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**	$179.9m
INCEPTION DATE	31 March 2001	**EXIT PRICE**	$1.6846

Net performance (%) and statistics

	1 month	3 months	1 year	2 years p.a.[2]	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
Fund[1]	**-0.39**	**-1.10**	**-3.69**	**-1.44**	**2.85**	**-0.88**	**0.69**	**2.94**	**4.02**

[1]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.

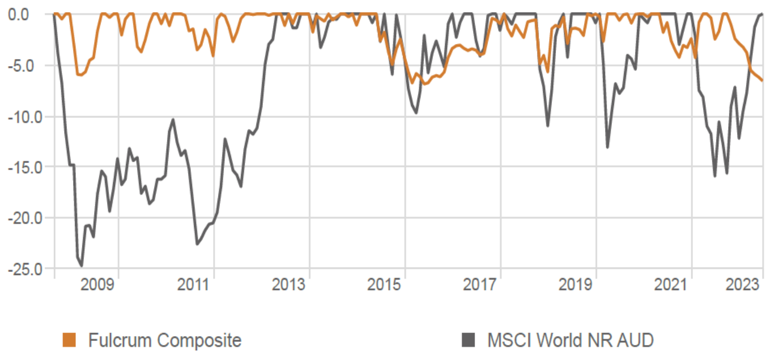
	1 month	3 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.
Fulcrum Composite[4]	--	--	--	--	**2.06**	**2.91**	**3.03**	**3.21**	**4.69**

Fulcrum Composite 1 month rolling returns[3]

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2023	-0.38	-0.55	-1.82	-0.40	-0.31	-0.39							**-3.80**
2022	-1.94	3.63	2.15	1.26	-0.40	-2.10	0.80	2.18	0.10	-1.06	-1.39	-0.47	**2.61**
2021	-0.29	3.50	0.19	3.55	-1.82	1.00	-1.82	-0.95	-0.73	1.25	-0.22	0.91	**4.48**
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**

Fulcrum Composite risk analysis since inception[3,4]	
Sharpe ratio	0.40
Standard deviation	5.59
Beta to MSCI World	0.15
Max drawdown	-6.89
% of winning months	57.30
Average win	1.46
% of losing months	42.70
Average loss	-1.04

Drawdown since inception[3,4]



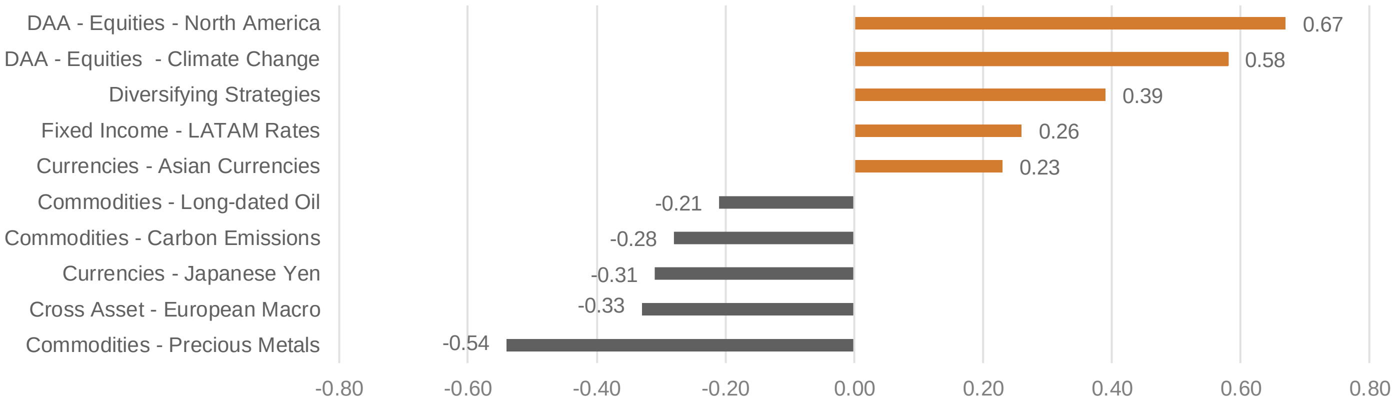
Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distributions.

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

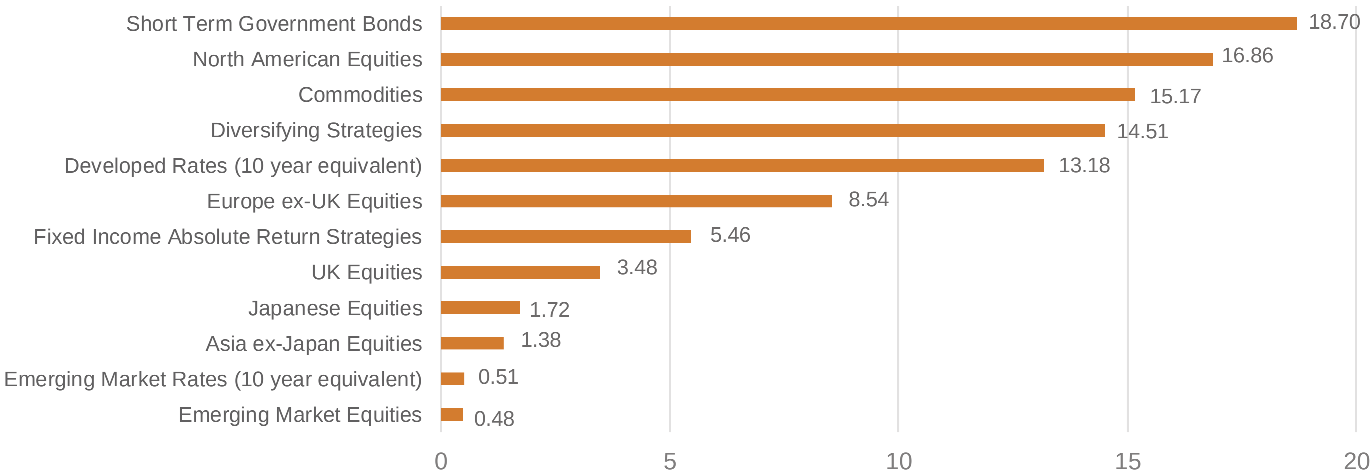
[3]The inception date of the Fulcrum Composite is 16 September 2008. For the Fulcrum Composite, performance periods from 16 September 2008 to 31 March 2012 represent the Fulcrum Diversified Absolute Return strategy net of fees as implemented in the longest running separate account, adjusted for the interest 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.

[4]Source: Morningstar Direct.

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



Asset allocation (%)[1]



[1] Data reflects the Fulcrum Diversified Absolute Return Fund, the Fund's underlying fund in USD terms. Totals may not equal due to rounding.

Market review

The second quarter of 2023 saw global equities return 6.2%, building on the strong gains seen in the first quarter. The strength was led by developed market equities, which returned 6.8%, whilst emerging markets were up by only 0.9% over the quarter, weighed down by significant declines in Chinese equities. Meanwhile, a sharp rise in developed market interest rates caused global bonds to return -1.5%. Commodities returned -2.7%, as precious metals fell sharply and as both industrial metals and energy registered large declines amid weak Chinese economic activity.

The quarter began with signs of market stabilisation following the US banking sector turmoil in March. This was aided by the fact that US economic data remained robust, and the pace of deposit outflows from community banks eased. Throughout the months of May and June however, the economic picture for Europe and China worsened, with increasing signs of a global industrial slowdown. Weakness was particularly acute in Germany, where the investment manager's estimate of real-time activity growth fell sharply over the quarter. The US appeared more insulated from these headwinds, with job growth continuing to surprise to the upside and consumer spending remaining resilient.

Against this backdrop, as well as a boom in valuations for companies active in Artificial Intelligence, US equities exhibited very strong performance in May and June, leading global indices higher. Meanwhile, Japanese equities experienced double-digit gains on the back of robust economic data as well as a highly accommodative policy stance from the Bank of Japan.

Although headline inflation declined significantly across markets, elevated core inflation and tight labour markets kept policymakers vigilant. The UK was the most notable example of this, with regular pay growth coming in significantly above consensus at 7.2% year-on-year in the three-months to April, alongside an unexpected acceleration in core inflation in May. Following this, the Bank of England raised interest rates by a surprise 0.50% in June, and markets priced in a progressively tighter path for the Bank Rate going forward.

Market review (continued)

At the June Federal Open Markets Committee meeting, Federal Reserve officials projected that two further rate hikes would be needed given the persistence of inflation and strength of the economy. Despite the Euro Area's economic weakness, the European Central Bank also signalled further tightening to come and emphasised the danger of second-round effects from wages. The euro and pound saw benefits over the quarter from the upward shift in European Central Bank and Bank of England policy rate expectations. Furthermore, this synchronised tightening from the major central banks pushed real interest rates in most developed markets, as measured by inflation-linked bond yields, to their highest level in 15 years.

In contrast, the Bank of Japan remained committed to its policy of Yield Curve Control despite a continued acceleration in underlying inflation. This led to a sharp decline in long-term real yields in Japan, helping to buoy equity valuations. Meanwhile, faced with a slowing economy, subdued inflation and a fragile property market, the People's Bank of China cut interest rates and there was increasing talk of a fiscal support package from the central government. Given this backdrop, the US dollar appreciated significantly against the yen and renminbi.

Performance review

The Fulcrum Diversified Investment Fund (the 'Fund') returned -1.10% (net) for the quarter, with losses from Discretionary Macro offsetting gains from Dynamic Asset Allocation (DAA) and Diversifying Strategies (DS).

Within DAA, gains were led by long exposure to equities, whilst commodities were the main detractor. Fixed income, which the Fund is underweight, had a small negative impact. Returns from DS were led by currencies and commodities positioning within trend-following strategies.

Within DM, Fixed Income contributed positively over the quarter, as long positioning in Mexican and Brazilian rates benefited from a substantial decline in forward rate pricing across emerging markets. Performance within currencies was roughly flat over the quarter, with positive performance from emerging market Asian currencies offset by losses on our long Japanese yen holdings as the Bank of Japan maintained its loose policy stance.

Meanwhile, in Equity Macro, option-based exposure to the FTSE 100 detracted after the upside inflation surprise and resultant sell-off in UK assets. Equity Thematic also saw losses, as declining energy prices and global industrial weakness led to falls in oil producers and oil refining companies. This weakness in energy prices affected the Commodities strategy, which also detracted from its exposure to precious metals, given the sharp rise in real yields. The Cross Asset strategy saw losses driven by continued defensive positioning from the macro models.

Elsewhere, Dynamic Convexity had a difficult quarter, with low volatility across asset classes resulting in limited payoffs and detractions from option premia. Finally, Volatility strategies had a strong quarter, with gains concentrated in VIX carry, VIX put and equity dispersion positions.

Market outlook

On the DAA side, the Fund remains overweight cash, but by less so than previously, as falling volatility in equities, bonds and commodities has increased their relative attractiveness. Furthermore, lower inflation and rising long-term yields has raised the expected returns on bonds, increasing the allocation towards fixed income. Allocations to commodities have also increased, as expected returns have been led higher by the broad-based improvement in risk appetite and economic sentiment evident in markets.

For DM Fixed Income, the Fund remains overall long duration, but look to see higher US yields vis-à-vis those in the Euro Area, given the significantly more robust near and medium-term growth dynamics in the US. Moreover, the Fund holds long exposure to UK duration, judging that the current forward rate curve prices an implausibly large 1.50% in further interest rate hikes from the Bank of England. This also informs the Fund's long dollar versus euro and pound positioning within Currencies strategies. With regards to Asian FX, the Fund continues to hold short positions in the Chinese renminbi as a weakening economy is likely to put continued downward pressure on domestic interest rates.

In the DM equities space, the investment manager prefers exposures to Europe over the US Particularly after the recent tech-related rally in the US, European equities continue to offer substantially more attractive valuations, and may benefit from any appreciation in the US dollar.

In the commodities space, the Fund maintains a diversified basket of oil and precious metals. Despite oil showing little reaction to recent events in Russia, the combination of significant supply uncertainty and strong energy demand projections leaves important upside potential for oil prices.

Finally, although markets have recently remained buoyant despite higher interest rates, elevated and persistent core inflation raises the likelihood of further hawkish shocks to monetary policy. As such, in Dynamic Convexity the Fund retains options structures that will pay off in the event of significant and simultaneous declines in fixed income and equity markets.

Overall, the investment manager maintains a defensive stance, whilst continuing to focus on investment ideas 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.

This information contains general information only and is not intended to represent specific investment or professional advice. The information does not take into account an individual's personal financial circumstances, objectives or needs. Before making an investment decision, you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current target market determination and offer document before making an investment decision to acquire or to continue to hold units in the Fund.

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