

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	\$210.3m
INCEPTION DATE	31 March 2001	EXIT PRICE	\$1.8034

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	0.10	3.10	7.73	1.03	1.11	2.14	4.49

¹Fund performance prior to 2 November 2020 is not attributable to the current investment manager, but the previous investment manager. Presented below is the longer-term track record of the current investment manager's strategy since its inception.

Fulcrum Composite³	--	--	--	7.23	4.67	3.75	5.46
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Fulcrum Composite 1 month rolling returns³

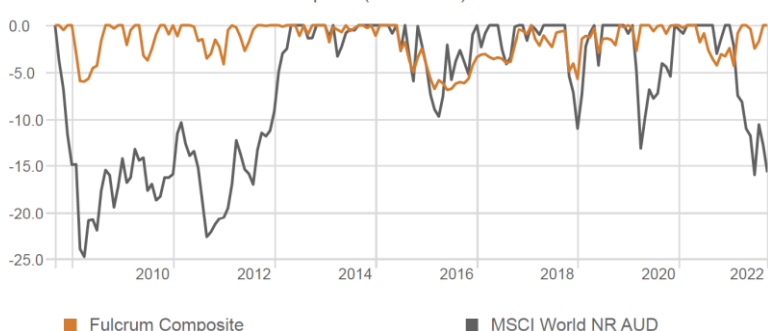
CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2022	-1.94	3.63	2.15	1.26	-0.40	-2.10	0.80	2.18	0.10				5.68
2021	-0.29	3.50	0.19	3.55	-1.82	1.00	-1.82	-0.95	-0.73	1.25	-0.22	0.91	4.48
2020	-0.27	-2.45	6.34	0.53	0.87	-0.63	0.56	0.57	-0.91	0.88	0.64	1.30	7.45
2019	4.53	0.32	-0.16	0.99	-2.61	1.50	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
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

Fulcrum Composite risk analysis since inception^{3,4}

Standard deviation	5.65
Sharpe ratio	0.53
Beta to MSCI World	0.17
Max drawdown	-6.89
% of winning months	60.36
Average win	1.46
% of losing months	39.64
Average loss	-1.08

Drawdown since inception^{3,4}

Time Period: Since Common Inception (1/09/2008) to 30/09/2022



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.

²Returns since inception represent the annualised performance from the first full month of operation.

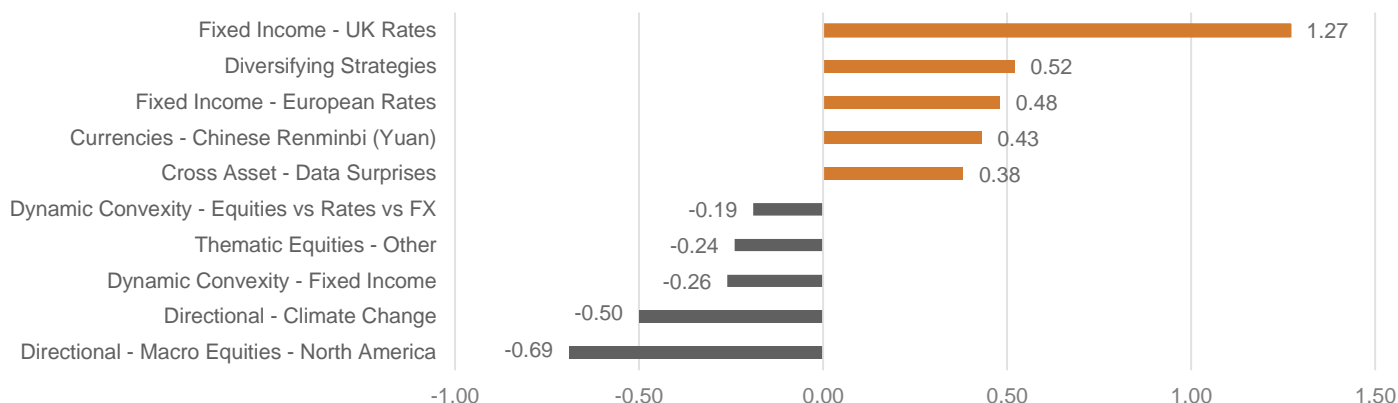
³The inception date of the Fulcrum Composite is 16 September 2008. Performance periods from 16 September 2008 to 31 March 2012 represent the Fulcrum Diversified Absolute Return strategy net of fees as implemented in the longest running separate account, adjusted for the interest rate differential between 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 and Morningstar Direct.

⁴Source: Morningstar Direct.

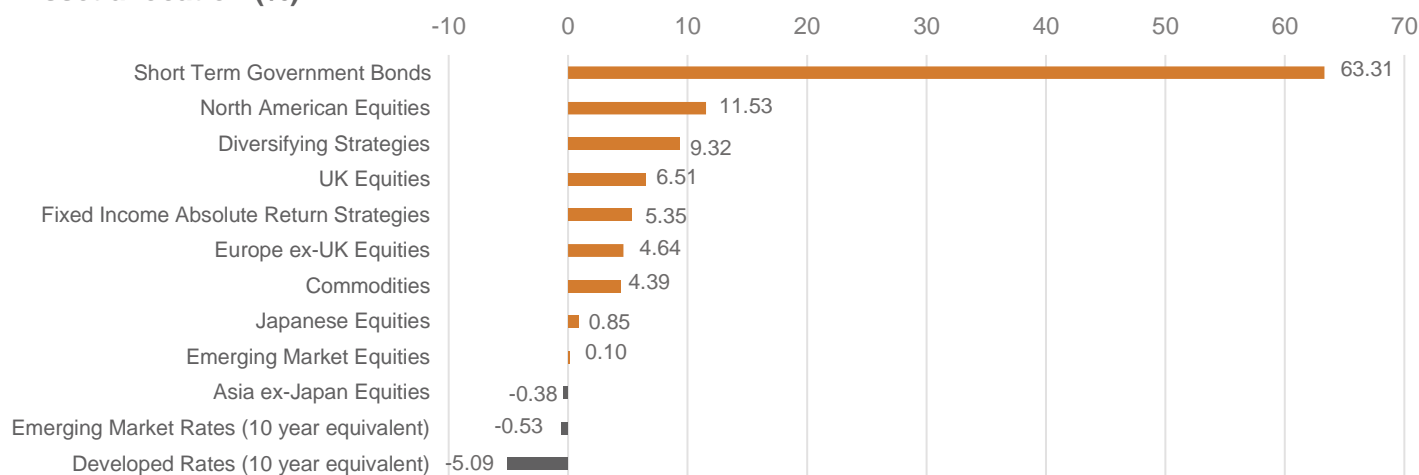
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3 month top and bottom contributors and detractors (%)¹



Asset allocation (%)¹



¹ Data reflects the underlying fund in USD terms.

Market review

The third quarter of 2022 began with a powerful rally in stocks and bonds, after both asset classes had suffered their worst start to the year in decades. Before long, however, the trend of the first half had re-asserted itself as global bonds fell by 6.9% and stocks by 6.8% over the quarter as expectations of monetary policy dominated broad asset movements. With stocks and bonds losing value in tandem, the traditional 60/40 mix failed to provide investors with a meaningfully diversified portfolio.

In July, stock and bond valuations were buoyed by signs of peaking US headline inflation and hopes of a Federal Reserve pivot towards looser policy. As successive Federal Reserve members emphasised the need for continued tightening, and US inflation overshoot expectations, the market rally went sharply into reverse. Amid this environment, geopolitical tensions worsened, with Russia cutting off most of its gas flows to Western Europe and governments launching expansive fiscal packages to dampen the energy price shock. With increasing financing needs and significantly higher rates, the European bond market experienced heightened volatility.

Performance review

The Fulcrum Diversified Investment Fund returned 3.10% (net) for the quarter, with gains from relative value and diversifying strategies offsetting losses from directional strategies. Within relative value, gains were made from the investment manager's negative stance on European government bonds, as well as from positioning for a strengthening US dollar.

Market outlook

Unlike the previous several decades, where demand shocks dominated and monetary policy worked to offset economic volatility, the past year has seen a resurgence in supply and monetary policy shocks. This changing macro environment has challenged traditional methods of diversification. By constantly assessing the nature of the shocks hitting the economy, the investment manager can make more dynamic, and effective, asset allocation decisions.

Over the past quarter, markets finally began to discount the possibility of substantially higher real rates, with bond term premia building rapidly and equity valuations experiencing a significant drop. This has made the investment manager's stance on equities and bonds somewhat less negative, though expected returns for both remain well below their historical average. Furthermore, given the prevalence of global supply shocks, commodities should continue to form a core, albeit small, part of a well-diversified portfolio.

Recent events have shown how monetary policy tightening can pose meaningful risks to financial stability, increasing the probability of further negative shocks to markets. Against this backdrop, we continue to maintain low exposure to traditional assets and pursue strategies 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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