

# 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.

<b>APIR</b>	HFL0104AU	<b>MANAGER APPOINTED</b>	2 November 2020
<b>ARSN</b>	093 497 468	<b>FUND SIZE</b>	\$194.9m
<b>INCEPTION DATE</b>	31 March 2001	<b>EXIT PRICE</b>	\$1.7033

## Net performance (%) and statistics

	1 month	3 months	1 year	2 years p.a. <sup>2</sup>	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
<b>Fund<sup>1</sup></b>	<b>-1.82</b>	<b>-2.73</b>	<b>-3.84</b>	<b>0.43</b>	<b>5.58</b>	<b>-0.50</b>	<b>1.02</b>	<b>3.16</b>	<b>4.12</b>
<b>Fulcrum Composite<sup>4</sup></b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>2.69</b>	<b>3.10</b>	<b>3.04</b>	<b>3.72</b>	<b>4.86</b>

<sup>1</sup>Fund performance prior to 2 November 2020 is not attributable to the current investment manager, but the previous investment manager. The Fulcrum composite is presented below to provide a longer-term view of the Fund's current investment strategy.

Fulcrum Composite 1 month rolling returns <sup>3</sup>													
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2023</b>	-0.38	-0.55	-1.82										<b>-2.73</b>
<b>2022</b>	-1.94	3.63	2.15	1.26	-0.40	-2.10	0.80	2.18	0.10	-1.06	-1.39	-0.47	<b>2.61</b>
<b>2021</b>	-0.29	3.50	0.19	3.55	-1.82	1.00	-1.82	-0.95	-0.73	1.25	-0.22	0.91	<b>4.48</b>
<b>2020</b>	-0.27	-2.45	6.34	0.53	0.87	-0.63	0.56	0.57	-0.91	0.88	0.64	1.30	<b>7.45</b>
<b>2019</b>	4.53	0.32	-0.16	0.99	-2.61	1.50	0.05	-0.15	-0.59	2.69	-0.20	1.40	<b>7.88</b>
<b>2018</b>	2.86	-1.46	-0.74	1.12	-0.66	-0.59	1.58	0.12	0.08	-4.34	0.88	-1.72	<b>-3.02</b>
<b>2017</b>	0.28	0.06	-0.33	-0.21	0.17	-0.14	-0.47	0.15	1.82	1.74	-0.15	-0.36	<b>2.54</b>

### Fulcrum Composite risk analysis since inception<sup>3,4</sup>

Sharpe ratio	0.43
Standard deviation	5.63
Beta to MSCI World	0.15
Max drawdown	-6.89
% of winning months	58.29
Average win	1.46
% of losing months	41.71
Average loss	-1.07

### Drawdown since inception<sup>3,4</sup>



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.

<sup>2</sup>A 2-year p.a. performance period has been included to represent the returns of the current investment manager following its appointment in 2020.

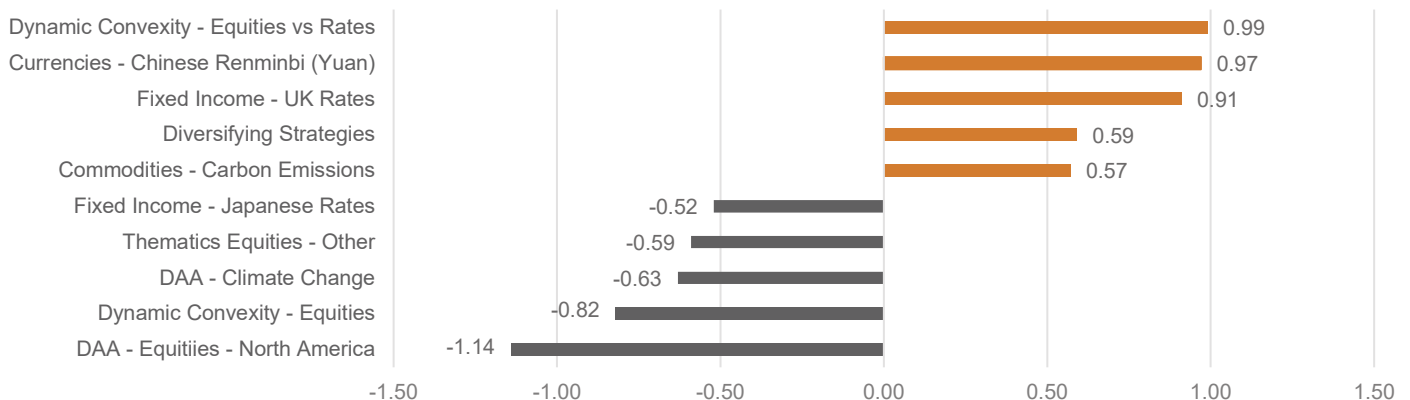
<sup>3</sup>The inception date of the Fulcrum Composite is 16 September 2008. For the Fulcrum Composite, performance periods from 16 September 2008 to 31 March 2012 represent the Fulcrum Diversified Absolute Return strategy net of fees as implemented in the longest running separate account, adjusted for the interest rate differential between AUD cash and GBP cash. Performance periods from 1 April 2012 to 13 December 2012 represent the TM Fulcrum Diversified Absolute Return Fund Class C GBP adjusted for the interest rate differential between AUD cash and GBP cash. Performance periods from 14 December 2012 to 31 March 2015 represent the TM Fulcrum Diversified Absolute Return Fund Class C AUD. Performance periods from 1 April 2015 to 30 October 2020 represent the Fulcrum Diversified Absolute Return Fund (Australian unit trust). Performance periods from 2 November 2020 to month-to-date represents the actual net returns of the Fulcrum Diversified Investments Fund. Source: Fulcrum Asset Management, JP Morgan, State Street Australia Limited and Morningstar Direct.

<sup>4</sup>Source: Morningstar Direct.

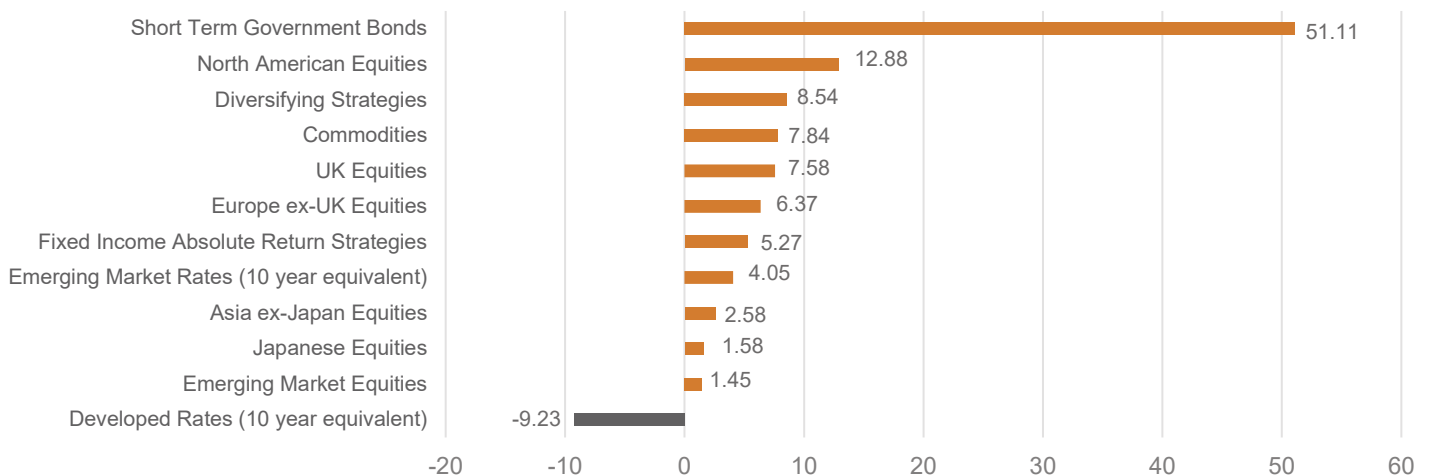
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### 3 month top and bottom contributors and detractors (%)<sup>1</sup>



### Asset allocation (%)<sup>1</sup>



<sup>1</sup> Data reflects the Fulcrum Diversified Absolute Return Fund, the Fund's underlying fund in USD terms.

### Market review

The first quarter of 2023 saw a rally across asset markets, with global equities and global bonds up, meanwhile, global commodities saw a decline. The distribution of gains and losses across asset classes was, however, highly variable throughout the quarter.

In January, asset classes saw strong gains amid Chinese re-opening, increased global growth optimism and declining inflation expectations. However, this went into reverse in February as strong US labour market data and upward revisions to inflation caused interest rate expectations to rise and financial conditions to tighten, further confirmed by Chair Powell's testimony to congress where he opened up the possibility of returning to 0.50% hiking increments. Subsequently, markets experienced a dramatic shift with the sudden failure of Silicon Valley Bank causing fears around US financial stability to mount rapidly. The Federal Reserve and Federal Deposit Insurance Corporation responded swiftly, guaranteeing all uninsured deposits at Silicon Valley Bank and Signature Bank, and announcing new liquidity facilities to prevent further bank runs.

The Federal Reserve raised interest rates by 0.25% in March, with Chair Powell highlighting that the banking sector turmoil could meaningfully tighten lending conditions to the real economy, but also the high uncertainty around this. Overall, these events led markets to price in a sharp decline in short-end US bond yield expectations, with US 2-year yields experiencing their largest three-day decline since the aftermath of "black monday" in 1987. This move was led by perceptions of potential financial stability concerns leading to economic weakness and exacerbated by positioning. Moreover, the increase in global risk aversion and lower real yields led to a significant rise in precious metals over the quarter. Other asset classes such as equities or commodities (and indeed inflation breakeven) did not move much at all relative to the significant shock experienced by short-end yields, leaving an isolated yield shock and little in the way of contagion to other asset classes.

## Performance review

The Fulcrum Diversified Investment Fund returned -2.73% (net) for the quarter.

The investment manager's Macro Allocation and Risk System (MARS) was introduced to the Dynamic Asset Allocation (DAA) strategy. MARS is a proprietary quantitative modelling system that jointly forecasts macroeconomic variables and asset returns and holds long positions in global equities, sovereign fixed income, and commodities. The positive performance of DAA over the quarter came from its positioning in equity and fixed income, whilst commodities detracted.

Volatility posted losses coming from short VRP positions in VIX and bonds in March. Commodities saw mixed performance with losses coming from our long precious metals position which only saw a positive performance pick up in March on the back of an increasing risk-off sentiment, while the position posted mixed returns in the first two months of the year. This was offset by the investment manager's long Carbon Emissions exposure in the UK and Europe, which posted gains on the back of stable economic activity in the regions.

Equity Thematic detracted from returns, driven by losses in the Long Health Insurers theme amid regulatory uncertainties, while the Short Real Estate and Long US Housing positions recorded gains. The Dynamic Convexity strategy detracted from returns as equities remained relatively strong over the period, despite high levels of volatility and an uncertain macro backdrop. In addition, currency volatility remained very low and inflation risk was largely priced out of the market.

Elsewhere, Cross Asset and Equity Macro were flat over the quarter, whilst Diversifying Strategies detracted amid the sharp reversal in market trends.

## Market outlook

With the large shifts in the market and economic backdrop during the quarter, the combination of robust risk control, quantitative research, and discretionary management, means the investment manager stands ready to identify these shifts and adjust their positioning in the portfolio accordingly. Overall, the investment manager has shifted to a more defensive stance whilst continuing to focus on investment opportunities that are less directional in nature.

## Material matters

A new PDS for the Fund was issued on 30 September 2022, updated for FY2022 fees and costs and the new RG97 fees and costs disclosure regime.

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

The Fund is classified as a hedge fund in accordance with the Australian Securities and Investments Commission, Regulatory Guide 240 'Hedge funds: Improving disclosure'. This classification is based on the fact that the Fund currently exhibits two or more characteristics of a hedge fund, being:

- complexity of investment strategy or structure;
- use of leverage;
- use of derivatives;
- use of short selling;
- charges a performance fee.

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