FULCRUM DIVERSIFIED ABSOLUTE RETURN FUND (USD)

Quarterly Investment Review

2Q 2024

Investment innovation
Macro foundations

20240729-3748734

Contents

FULCRUM

Net Performance

As of June 30, 2024								
	Q2	YTD	1 Year	3 Years	5 Years	Since Inception[1]	Equity Correlation[5,6]	Fixed Income Correlation[5,7]
FARIX[1]	1.48%	6.30%	9.35%	2.30%	5.14%	3.04%	0.4	0.0
Wilshire Liquid Alternative[2]	0.49%	5.44%	7.30%	1.37%	2.75%	1.95%	0.9	0.4
HFRX Global Hedge Fund Index[3]	0.32%	2.84%	5.36%	0.42%	3.18%	1.83%	0.8	0.2
Bloomberg US Agg Total Return[4]	0.07%	-0.71%	2.63%	-3.02%	-0.23%	1.22%	0.4	1.0

Fulcrum Diversified Absolute Return Institutional Class has a gross expense ratio of 1.40% and a net expense ratio of 1.20%.

Returns for periods greater than one year are annualized. [1]Inception date: July 31, 2015. [2]Represents the Wilshire Liquid Alternative Index (Bloomberg ticker: WLIQA). [3]Represents the HFRX Global Hedge Fund Index (Bloomberg ticker: HFRXGL). [4]Represents the Bloomberg US Agg Total Return Value Unhedged USD (Bloomberg ticker LBUSTRUU). [5]Data analysis provided since inception of the Fund. [6]Represents MSCI World TR USD Hedged (Bloomberg ticker: WHANWIHD). [7]Represents Bloomberg Global Aggregate Total Return Index Value Hedged USD (Bloomberg ticker: LEGATRUH). Source: Fulcrum Asset Management LLP, Bloomberg.

As of the prospectus dated October 23, 2023, the Adviser has contractually agreed to waive a portion or all of its management fees and pay Fund expenses in order to limit the total annual fund operating expense to 1.05% through October 31, 2024. This limit excludes shareholder servicing fees; any front end or contingent deferred loads; brokerage fees and commissions; acquired fund fees and expenses (“AFFE”); fees and expenses associated with investment in other collective investment vehicles or derivative investments; borrowing costs; taxes; and extraordinary expenses such as litigation expenses.

Performance data quoted represents past performance; past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than their original cost. Current performance of the fund may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling 1-855-538- 5278. Performance shown reflects contractual fee waivers. Without such waivers, total returns would be reduced.

The Fund’s investment objectives, risks, charges, and expenses must be considered carefully before investing. The prospectus and summary prospectus contain this and other important information about the investment company, and it may be obtained by calling 1.855.538.5278, or visiting www.fulcrumassetfunds.com. Read them carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Absolute return strategies are not designed to outperform stocks and bonds during strong market rallies. Exposure to the commodities markets may subject the Fund to greater volatility than investments in traditional securities. The value of commodity linked derivative investments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or sectors affecting a particular industry or commodity, such as drought, floods, weather, embargoes, tariffs and international economic, political and regulatory developments. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting and tax risks. These risks, in certain cases, may be greater than the risks presented by more traditional investments. The Fund may use leverage which may exaggerate the effect of any increase or decrease in the value of portfolio securities or the Net Asset Value of the Fund, and money borrowed will be subject to interest costs. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater in emerging markets. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment by the Fund in lower-rated and non-rated securities presents a greater risk of loss to principal and interest than higher-rated securities.

Diversification does not assure a profit nor protect against loss in a declining market.

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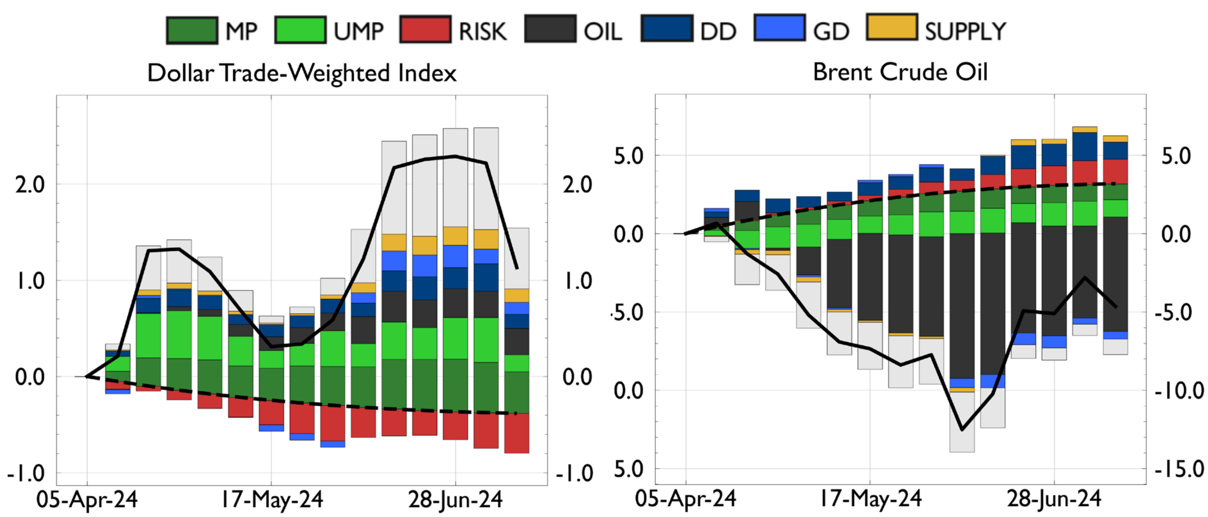
Market Review

In the second quarter of 2024, equities rose strongly (+3%[1]), buoyed by generally strong economic activity, optimism around the technology sector and an easing in US inflation. This was aided by a pivot to policy easing by several major central banks. Notably, however, Federal Reserve officials reaffirmed their desire to 'Wait-And-See' on inflation before cutting rates. As such, global bonds sold off by -1.1%[2], with losses concentrated around the start of the quarter. Given the Fed's stance, as well as a flare up in political risk in Europe, the US dollar rallied by +1.3%[3] over the quarter (see the left-hand graph in Figure 1). Commodities were little changed over the quarter (+0.75%[4]), with energy declining despite a partial rebound in June, and with gains in metals prices offsetting declines in agricultural commodities. With respect to the oil price, most moves were attributable to idiosyncratic supply-side developments, signified by the black bar in the right-hand graph in Figure 1.

Figure 1: Structural Market Decompositions (% Change Since April 5th)[5]



Source: Fulcrum Asset Management

Note: Data from 2024-04-05 to 2024-07-12.

The quarter began with disappointing US inflation data, as the March Consumer Price Index (CPI) posted its third consecutive upside surprise relative to consensus. This, combined with strong US economic data, put downward pressure on global stocks and bonds alongside an increase in the dollar. This came alongside signs of a recovery in European and UK activity, evidenced primarily in business surveys.

[1] MSCI AC World Total Return Gross USD (Bloomberg Ticker: GDUEACWF Index).
[2] Bloomberg Global-Aggregate Total Return Index (Bloomberg Ticker: LEGATRUU Index).
[3] US Dollar Index Spot Rate (Bloomberg Ticker: DXY Curncy).
[4] S&P GSCI Total Return CME (Bloomberg Ticker: SPGSCITR Index).
[5] The charts in Figure 1 come from a Structural Vector-Auto Regression (SVAR) model that uses high-frequency asset price movements combined with narrative and sign restrictions to identify 7 orthogonal macroeconomic shocks and their impact on asset price movements. The shocks are: Monetary Policy (MP), Unconventional Monetary Policy (UMP), Risk Sentiment (RISK), Oil Supply (OIL), Domestic Demand (DD), Global Demand (GD), and Aggregate Supply (SUPPLY). The grey bar is an unrestricted 'residual' shock, and the dashed black line represents the model's expectation at the beginning of the period.

Markets then reversed their declines in May, boosted by US inflation prints for April coming in line with consensus expectations. This was followed by a set of May readings that showed inflation materially below expectations, which further stoked market optimism around the prospect of eventual interest rate normalisation. In general, US activity showed signs of a decline, though remained at a robust level.

Although non-farm payrolls growth remained strong, other measures of labour market slack showed continued loosening, and there were mounting signs of a labour supply boost coming from higher immigration. Towards the end of the quarter, European growth showed signs of weakening, and political tensions flared with the snap legislative elections in France opening the door to a far-right government. With a budget deficit already above 5% of GDP, and both opposition parties calling for significant spending increases, market concern centred around future developments in fiscal policy.

Against this backdrop, officials at the Federal Reserve generally adopted a more hawkish stance, preferring to “sit tight” until more progress was made on inflation. In contrast, the European Central Bank (ECB) implemented its first interest rate cut since 2019, citing progress on inflation and a weak growth backdrop. Despite inflation reaching its 2% (YoY) inflation target in May, officials at the Bank of England (BoE) remained more cautious than their European counterparts, holding off on rate cuts due to stubborn core inflation.

In Japan, the domestic economy remained generally weak, though in our view this reflects more structural factors rather than a cyclical slowdown. Moreover, the yen weakened to a 38-year low as the Bank of Japan’s cautious approach to policy normalisation amid an increase in domestic inflationary pressures kept real yields low. Meanwhile, China saw continued strength in its manufacturing sector, with exports and industrial production surprising to the upside throughout the quarter. That being said, activity in the housing and construction sectors remained severely depressed, with the national government initiating several stimulus measures via the finance ministry and central bank.

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Portfolio Review

The portfolio posted a positive performance of +1.48% over the second quarter. Gains were led by Dynamic Asset Allocation (DAA) and Discretionary Macro (DM), whilst Diversifying Strategies (DS) detracted from returns.

Within DAA, gains were led by holdings of equities, and to a lesser extent commodities, whilst fixed income detracted from returns.

Within DM, Thematic Equities saw the strongest returns over the quarter, with gains across a range of underlying themes. The "long grocers vs short processed food" view worked particularly well, with grocers gaining market share compared to branded ultra-processed food companies. Moreover, the strategy's "picks and shovels"[6] exposure to Artificial Intelligence (AI), which is concentrated in capex intensive areas of the sector, also continued to perform well. Macro Equities also had a strong quarter, including a position in Korean and Taiwanese equities, which we anticipated would benefit from AI-related capital expenditure.

While Fixed income positions presented a challenge, as yields ground upwards against the backdrop of a relatively hawkish Federal Reserve, some tactical positioning across the US and Europe later in the quarter was positive for returns. Currencies also detracted on the back of a long Japanese yen orientation, though this was partially offset by our short euro positioning, which profited from US-Europe policy divergence as well as the uncertainty sparked by the snap elections in France.

Commodities strategies posted strong gains over the quarter, boosted by tactical positioning spanning precious metals markets.

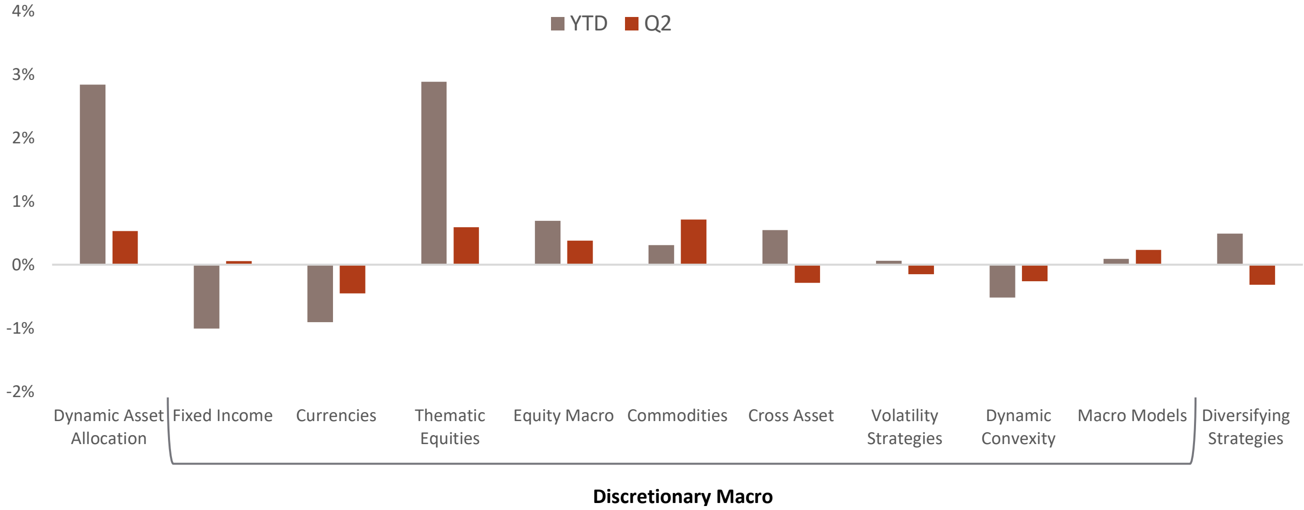
Meanwhile, Dynamic Convexity was down amid a backdrop of rising equity markets and persistently low volatility. This caused hedges, in the form of digital options with embedded S&P put protection, to underperform. With a low volatility environment and compressed risk premia strategy, the Volatility strategies had a challenging quarter, primarily driven by commodity and currency volatility strategies in the relative value book. Dispersion, European dividends and volatility carry fared better to offset some of the losses.

Elsewhere, DS saw declines, hit by trend reversals in commodity, fixed income and credit markets.

The following charts detail the portfolio attribution from all our investment strategies over the second quarter of 2024. We also outline below the top and bottom five contributors to the portfolio's return over the quarter.

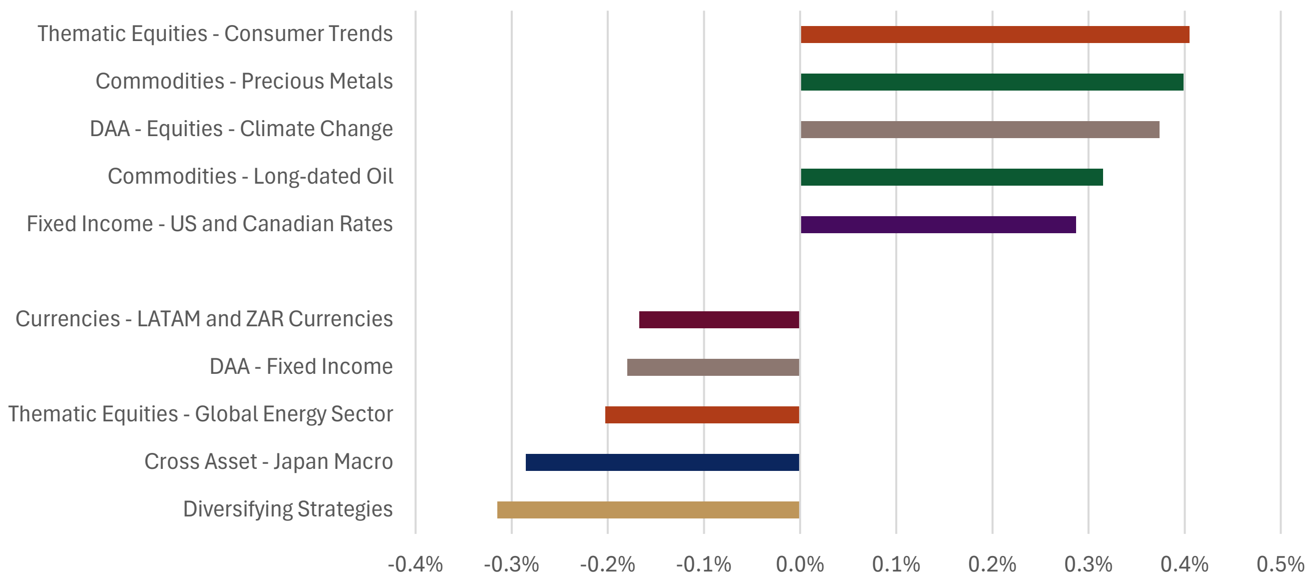
[6] 'Picks and Shovels' is an investment strategy that invests in the underlying technology needed to produce a good or service instead of in the final output.

Figure 2: Second Quarter - Portfolio Attribution[7]



Source: Fulcrum Asset Management LLP. Subject to change. For illustrative purposes only. Data as at 6/30/2024.

Figure 3: Second Quarter – Top and Bottom Contributors to Portfolio Returns[8]



Source: Fulcrum Asset Management LLP. For illustrative purposes only. *Subject to change. Data as at 6/30/2024.*

[7] Contribution returns are gross of fees.
[8] Past performance is not a guide to future performance and future returns are not guaranteed.

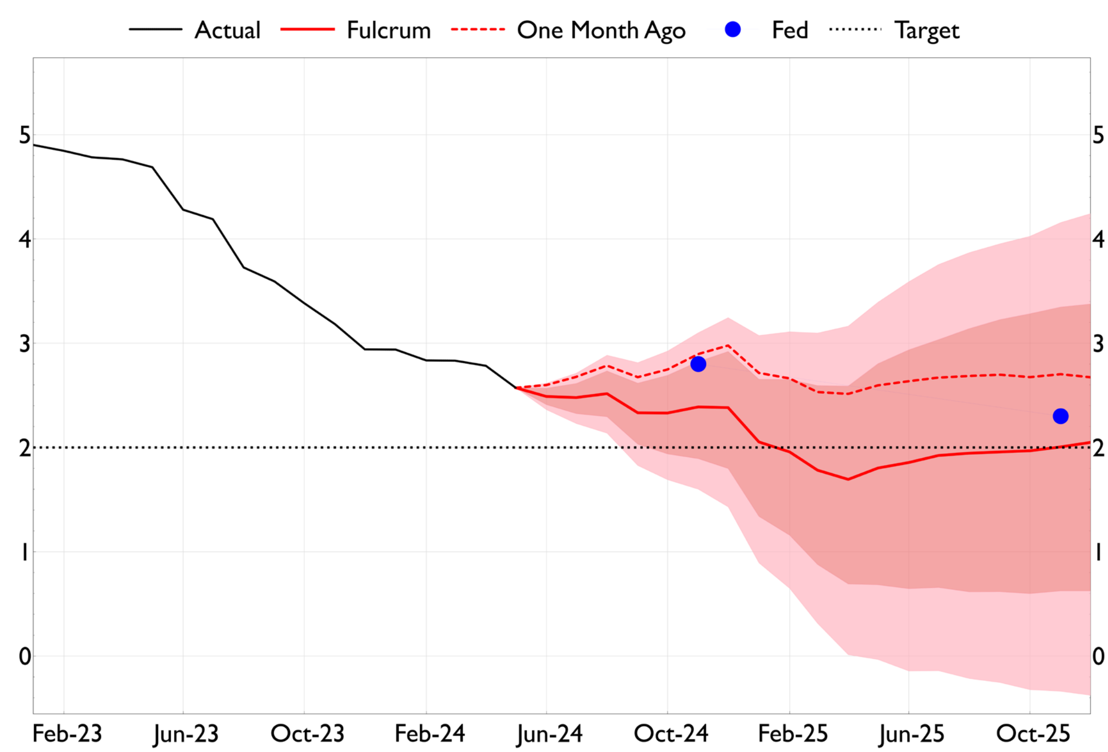
Macro and Investment Outlook

US Inflation Outlook Eases Markedly

In contrast to the first quarter of 2024, where US inflation surprised consistently to the upside, the second quarter saw a series of downside surprises. The monthly rate of core Personal Consumption Expenditures (PCE) price growth fell to just 0.08% (MoM) in May, matching the slowest pace since April 2020. Furthermore, the release of the June CPI saw a further deceleration in inflation across sectors, particularly in those that are judged to be highly persistent such as housing and non-housing services. Austan Goolsbee, a member of the Federal Open Market Committee (FOMC), labelled the June data as "profoundly encouraging", underscoring the growing confidence among officials that inflation is indeed heading back to the 2% target.

Our own forecast for core PCE supports this optimistic view, with our median end-2024 forecast shifting from around 2.8% (YoY) a month ago to 2.4% (YoY) today (see Figure 4 below). With the Fed's forecast at 2.8% (YoY), we would expect an inflation downgrade at the FOMC's next Summary of Economic Projections that will be released in September.

Figure 4: US Core PCE Inflation Forecast (YoY, %)[9]



Source: Fulcrum Asset Management

Note: Data from 2023-01-31 to 2024-05-31, forecasts thereafter.

The Fed's increasingly benign inflation outlook has been bolstered by recent labour market data, with the unemployment rate ticking up to 4.1% in June, above market expectations. Although the overall pace of jobs

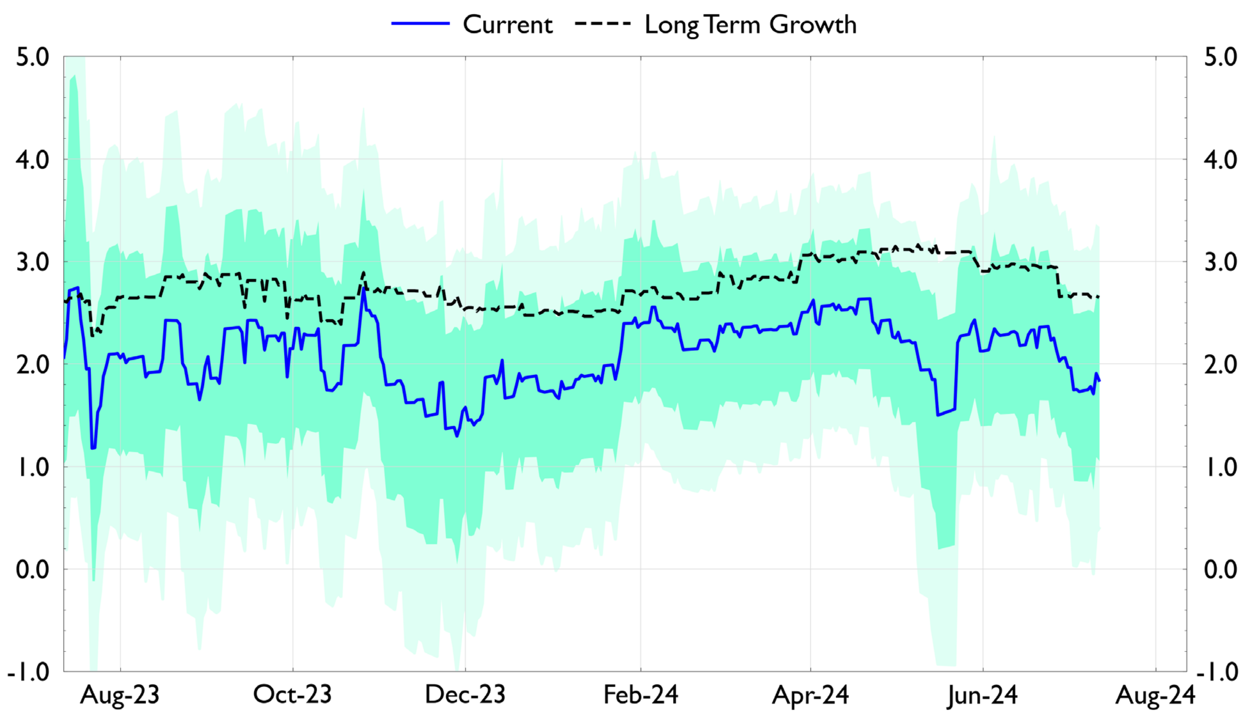
[9] Figure 4 shows the results from Fulcrum's inflation model, estimated using Bayesian state-space modelling. The dark and light red shaded areas represent the 68% and 90% confidence intervals of the model, respectively. The blue dots represent the latest central bank forecasts.

growth remained strong, Fed Chair Powell has become progressively more worried that "reducing policy restraint too late or too little could unduly weaken economic activity and employment". This, combined with the recent inflation data, helped raise the probability of a Fed cut in September to 95%, according to Chicago Mercantile Exchange (CME) Fed Funds futures.

US Economy Remains Robust Despite Slowing

Data throughout the second quarter was consistent with a slowing across advanced economies. For the US, our nowcast fell from around 2.5% at the beginning of the quarter to 1.8% today (see Figure 5 below), still at a rate that is far away from recessionary territory. The proximate cause of this decline was a series of weaker readings on personal consumption and business sentiment, as well as weakness in consumer confidence. Notably, the model's assessment of long run growth declined from 2.9% to 2.6%, largely on the back of lower-than-expected Q1 GDP.

Figure 5: US Activity Tracker (%, Annualized)[10]



Source: Fulcrum Asset Management

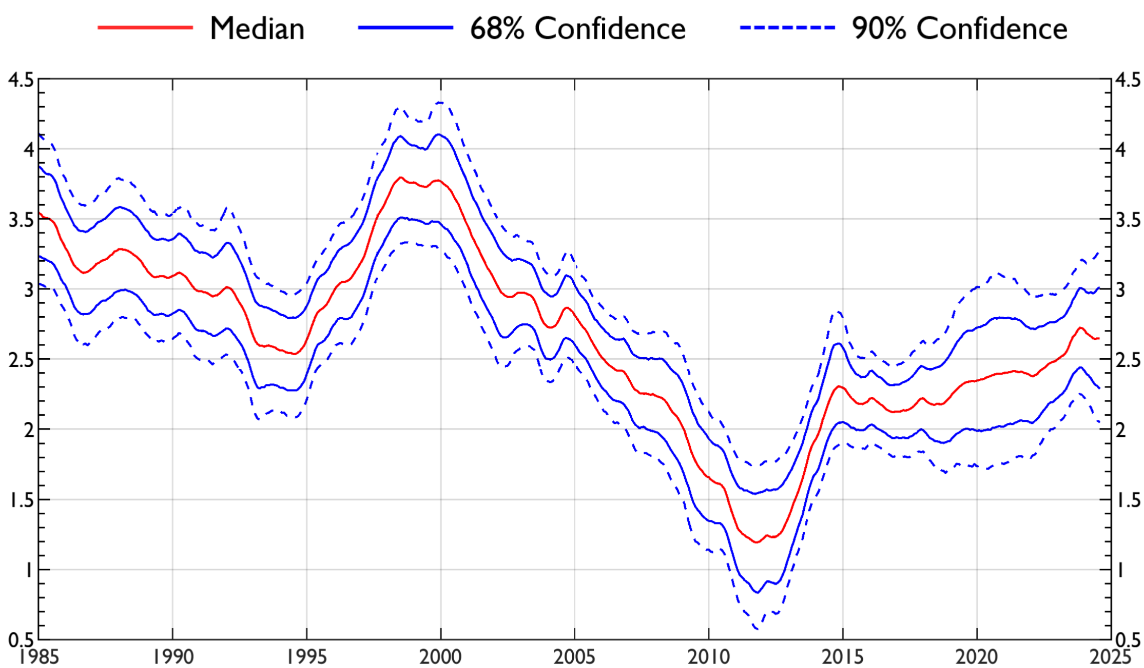
Note: Data from 2023-07-12 to 2024-07-12.

Despite this decline, our long-term estimate remains above pre-Covid levels (see Figure 6 below). As such, we maintain an optimistic view of the US economy, with a 2.3% GDP growth rate projected for 2024. Delving into the sources of this increase in trend growth, we see that it has largely come from an increase in labour input growth as opposed to higher productivity growth. This, as well as the strong pace of non-farm payrolls growth, may have

[10] Figure 5 shows Fulcrum's real time activity tracker for the US, derived from a Bayesian Dynamic Factor Model that incorporates mixed-frequency data to arrive at a real time estimate of economic activity. The solid blue line represents the median model estimate, whilst the dark and light blue shaded areas represent the 68% and 90% confidence intervals of the model, respectively. The dotted black line shows the model's estimate of long-run GDP growth, which is specified as a time-varying constant.

something to do with the recent surge in immigration – of both the legal and illegal variety – raising the rate of population growth. Overall, Fed officials do not see such developments as inflationary, viewing the economy as 'bigger' but not 'tighter'. This should allow them to proceed with planned policy easing should inflation continue to decline.

Figure 6: US Long-Term Growth Estimate (%, Annualized)[11]



Source: Fulcrum Asset Management

Note: Model estimates from 1985-01-31 to 2024-07-31.

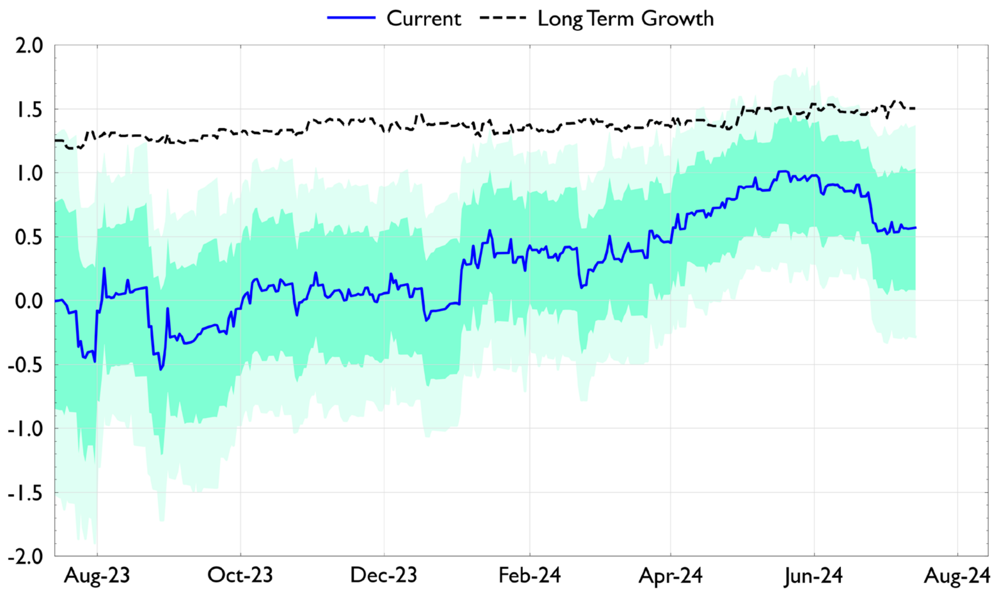
Euro Area Also Slowing But Recession Probability Remains Low

Towards the end of the second quarter, there was a weakening in European economic activity. This lowered our current growth estimate from around 1% in April to 0.5% today (see Figure 7 below). Some of this weakness coincided with the announcement of the snap French elections, which coincided with weakening business sentiment across the continent. The slowdown was also evident in hard data, with May numbers for industrial production and exports weak in both France and Germany.

The latest numbers nevertheless remain consistent with an economic expansion, in contrast to the recessionary territory that the European economy was in for most of 2023. There is also a higher degree of certainty around the current nowcast estimate compared to last year, reflected in the narrowing of confidence bands in Figure 7. This has kept the probability of recession low at around 20%, compared to rates of 60% seen last summer (see Figure 8). As such, we do not see the latest data as sufficient to cause alarm within the ECB, allowing them to proceed in their cautious approach to cutting interest rates.

[11] Figure 6 shows the smoothed estimate of long-run GDP growth for the US produced by the Fulcrum nowcasting system. The red line represents the model's median estimate, whilst the solid and dashed blue lines show the 68% and 90% confidence intervals, respectively.

Figure 7: Euro Area Activity Tracker (%, Annualized)[12]



Source: Fulcrum Asset Management

Note: Data from 2023-07-12 to 2024-07-12.

Figure 8: Euro Area Recession Probability (%)[13]

Source: Fulcrum Asset Management

Note: Data from 2023-07-12 to 2024-07-12.

[12] Figure 7 shows Fulcrum's real time activity tracker for the Euro Area, derived from a Bayesian Dynamic Factor Model that incorporates mixed-frequency data to arrive at a real time estimate of economic activity. The solid blue line represents the median model estimate, whilst the dark and light blue shaded areas represent the 68% and 90% confidence intervals of the model, respectively. The dotted black line shows the model's estimate of long-run GDP growth, which is specified as a time-varying constant.

[13] Figure 8 shows the probability of a recession for the Euro Area over the next year. This is derived from the nowcasting model, where a recession is defined as two consecutive quarters of negative GDP growth.

Final word

On the DAA side, the allocation to equities increased slightly over the quarter, as a relatively weak expected return outlook continued to be offset by a muted volatility backdrop. The allocation to commodities remains overweight, supported by a robust global growth backdrop and attractive diversification qualities. Meanwhile, the allocation to sovereign fixed income has risen to its highest level in 2 years, as declining inflation and a steepening yield curve have raised the attractiveness of duration. With cash becoming less attractive relative to other assets, the allocation has declined, continuing the trend of the past several months.

Within DM Fixed Income, we have maintained an overall long duration stance, concentrated in the US and Europe. With the last several CPI prints coming in at or below consensus expectations, and our core PCE forecast projecting below target inflation in Q2 next year, the chance of multiple cuts this year has moved significantly higher. Moreover, as discussed, the labour market appears to be loosening, and there is growing conviction among the FOMC that policy remains "restrictive".

On the Currencies side, we continue to be long dollar. This position remains attractive as the Fed remains more hawkishly positioned than either the ECB or the BoE. As such, even when the Fed does begin its cutting cycle, it may prove shallower than in other developed markets. Moreover, long dollar positioning looks attractive under multiple different political scenarios: it would benefit from continued policy uncertainty in Europe and could see a boost under a Trump Presidency due to his fiscal stimulus plans.

Within the Commodities sleeve, we continue to be long precious metals. In addition to providing a hedge against geopolitical risk, precious metals stand to benefit from a more uncertain global policy environment as well as a structural shift to higher gold reserves from central banks.

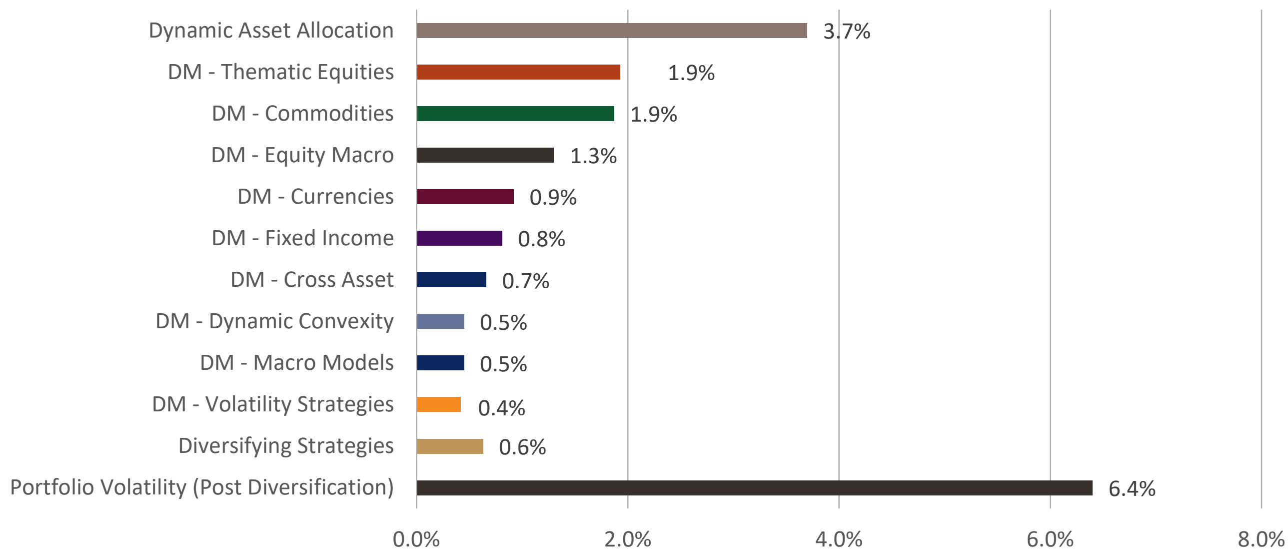
In Dynamic Convexity, we hold hybrid options structure designed to pay off in the event of joint declines in equity and bond markets, as well as increases in the US dollar. Whilst this 'no landing' style scenario is not our base case, market pricing is such that it may lessen convexity and tail risk, particularly in the event of a renewed expansion in US fiscal policy causing a tightening in global financial conditions.

Overall, we hold above average equity exposure, but remain nimble in our positioning, with significant diversification across strategies as well as hedging against emergent risks.

Portfolio Positioning

The chart below decomposes the percentage of total portfolio risk contributed by each individual sub-strategy.

Risk Contribution by Strategy



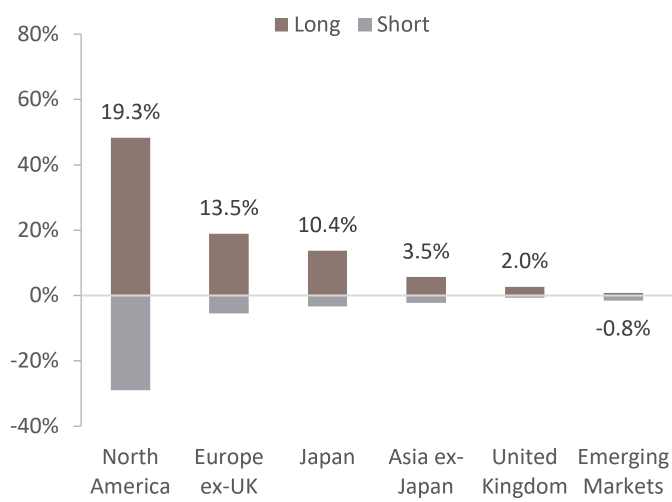
For illustrative purposes only. Subject to change. Data as at 6/30/2024. Source: Fulcrum Asset Management LLP.

Top Positions by strategy	Risk Contribution
DM - Commodities - Precious Metals	1.9%
DAA - Equities - Climate Change	1.2%
DAA - Equities - North America	1.2%
DAA - Commodities	1.0%
DM - Cross Asset - Japan Macro	0.9%
DM - Equity Macro - European Equities	0.9%
DAA - Fixed Income	0.7%
Diversifying Strategies	0.6%
DM - Fixed Income - US and Canadian Rates	0.6%
DM - Currencies - Euro	0.6%

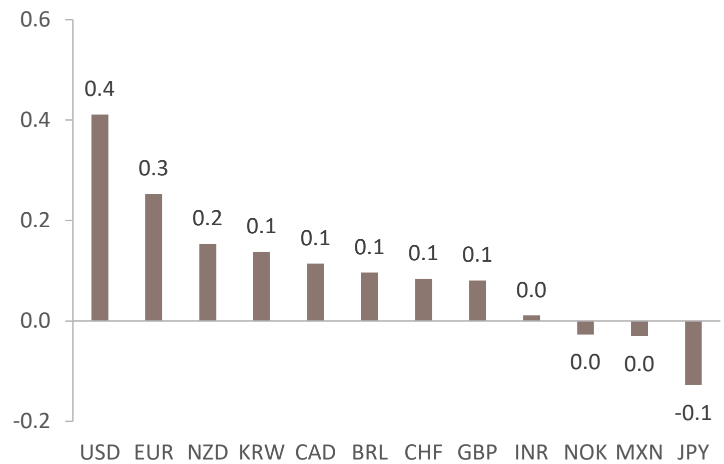
For illustrative purposes only. Subject to change. Data as at 6/30/2024. Source: Fulcrum Asset Management LLP.

Portfolio Exposures

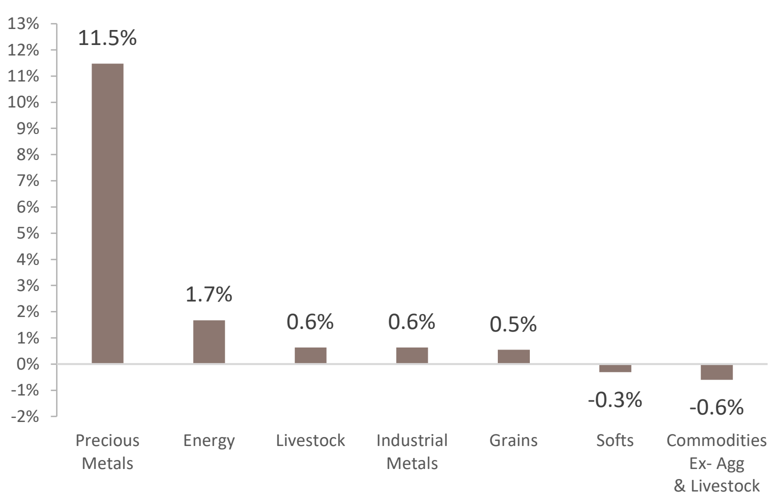
Equity – Net exposures by Region (47.9%)



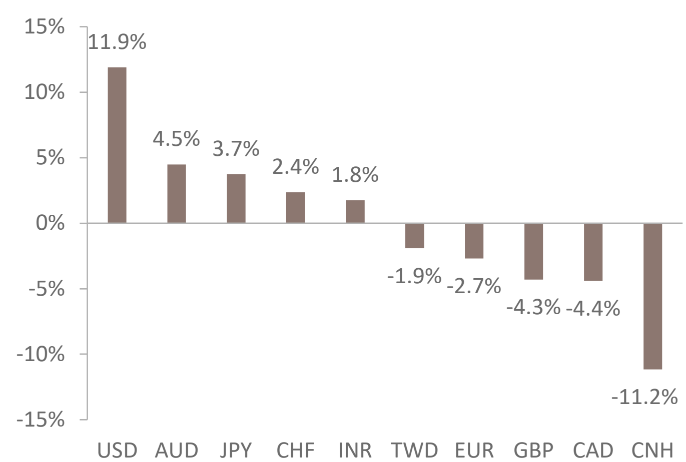
Fixed Income – Duration exposure (1.2 years)



Commodities – Net exposures by commodity (14.0%)



Currencies – Net exposures, top 5 long/short



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Glossary

Standard Deviation - measures historical variability of returns around the average for an individual position, asset or group of assets. Higher standard deviation suggests greater risk.

Beta – a measure of the volatility of a security or portfolio compared to the market as a whole.

Correlation - statistical measure of the degree to which two variables move in relation to each other.

MSCI DM – is built using MSCI's Global Investable Market Index (GIMI) methodology, which is designed to take into account variations reflecting conditions across regions, market cap segments, sectors and styles.

Euro Stoxx – stock index of eurozone stocks designed by STOXX, an index provider owned by Deutsche Borse Group.

Nikkei 225 – stock market index for the Tokyo Stock Exchange.

Wilshire Liquid Alternative Index - measures the collective performance of the five Wilshire Liquid Alternative strategies that make up the Wilshire Liquid Alternative Universe. It is designed to provide a broad measure of the liquid alternative market by combining the performance of the Wilshire Liquid Alternative Equity Hedge Index (WLIQAEH), Wilshire Liquid Alternative Global Macro Index (WLIQAGM), Wilshire Liquid Alternative Relative Value Index (WLIQARV), Wilshire Liquid Alternative Multi-Strategy Index (WLIQAMS), and Wilshire Liquid Alternative Event Driven Index (WLIQAED).

HFRX Hedge Fund Index - is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

Bloomberg US Aggregate Total Return Index Value Unhedged USD – a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate pass-throughts), ABS (asset-backed securities) and CMBS (agency and non-agency).

MSCI World Local Index – a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries.

FTSE 100 – a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

S&P 500 – a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

Chicago Board Options Exchange Volatility Index (VIX) – measure of the stock market's expectation of volatility based on S&P 500 index options.

Relative Value (RV) – strategy predicated on the realization of a valuation discrepancy in the relationship between multiple securities.

MSCI All-Country World Net Total Return Index – captures large and mid-cap representation across 23 Developed Markets (DM) and 24 Emerging Markets (EM) countries.

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MSCI World Net Total Return Index – captures large and mid-cap representation across 23 Developed Market (DM) countries.

MSCI Emerging Markets Ex. Russia Net Total Return Index – captures large and mid-cap representation across 24 Emerging Markets (EM) Countries.

S&P Goldman Sachs Commodity Total Return Index – serves as a benchmark for investment in the commodity markets and is a measure of commodity performance over time.

Volatility Risk Premium (VRP) – consists of an active strategy of selling liquid and illiquid derivatives, thus seeking to avoid the pitfalls of passive strategies.

Bloomberg Global-Aggregate Total Return Index Unhedged USD – measures the performance of the global investment grade, fixed-rate bond markets. The benchmark includes government, government-related and corporate bonds, as well as asset-backed, mortgage-backed and commercial mortgage-backed securities from both developed and emerging markets issuers.

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