Q3 2025 Investment Letter

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Market Commentary

Equities	Q3	YTD
MSCI World (USD)	6.5%	15.7%
MSCI EM (USD)	9.6%	24.6%
S&P 500	7.4%	13.3%
STOXX Europe 600 (USD)	3.1%	24.9%

Fixed Income	Q3	YTD
FTSE Global Bonds	0.0%	7.3%
Investment Grade	3.0%	7.6%
High Yield	2.3%	7.3%
Bloomberg Global Agg Bond	0.5%	7.8%

Currencies	Q3	YTD
USD (DXY)	1.1%	-9.8%
EUR (vs USD)	-0.3%	13.3%
JPY (vs USD)	-2.9%	5.9%
GBP (vs USD)	-2.1%	7.3%

Commodities	Q3	YTD
Gold	16.2%	46.0%
Oil (WTI)	-2.5%	-11.5%
Natural Gas	-5.5%	-10.1%
Bloomberg Commodity	2.9%	6.3%

Source: Bloomberg as of 30 Sep 2025

Q3 was a strong quarter for risk assets with global equities and bonds advancing, driven by resilience in economic growth (decent rather than good), anticipation over future interest rate cuts by the US Fed and continued positive views over the growth in AI. Concerns and news over tariffs, which had so dominated earlier in the year, were set aside, with the assumption being that Trump would settle for a decent deal rather than push for an extreme scenario. Notably, M&A volumes increased significantly, culminating with the largest leveraged buyout in history with the take-private transaction of Electronic Arts.

Equity markets performed well with the MSCI World rising 6.5%, led by the US (S&P 500 up 7.4%), Europe slightly behind whilst emerging markets outperformed (MSCI EM up 9.6%). The strong technical in the credit markets showed no sign of abating despite increased issuance and falling interest rates; credit spreads on both high yield and investment grade narrowed, nearing the tightest levels on record. Currency movements were more muted than earlier in the year, though gold was a standout performer, delivering gains of over 16% and 46% for the Q3 and YTD respectively. Inflation remained stubbornly above the 2.0% target with August's core Personal Consumption Expenditures (PCE) figure coming in at 2.9%, the same level as July.

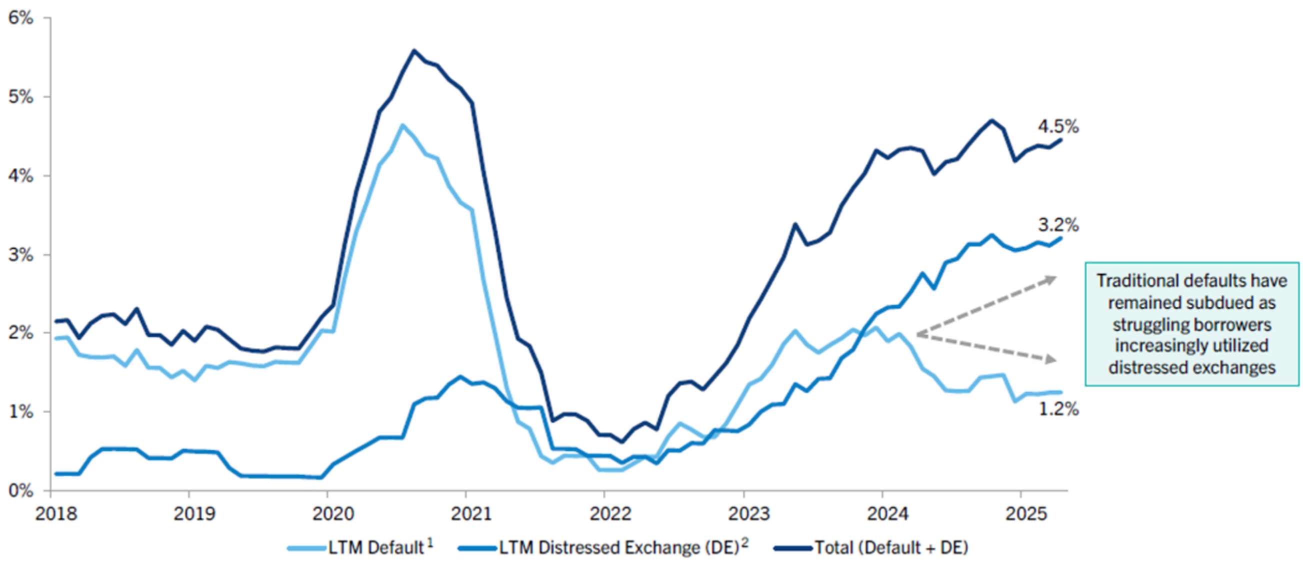
AI infrastructure investment continued to be a key narrative in markets and for the economy; JP Morgan estimates that tech-related business investment contributed 0.5% to US GDP growth in H1 2025, roughly a third of the total. Corporate earnings across the board were strong with 83% of S&P 500 companies beating expectations, but the Magnificent 7 continued to lead the way with earnings growth of 25% YoY. Oracle was a standout performer, its stock price rising 28.6%, adding $188bn to market capitalisation following news of its contract with OpenAI, one of many deals announced by OpenAI and the scale of data centre investments.

The huge gains made by AI-related names is in contrast with weaker parts of the economy. Higher income consumers have continued to do well, buoyed by continuing rising asset prices. For the lower income groups, there are some growing signs of difficulty. Consumer confidence has fallen; the University of Michigan Consumer Sentiment Index was 53.6 in October 2025 compared with 70.5 a year ago whilst sub-prime auto loan delinquencies have risen. While still low by historic levels, the unemployment rate has increased to 4.3%, the highest level for 4 years. This weakness has yet to show itself in headline economic data, driven as it is by higher income consumers (the top 10% account for 50% of consumer spending), but stresses are growing and individual companies could suffer.

Credit markets saw two high-profile defaults in Q3 2025; First Brands and Tricolor. In some ways, these were somewhat idiosyncratic in nature – Tricolor is a sub-prime auto lender focused on the Hispanic community in Texas and First Brands is an auto-parts supplier. There are allegations of fraud around both. Losses for Tricolor seem centred on banks (JP Morgan, Barclays amongst others) who provided warehouse financing for the company to build up portfolios of loans before securitising them. First Brands' creditors included holders of a broadly syndicated loan, mainly CLOs, as well as funds which provided factoring for invoice receivables (some with greater concentration and exposure than may be considered prudent).

Whilst defaults always have idiosyncratic characteristics, these can also be seen as a continuation of a trend of defaults within credit and, in particular, the loan market. Headline defaults are relatively low, but including Liability Management Exercises (LMEs), which are effectively a debt restructuring, defaults have been at a higher level.

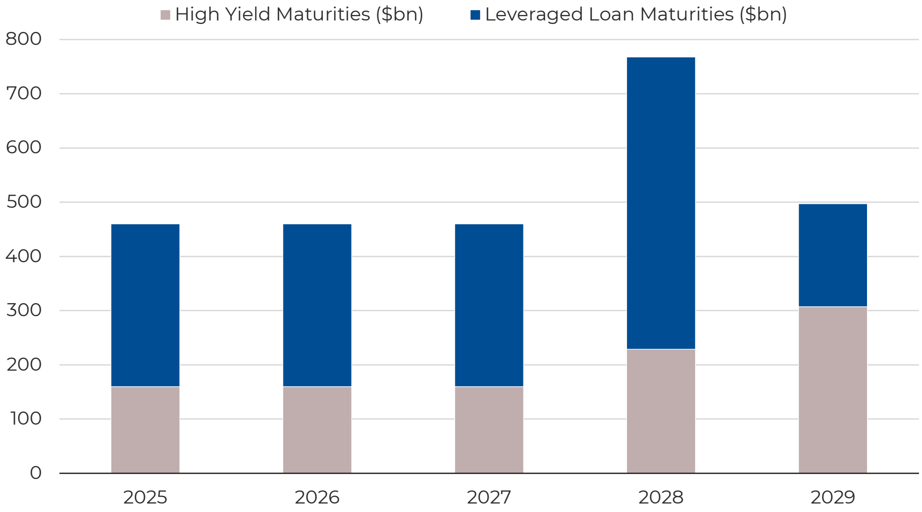
BSL Default and Distressed Exchange Rate[1]



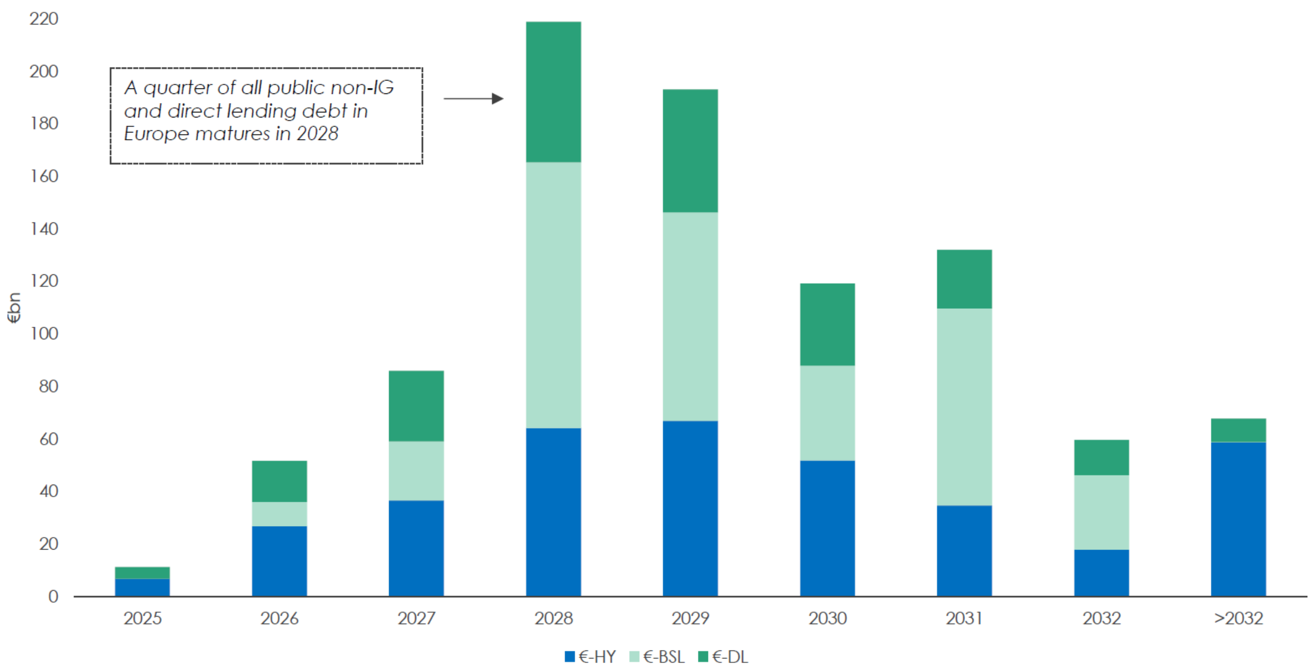
We would expect this more elevated level to continue – a high number of loans written in 2020/21 are coming up for refinance in 2027/8. Loans written in 2020/21 were at a time of both zero-interest rates and abundant demand for credit. Credit always has a maturity wall, but it would seem logical to us that the debt from that vintage will continue to drive at least a moderately elevated level of defaults that we have seen, even without any major economic event. It is evident that the maturity wall in Europe is particularly steep.

[1] *LTM Default Rate is the total number of defaults divided by the total issuers on a trailing 12-month basis. LTM Distressed Exchanged Rate is the number of Distressed Exchanges divided by the total issuers on a trailing 12-month basis. A distressed exchange occurs when a company offers creditors new and restructured debt, or equity, with terms less favourable than the original securities, often to avoid bankruptcy. Source: PitchBook LCD, Golub Capital as of 30 Jun 2025.*

US maturity wall[1]



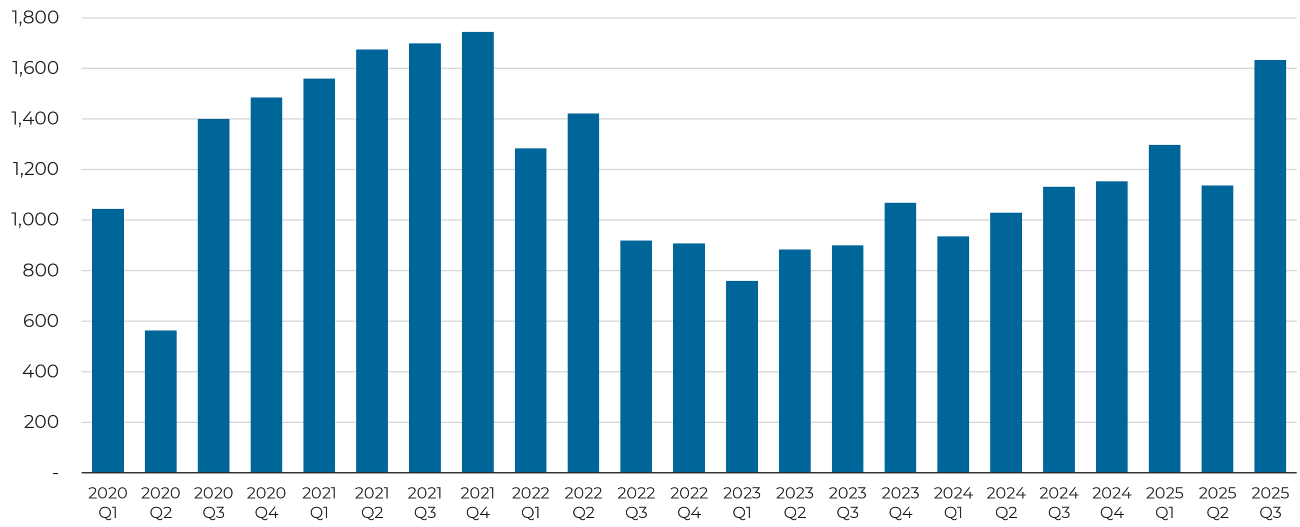
Europe maturity wall[2]



M&A activity came back strongly in Q3, with the highest level of activity since 2021. Global deal volume reached $1.6tn, driven by large transactions, of which Electronic Arts was one, as the number of deals remained flat against 2024. IPO activity also saw the strongest quarter since 2021 with $262bn in deal volume. The deregulation under President Trump seems to have started trickling through, as some of the macro headwinds, in particular tariffs, have lifted.

[1] *Source: Bloomberg.*
[2] *Source: Bloomberg, PitchBook, KBRA.*

Deal volume ($bn)[1]



Q3 was in some ways what the Trump presidency was meant to bring in – buoyant markets supported by deal activity, driven by the movement towards deregulation. The narrative around US exceptionalism, which was challenged earlier in the year, came back into focus, and headwinds of tariffs abated as a number of trade agreements were reached between the US and its trade partners.

There are also some signs of Europe performing better; the German parliament has passed the 2025 budget with fiscal expansion and there seems to be a willingness to allow increasing levels of cross-border mergers rather than in the protection of individual country companies. This is balanced against the precarious fiscal position at the national level. France is experiencing a profound political crisis, with an apparent inability to pass a budget, which has the potential to lead to a fiscal crisis.

Strategy Allocations

Our portfolios have continued to perform well in Q3, bringing gains for the year to 5-7%, with some portfolios higher. These gains have been achieved with minimal, if any, correlation to broader market movements. We continue to operate with a similar mindset and see sufficient opportunities to generate strong returns without beta.

Discretionary and Systematic Global Macro

Uncorrelated strategies performed positively, although more muted than the previous quarter. Gains were led by discretionary macro strategies, and this was partially offset by losses from quantitative strategies.

Discretionary macro managers saw gains in July and September, offset by August losses. Interest rate themes remained unchanged, with managers positioned for US and Europe yield curve steepening and Japan flattening. Managers increased their net long bias to European and UK rates, anticipating sluggish growth. In currencies, most managers maintained a short USD bias, with nuanced positioning favouring high-yield emerging market currencies. Equity and commodity trading, particularly in AI , hyperscalers, defence, gold and copper, was profitable. An Asia-focused manager's short HKD position detracted from performance.

[1] *Source: Bloomberg.*

Quantitative strategies faced challenges, particularly in equity statistical arbitrage, with losses in US market neutral trading due to rallies in low-quality stocks, reminiscent of January 2021 meme stock events. Losses from fundamental and mean reversion strategies were partly offset by gains from systematic futures.

Relative value strategies were positive, led by bond basis trading, with smaller gains in equity derivatives.

Long volatility hedges were negative due to a declining implied volatility and theta decay in long options.

We believe the opportunity set for uncorrelated strategies remains strong, as has been the case since the US election results in 2024. There has been higher dispersion in currencies and interest rates with reasonable volatility presenting opportunities. The quarter saw further evidence of monetary policy divergence across and within regions globally. We think it is unlikely that markets revert to the structurally low volatility paradigm that prevailed pre-Covid. Questions around the path of inflation, fiscal deficits, and the impact of AI developments and de-globalisation, will likely create trading opportunities.

We live in a polarised world with increasing geopolitical risks, but measures of market stress ended the quarter close to all-time lows. Managing left tail risks will be critical in a more unstable economic and political environment and uncorrelated trading strategies can be a valuable as part of any asset allocation.

Equity Long/Short

Global equity markets delivered another quarter of strong performance, with various equity indices reaching new all-time highs. Both the MSCI World and the HFRI Equity Hedge advanced by 7%.

While market strength was broad based, the quarter was characterised by continued strength in areas related to AI, including power, semiconductors, and hyperscalers. The end of Q3 and the beginning of Q4 were marked by the completion of several intricate agreements between OpenAI and key infrastructure providers such as Nvidia, Broadcom and AMD. These deals, potentially worth over $100bn, have sparked debate among market participants over whether they resemble the strategic partnerships of the 1990s tech boom (like those of Cisco and WorldCom before the internet bubble burst), or if they are entirely different and justified by the current opportunity set.

Another defining characteristic of the third quarter was the occurrence of short squeezes and junk rallies, which saw low-quality and highly-shorted stocks move higher. These developments have had limited impact on our fundamental equity long/short managers, although generally shorts detracted from manager performance.

Stenham's allocation to equity managers contributed positively over the period. However, our preference for uncorrelated funds within our multi-strategy portfolios meant we did not fully participate in the Q3 rally. Positive contributions came from a global multi-manager platform fund, as well as a healthcare fund that benefited from a sharp rally in biotechnology. Our longstanding allocations to two utilities/infrastructure-focused funds were additive, but we have decided to exit one of these managers given what appears to be a more competitive environment for alpha in their space. We recently secured capacity in a high-quality multi-strategy fund with a significant tilt towards equities and will be deploying capital into the fund across several portfolios towards year end.

Event Driven

The event driven strategy continued to be a strong performer. Performance was again centred on deals written pre-2025 which are now completing. What has been encouraging has been the increase in large deals – these are often more complex, with larger capital structures and can allow more dynamic positioning.

Importantly, the level of investment by our funds has remained high despite several large positions closing during the year.

Credit

Our credit allocation had a strong quarter. The convertible bond manager, in particular, performed well with a high level of issuance allowing strong capital markets trading. Additionally, the volatility of stocks in technology specifically enabled strong gamma trading. These bonds are now trading with a higher equity delta – our manager is typically fully hedged at the single stock level which means that these are increasingly "synthetic put" trades and long volatility against high multiple equities.

The other credit managers continued to perform well. Gains were driven by long positions given the continued narrowing of spreads, though one manager had a short position in First Brands which benefited after the company filed for bankruptcy. It is not easy to short a loan and the fund established a bespoke position with a bank, which we thought was impressive. Under the surface of tight spreads, there is relatively high dispersion. Debt which is expected to refinance with few issues is trading very tight, whilst anything with some risk is trading very wide. This enables interesting trades both long and short in determining which of these companies will be able to refinance successfully. Overall, net exposure has continued to trend lower as spreads have tightened though the funds remain fully invested.

Summary

We are encouraged by both the performance of our portfolios and our growing access to high-quality funds, which are often capacity constrained. The outlook remains strong with a target to generate high single-digit returns with minimal beta to markets.

Thank you for your ongoing confidence. Please get in touch if you would like to hear more about our strategies or funds. Further information can also be found on our website.

The Executive Advisory Committee

Kevin Arenson

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