

Fulcrum Diversified Investments Fund

OBJECTIVE

The Fund aims to achieve long-term absolute returns in all market conditions over a rolling five-year period, with lower volatility than equity markets and in excess of inflation.

APIR	HFL0104AU	MANAGER APPOINTED	2 November 2020
ARSN	093 497 468	FUND SIZE	\$144.5m
INCEPTION DATE	31 March 2001	EXIT PRICE	\$1.6899

Net performance (%) and statistics

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a. ²
Fund¹	0.19	3.40	16.69	-1.10	1.26	2.47	4.50

¹Shaded Fund performance prior to 2 November 2020 is not attributable to Fulcrum Asset Management, but the previous investment manager. Performance of the Fulcrum Composite is below for reference.

Fulcrum Composite³	0.19	3.40	7.39	4.93	4.11	3.75	5.58
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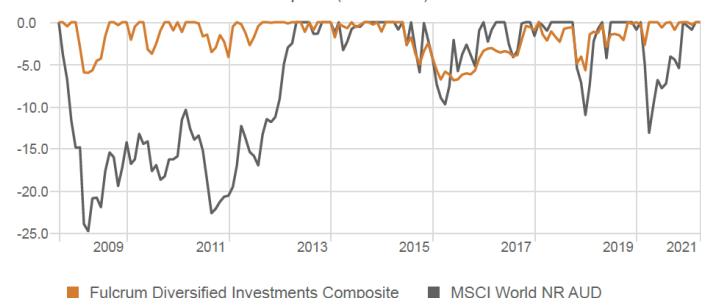
Fulcrum Composite 1 month rolling returns ³													
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2021	-0.29	3.50	0.19										3.40
2020	-0.27	-2.45	6.34	0.53	0.87	-0.63	0.56	0.57	-0.91	0.88	0.64	1.30	7.45
2019	4.53	0.32	-0.16	0.99	-2.61	1.50	0.05	-0.15	-0.59	2.69	-0.20	1.40	7.88
2018	2.86	-1.46	-0.74	1.12	-0.66	-0.59	1.58	0.12	0.08	-4.34	0.88	-1.72	-3.02
2017	0.28	0.06	-0.33	-0.21	0.17	-0.14	-0.47	0.15	1.82	1.74	-0.15	-0.36	2.54
2016	-1.56	-1.15	1.01	-0.36	-0.75	0.13	0.59	0.17	-0.12	0.49	1.52	0.93	0.85
2015	2.88	2.55	0.72	0.04	1.16	-2.65	0.88	-1.98	-1.29	1.63	0.99	-1.78	3.01
2014	-1.80	1.63	-0.28	-0.25	2.01	-0.61	0.30	0.99	1.32	-0.30	2.14	-1.12	4.02

Risk analysis since inception^{3,4}

Sharpe ratio	0.51
Standard deviation	5.60
Beta to MSCI World	0.19
Max drawdown	-6.89
% of winning months	60.93
Average win	1.43
% of losing months	39.07
Average loss	-1.05

Drawdown since inception^{3,4}

Time Period: Since Common Inception (1/09/2008) to 31/03/2021

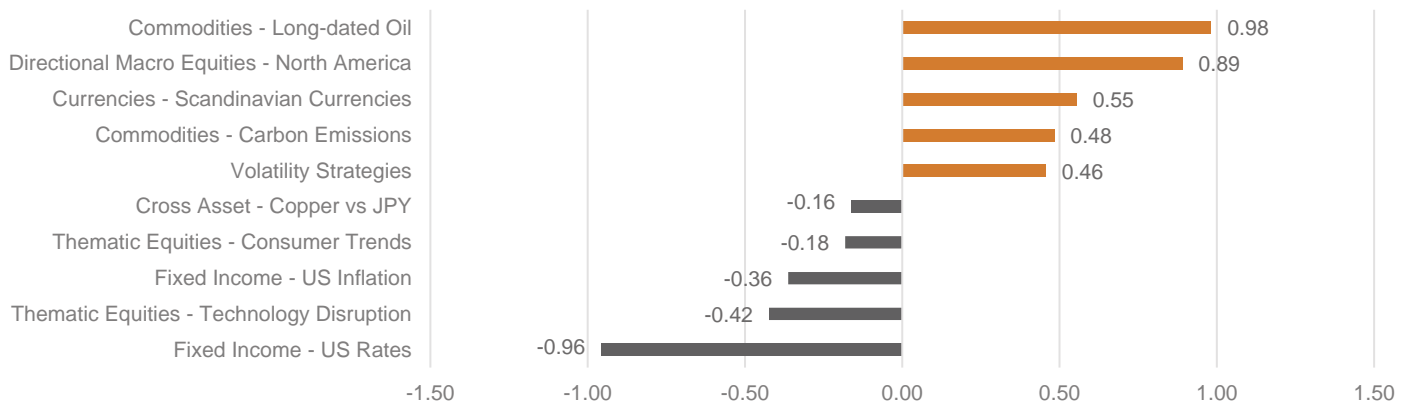
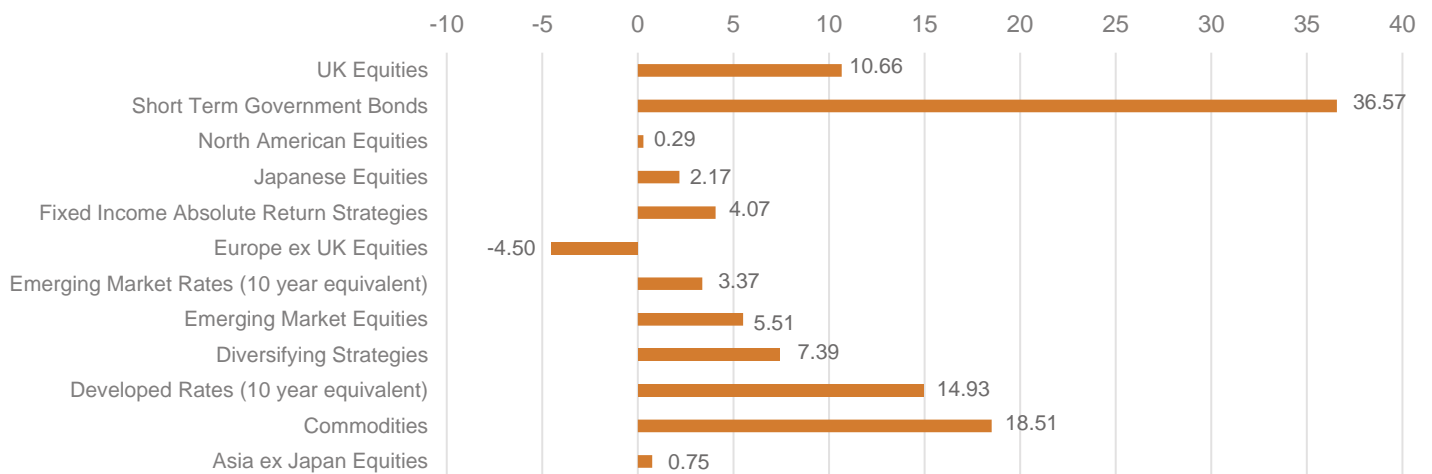


Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distributions.

²This figure represents the annualised performance of the Fund from the first full month of operation.

³The Fulcrum Composite was inceptioned 16 September 2008. From 16 September 2008 to 31 March 2012 the Fulcrum Composite represents the Fulcrum Diversified Absolute Return strategy net of fees as implemented in the longest running separate account, adjusted for the interest rate differential between AUD\$ cash and GBP cash. From 1 April 2012 to 13 December 2012 the performance represents the TM Fulcrum Diversified Absolute Return Fund Class C GBP adjusted for the interest rate differential between AUD\$ cash and GBP cash. From 14 December 2012 to 31 March 2015 the performance represents the TM Fulcrum Diversified Absolute Return Fund Class C AUD. Periods from 1 April 2015 to 30 October 2020 the performance represents the Fulcrum Diversified Absolute Return Fund (Australian unit trust). Performance from 2 November 2020 to date reflects the actual net returns of the Fulcrum Diversified Investments Fund. Source: Fulcrum Asset Management, JP Morgan and Morningstar Direct.

⁴Source: Morningstar Direct.

3 month top and bottom contributors and detractors (%)¹

Asset allocation (%)¹


¹ Data reflects the underlying fund in USD terms.

Market review

On the surface, it appeared to be a fine first quarter for risk assets reflecting expectations of a strong economic recovery with the accelerating broad vaccine roll-out and supportive monetary and fiscal policy. Global equity markets finished at close to their all-time highs while credit spreads ended the quarter lower than where they started. Meanwhile, government bond yields increased sharply in the latter half of the quarter, triggering the outperformance of value stocks relative to growth stocks. Elsewhere, oil and other commodities had a strong quarter even as the dollar continued to appreciate.

However, these headlines belie the volatility within and across mainstream asset classes during the quarter as the market began the transition to a post COVID 19 economic backdrop. Both global equities and bonds finished the first month of the year in negative territory as volatility jumped violently, triggered by a wave of de-risking from equity-market neutral strategies, with many caught in crowded short positions. However, despite the violent short squeeze that took hold in markets in the latter part of the month, the diversified nature of our market-neutral equity thematic strategies meant that losses in January were well-contained.

Just when it seemed that markets were normalising in February, risk assets sold off towards the end of the month as long-dated global government bond yields in major markets climbed to their highest level in over a year. This dramatic move was driven by higher real yields (nominal yields minus inflation expectations), reflecting expectations of a robust global economic recovery, further stimulus from the US administration and the willingness of the Federal Reserve to tolerate core inflation running above its 2 per cent target. As real yields rose, long-duration risk assets and traditional zero-yielding haven assets, such as gold, became less attractive, and hence their value fell. These yield moves also caused the dollar to appreciate against its major trading partners.

March saw a continuation of February where global bond yields continued to price in rising economic optimism. However, unlike February, risk assets behaved positively in response to the continued rise in yields interpreting good economic news as being good for markets. to reflect a possible new equilibrium for the market.

Market review (continued)



*US 10-year real yields increased sharply in the second half of the quarter.
Sources: Bloomberg LLP, Fulcrum Asset Management LLP*

Entering the quarter, the investment manager positioned the Fund to have slightly higher than average cyclical exposures, including a growing focus on emerging market equities, Asian currencies, and industrial commodities. The investment manager maintained an opportunistic and nimble stance on government bond yields, with no strategic holding given the low level of expected returns, though the investment manager found profitable opportunities on a country by country basis, such as the UK where the Fund positioned for higher government bond yields. As the quarter progressed, the investment manager reduced the overall sensitivity to equities and bonds, increasing portfolio level risk in relative value strategies (which are designed to be unrelated to the broad direction of traditional markets) to take advantage of a wide range of opportunities across macro assets in our investment universe.

In contrast to the first quarter of 2020, where the market reacted to a severe negative growth shock with equities experiencing a severe drawdown, the first quarter of 2021 was about government bonds repricing to reflect a more optimistic growth and reflationary outlook. Managing these transitions at key inflection points requires the acknowledgement that assets once perceived to be “safe”, such as government bonds, also need to reprice and that investors need the latitude to implement investment opportunities across different asset classes, strategies, and time horizons.

Performance review

The Fulcrum Diversified Investments Fund returned 3.40% (net) for the quarter.

In terms of performance drivers, directional made 1.2%, relative value strategies contributed 2.5% while diversifying strategies added another 0.2% and hedging detracted 0.2%. Within relative value, our commodity and currency strategies contributed the most to performance, with volatility and cross asset strategies also adding to returns. While a strong performer during previous quarters, equity thematic strategies were the main detractor in the first quarter, driven mainly by the investment manager’s technology disruption theme. Elsewhere in fixed income, gains in UK, European and select emerging market exposures were insufficient to offset losses in the Fund’s US rates positions, which the investment manager reduced as the quarter progressed.

The performance of the Fund over the first quarter of 2020 and 2021 highlights the complementarity return stream that the Fund can provide in significant periods of market turbulence. The Fund posted positive returns during both the first quarter of 2020 and the first quarter of 2021, when financial markets experienced one of the largest equity sell-offs and one of the largest bond sell-offs respectively.

Market outlook

The investment manager expects the global recovery to continue, with some countries (notably US, UK, and Israel) returning to some form of economic and social normalcy before others (notably Europe, Brazil, and India). While the investment manager remains optimistic around economic growth in 2021 and believe that financial markets have priced in a lot of optimism already. With the market transitioning to a new equilibrium, the investment manager expects continued heightened market volatility and a higher yield environment to create more policy and interest rate divergence across countries.

Market outlook (continued)

These have implications for asset prices and consequently the investment manager has reduced the overall sensitivity to equities and bonds, increasing portfolio level risk in relative value strategies (which are unrelated to the broad direction of traditional markets) to take advantage of a wide range of opportunities across macro assets in the Fund's investment universe. Managing these transitions at key inflection points requires the acknowledgement that assets once perceived to be "safe", such as government bonds, can continue to reprice and investors need the latitude to implement investment opportunities across different asset classes, strategies, and time horizons.

Material matters

During the month, there have been no material changes to the Fund in terms of the service providers, risk profile, investment strategy or individuals in the investment team who play a key role in the investment decisions of the Fund.

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