

# 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>	\$170.3m
<b>INCEPTION DATE</b>	31 March 2001	<b>EXIT PRICE</b>	\$1.6894

## 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>-0.07</b>	<b>0.28</b>	<b>-6.32</b>	<b>0.46</b>	<b>1.62</b>	<b>-0.84</b>	<b>0.51</b>	<b>2.65</b>	<b>3.99</b>
<b>Fulcrum Composite<sup>4</sup></b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>2.08</b>	<b>2.60</b>	<b>2.97</b>	<b>2.97</b>	<b>4.63</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.

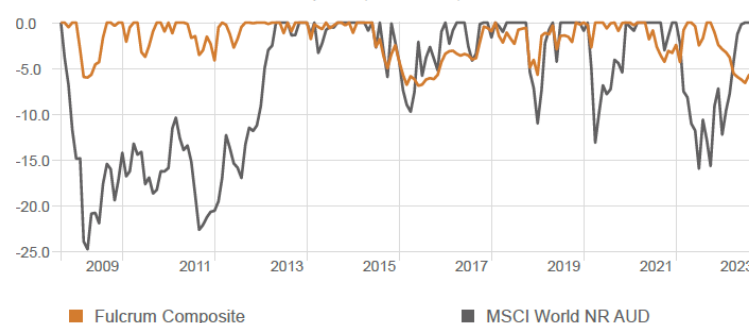
Fulcrum Composite 1 month rolling returns <sup>3</sup>													
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
<b>2023</b>	-0.38	-0.55	-1.82	-0.40	-0.31	-0.39	0.92	-0.56	-0.07				<b>-3.52</b>
<b>2022</b>	-1.94	3.63	2.15	1.26	-0.40	-2.10	0.80	2.18	0.10	-1.06	-1.39	-0.47	<b>2.61</b>
<b>2021</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	0.38
Standard deviation	5.55
Beta to MSCI World	0.15
Max drawdown	-6.89
% of winning months	56.91
Average win	1.45
% of losing months	43.09
Average loss	-1.02

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

Time Period: Since Common Inception (1/09/2008) to 30/09/2023



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.

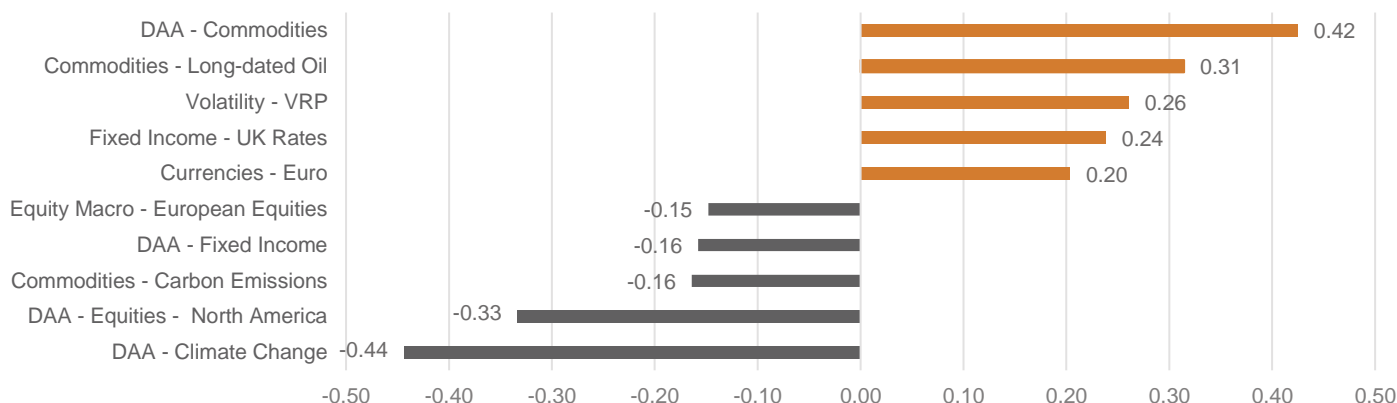
<sup>3</sup>The inception date of the Fulcrum Composite is 16 September 2008. For the Fulcrum Composite, performance periods from 16 September 2008 to 31 March 2012 represent the Fulcrum Diversified Absolute Return strategy net of fees as implemented in the longest running separate account, adjusted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

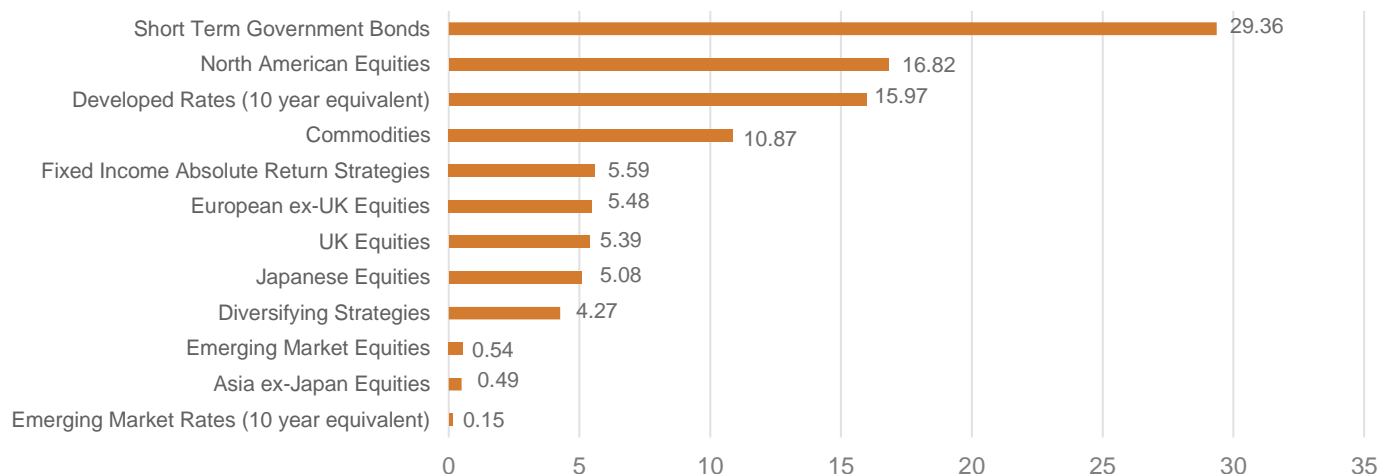
## CONTACT DETAILS

T.1800 034 402 | E. Client.Services@ironbarkam.com | W. www.ironbarkam.com

### 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. Totals may not equal due to rounding.

### Market review

The third quarter of 2023 saw a simultaneous sell-off across global equity (-3.3%) and bond markets (-3.6%) as rising US yields hit valuations and pushed the dollar to a 10-month high. Notably, the fixed income sell-off was led primarily by the long-end of the curve, with US 10-year real yields hitting their highest since 2007. This occurred alongside a robust US growth outlook, combined with talk of higher-for-longer rates by the Federal Reserve. Meanwhile, global commodities rose over the quarter, driven largely by a 28.8% surge in energy prices as oil supply tightened significantly.

The quarter began with an improvement in market sentiment as inflation saw significant declines across developed markets. This, combined with strong US economic data, raised global risk appetites and boosted equity valuations in July. By the month of August, however, market sentiment was hit by the persistent rise in long-term bond yields, which occurred alongside a significant rally in energy prices. These dynamics intensified in September, where global equities and bonds fell sharply as the dollar and oil rose further.

Throughout this period, comments by Federal Reserve officials had a pivotal impact on markets. At the Jackson Hole Symposium in August, Chair Powell reiterated the need to keep policy tight and emphasised the Federal Reserve's data-dependent approach. More consequential, however, was the outcome of the Federal Open Market Committee meeting in September, where officials upgraded their forecast for short-term interest rates and GDP growth over the next year. At the press conference subsequently, Powell explicitly recognised that the longer-run neutral rate of interest may be higher than previously expected.

At the September Monetary Policy Committee meeting, the Bank of England voted narrowly in favour of keeping interest rates on hold against the backdrop of a large decline in inflation. The Bank of England also noted signs of a slowdown in economic activity, and expressed confidence that policy was already in "restrictive" territory.

## Market review (continued)

These developments helped to push the pound to an 8-month low against the dollar. The European Central Bank raised rates in September, though they also signalled that policy was reaching sufficiently tight levels. Meanwhile, the Bank of Japan opted to keep its policy of yield curve control in place.

On the commodities side, energy prices had been rising steadily throughout the quarter on signs of an increasingly tight global oil market. This accelerated at the beginning of September as Saudi Arabia and Russia announced a coordinated extension of production cuts. In contrast, the climb higher in real interest rates throughout the quarter weighed on the attractiveness of precious metals, which saw a 3.8% decline.

Elsewhere, China continued to see instability in its housing market, with growing fears of additional defaults among real estate developers. There were some signs of a pickup in activity however, with manufacturing surveys and retail sales improving throughout the quarter.

## Performance review

The Fulcrum Diversified Investment Fund (the 'Fund') returned 0.28% (net) for the quarter, with gains from Discretionary Macro and Diversifying Strategies, offsetting declines from Dynamic Asset Allocation (DAA).

Within DAA, losses were led by holdings of equities as global valuations declined. The fixed income holdings also detracted, but by less than equities owing to the underweight bond positioning going into the quarter. These losses were partly offset by positive performance from an overweight commodities stance.

The majority of Discretionary Macro sub-strategies across a variety of asset classes were additive over the quarter. The Fund saw gains coming from long positions at the front end of the sterling interest rates curve amid the more supportive UK policy and inflation backdrop, while short euro positions benefited from US growth relative outperformance and widening interest-rate differentials. A long Japanese yen position was penalised by broad US dollar strength and the Bank of Japan's decision to maintain its loose policy stance.

The portfolio's commodities positions also performed well over the quarter. The portfolio's long oil position saw gains amidst tightening supply from Russia and Saudi Arabia, although there were some losses from the UK Carbon Emissions position as the government overhauled regulations.

Thematic Equities had a positive quarter driven by gains across various themes. A long energy position did well as oil rallied, while being long obesity drug companies has been particularly beneficial following the positive result of drug trials. The portfolio's long European equities position elsewhere in the portfolio was weighed down by weak manufacturing data impacting the economic outlook for the region.

The investment manager's focus on embedding Dynamic Convexity in the portfolio was helpful late in the quarter, driven primarily by a hybrid option structured to benefit from a combination of higher oil prices and a lower S&P 500. Outright equity puts also helped as equity markets declined. Volatility saw gains from relative value volatility, dispersion, and dividends over the quarter, offsetting losses in equity option replication and FX correlation.

Elsewhere, the trend-following Diversifying Strategies detracted from returns, with losses from currencies offsetting gains from fixed income and interest-rate swap trades.

## Market outlook

On the DAA side, the allocation to equities remains underweight as expected excess returns remain low. Although the fixed income allocation has risen slightly amid the steepening of the yield curve, it remains substantially underweight given the elevated bond volatility and high relative returns from cash. In contrast, the commodity allocation is overweight, boosted by relatively low asset class volatility and a strong US growth outlook.

In the Discretionary Macro Fixed Income portfolio, the investment manager maintains their long positioning at the short end of the UK yield curve. This is informed by the weak backdrop for UK economic activity and house prices, coupled with recent declines in both headline and core inflation. Moreover, the investment manager has also moved to a long exposure in US Treasuries relative to Europe due to the outsize move in US yields as well as the signs of an improvement in the European growth picture.

The portfolio has a long Euro versus US dollar position, which would also benefit from any compression in the Euro Area - US rates differential. Moreover, the portfolio is positively exposed to the Japanese Yen, as the currency's historically weak level and the Bank of Japan's capacity for intervention has created a convex expected return profile. The investment manager believes that UK and Japanese equities have attractive valuations on a relative basis. The portfolio maintains a diversified basket of precious metals and oil exposures, which carries important upside potential given the recent geopolitical developments.

The investment manager continues to utilise hybrid options structures that would pay off in the event of simultaneous equity and bond declines alongside increases in the price of oil. This provides an important hedge for the overall portfolio against further monetary policy or energy supply shocks.

## Market outlook (continued)

Overall, the portfolio is close to average exposure to equities and above average in terms of duration, whilst focusing on investment ideas that are less directional in nature.

## Material matters

During the month, the Investment Manager, Fulcrum Asset Management (Fulcrum) announced two senior appointments to its investment team as it continues to grow its business. The two hires, Stephen Hull, Portfolio Manager and Helen Roughsedge, Investment Director, will report to Suhail Shaikh, Fulcrum's Chief Investment Officer and will enable a smooth transition for Nabeel Abdoula, who will leave Fulcrum in October 2024 to pursue a new opportunity.

There have been no other 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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