV Return Oct **-0.64%**

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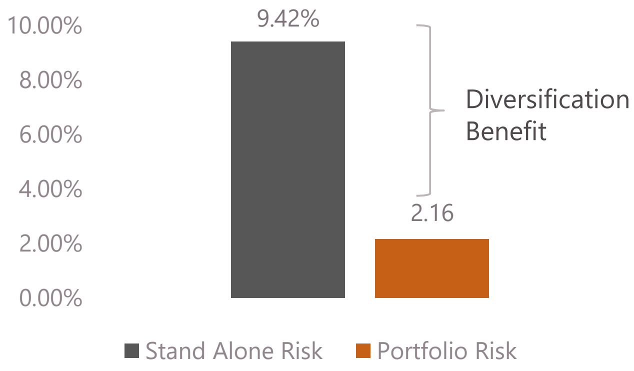
Portfolio Risk



Portfolio Risk	2.16%
Gross Portfolio Exposure	125%
Portfolio Daily VaR (99%)	0.37%

- **Portfolio Risk** is the expected standard deviation of the portfolio NAV, expressed on an annualised basis. It is calculated using a 10 year correlation matrix
- **Portfolio Stand Alone risk** is the expected standard deviation of the portfolio if there were no diversification benefits between strategies. This occurs if all correlations are at 1.
- **Daily VaR (99%)** is an alternative measure of risk that looks at maximum expected loss. At 99% confidence, one can expect that there will be at least 1 day in a 100 where the daily loss on the Fund can be expected to be greater than the calculated VaR
- **Gross portfolio exposure** measures that total notional value of all the swap positions as a percentage of the portfolio NAV

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