Fortem Capital Alternative Growth Fund

For Professional Investors Only

FORTEM CAPITAL

Overview of the Fund

The Fund aims to achieve an absolute positive return over the medium to long term, with negligible equity market beta, in all market environments.

- The Fund targets 4-5% per annum net of fees, but will likely do slightly less (c. 2-3%) when risk assets, such as equities, do particularly well, and slightly more when they do not (c. 6-8%).
- The Fund is designed to be both statistically and fundamentally unrelated to the rest of the portfolio.
- The Fund is fully collateralised with high grade sovereign debt and is highly liquid.

The Perceived Problem With Alternatives

- Unfortunately, traditional alternatives such as Infrastructure, REITs and Private Equity have tended to become more correlated to equities during times of market stress, when they are specifically there to provide diversification at times when it is most needed.
- More modern alternatives have been adopted as a result, but have similarly failed to perform in line with what is required from an alternative; to be unrelated to the rest of the portfolio, and to provide genuine diversification.

What is the solution?

A Fund that invests in strategies that exhibit negligible correlation with equity markets, bond markets, and each other.

How will it do that?

- The Fund screens any strategy that is statistically correlated to equities.
- The Fund will only invest in strategies that are either negligibly or negatively correlated to equities.
- They are 'Structural Alternative Beta' strategies that are highly effective diversifiers.

Negative Equity Correlation		Neutral Equity Correlation			Positive Equity Correlation	
Momentum	Quality	Curve	Congestion	Value	Carry	Short Volatility

And what makes them Structural?

- A structural return is one that arises from a specific market anomaly that is independent of cyclical and macroeconomic factors. Examples of structural anomalies include congestion effects from passive money flows, curve distortions from regulatory or fiscal legislation, or price distortions from non-price sensitive market participants.
- Structural risks are independent of each other as well as completely unrelated to the factors driving price movement in the rest of a multi-asset portfolio. Their lack of correlation is fundamental, not just statistical.

When will it work?

- The Fund will work particularly well in an environment that is troublesome for risk assets; we would expect a return of between 6-8% net of fees in such an environment.
- It should produce its target return of 4-5% net of fees in a more 'normal' or rangebound market environment.

Contact

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When will it not work?

- The Fund will do less well in an environment of general, directionless reflation – a liquidity-led raging bull market.
- However, it is only likely to not work, rather than to produce significant negative returns as some other funds in the sector have done previously – this is just the nature of the process, universe of strategies, and the volatility profile of the Fund.
- Importantly, the environment in which the Fund is likely to do little is the same environment in which the wider portfolio is likely to do very well.
- The Fund is used to diversify exposure to those risk assets in portfolios; this is a natural by-product of that.

Summary

- The Fund is designed to produce positive returns in all market environments over the medium to long term with negligible equity market beta and low volatility.
- It will perform best in a risk-off environment, when it is truly needed, and should grind out positive returns in a risk-on one.
- It is lower cost than would be typically associated with a fund of this nature – OCF capped at 0.8% (AMC 0.6%).

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