The Role of Fulcrum Diversified Absolute Return Fund in an Investment Portfolio

Fulcrum Diversified Absolute Return Fund (DAR) seeks to provide investment outcomes that are complementary to those from traditional asset classes, with a focus on delivering absolute returns in the broadest possible range of market environments.

DAR aims to help clients generate medium to long-term (3-5 years) returns in excess of cash and inflation, with the strategy investing globally in a wide variety of highly liquid uncorrelated return streams.

Risk management is central to our approach, and specifically, we seek to limit volatility and performance drawdowns to acceptable levels so that clients can maintain an appropriately long investment horizon and avoid common behavioral mistakes that stem from unexpected volatility.

DAR's complementary role in a portfolio

DAR complements the core asset classes of equities and bonds as well as traditional multi-asset funds; its unconstrained approach focuses on limiting downside risk whilst seeking to generate strong returns.

Relative to Liquid Alternative Strategies and Macro Liquid Alternative Strategies, DAR seeks to achieve higher risk-adjusted returns, low correlation to global equities and fixed income, and low correlation to traditional balanced 60/40 portfolios, as outlined in the table below:

Risk Analysis 31 July 2015 – 30 June 2021				
	Diversified Absolute Return (Net) [2]	Wilshire Liquid Alts [3]	Wilshire Liquid Alts Macro [4]	HFRI Global Macro [5]
Since Inception [1]	3.47%	2.24%	0.90%	2.96%
1 Year Return	10.60%	11.60%	9.34%	15.49%
5 Year Return	5.04%	3.24%	1.55%	3.32%
Standard Deviation	5.3%	4.5%	4.4%	4.6%
Beta to Global Equities [6]	0.1	0.3	0.1	0.1
Beta to Global Fixed Income [7]	-0.6	0.3	0.5	0.5
Correlation to Global Equities [6]	0.3	0.9	0.4	0.4
Correlation to Global Fixed Income [7]	-0.3	0.2	0.3	0.3
Correlation to Balanced Portfolio (60/40) [8]	0.3	0.9	0.4	0.4

Returns are annualised.[1]Inception date: July 31st, 2015. [2]Represents Fulcrum Diversified Absolute Return Super Institutional Class ("the Fund"), a Series of Trust for Advised Portfolios. [3]Represents the Wilshire Liquid Alternative Index (Bloomberg ticker: WLIQA). [4]Represents the Wilshire Liquid Alternative Global Macro Index (Bloomberg ticker: WLIQAGM). [5] Represents HFRI Macro Total Index (Bloomberg ticker: HFRIMI). [6]Represents the Lyxor UCITS ETF tracker of MSCI World USD (Bloomberg ticker: WHANWIHD). [7] Represents the Barclays Global-Aggregate Total Return Index Value Hedged USD (Bloomberg ticker: LEGATRUH). [8]The balanced portfolio contains 60% Global Equities[6] and 40% Global Fixed Income[7]. Source: Fulcrum Asset Management LLP and Bloomberg LLP. Past performance is not a guide to future performance and future returns are not guaranteed.

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 calling1-855-538-5278. Performance shown reflects contractual fee waivers. Without such waivers, total returns would be reduced.

DAR's role in the current market environment

One of the most important issues for investors is how they can help cushion their portfolios from declines in equity markets. Traditionally there have been several ways people approach this, with the use of government bonds being the most popular; a decision supported by historically attractive yields, negative correlations to equities, simplicity, familiarity, and unconventional monetary policy, including a decade of quantitative easing.

More recently, though, low nominal yields, negative real yields and a potential re-pricing have made bonds a much less reliable portfolio diversifier as the correlation between equities and bonds has become positive in the last two years[1]. Moreover, we can be reasonably certain that returns generated from bonds over the last few decades are very unlikely to be extrapolated into the next. Worse still, there is a real risk – and plenty of historical precedents – of bonds exacerbating equity losses, something especially likely if we enter an unexpected period of much higher inflation.

Whilst this does not necessarily mean that bonds are to be avoided, it seems sensible to explore the wide range of other options for effective diversification. We assess these alternatives through the twin lenses of risk mitigation and return enhancement; investments that can act in harmony that seek to cushion portfolios when equities are falling, or to potentially provide the return that bonds have achieved in the past. Some examples include:

- **Diversification within Fixed Income**. Investors can diversify their fixed income exposures by incorporating different strategies. Countries with steeper yield curves can still offer significant diversification when risk assets fall since they have more room to compress, for example.
- **Defensive Currencies.** Some currencies in jurisdictions with negative to low interest rates, like the Japanese yen and Swiss franc, have historically acted as buffers during risk-off episodes as investors unwind carry strategies. The current rate repricing is creating interest rate divergences, bringing to the fore once again traditional defensive currencies.
- **Alternative Sources of Real Returns.** Non-traditional sources of real return and diversification can come from infrastructure, listed real estate, commodities, inflation-protected bonds, to name a few. Such assets can play a critical role in portfolios and may help shelter against high inflation, an environment in which government bonds are unlikely to diversify.
- **Diversified Tail Risk Hedging.** Tail risk strategies can be designed with the potential to offer modestly positive excess returns over the very long term, with a negative correlation to equity markets. Successful tail hedging requires active management across a broad range of assets and the continual real-time assessment of market positioning and evaluation of market complacency or readiness for tail events.

In the current market environment, implementing a broad range of investment opportunities across different asset classes, strategies, and time horizons can provide alternative sources of returns and necessary diversification.

[1]Analysis performed of the correlation of equities (represented by the S&P 500 Index and the MSCI World TD USD hedged Index) against bonds (represented by the Barclays Global Aggregate Bond Index (USD Hedged)). The calculated correlation use data from the previous 24 months to 30 June 2021.

A Broad and Diversified Investment Approach

DAR is built on three principle building blocks with each playing a specific role in the portfolio and contributing to performance - Directional, Relative Value and Diversifying:

- Directional strategies take a global macro approach that aims to profit from upside or downside views across broad equity markets.
- Relative Value strategies, which are designed to be market-neutral, express views on price differences between or within asset classes.
- Diversifying strategies include liquid alternative approaches, such as trend-following and risk premia, which exploit Fulcrum's expertise in systematic strategies – and offer further breadth to the overall portfolio.

Building diverse portfolios that focus on a broad range of performance drivers over a multitude of time horizons is key, and our approach has been tried and tested through a wide range of market conditions, including the recent Covid pandemic in 2020.

Fund Risk Profile:

	Directional	Relative Value	Diversifying Strategies	Diversified Absolute Return
Description	Directional views across all asset classes (core & satellite)	Market neutral inter and intra asset class views (core & satellite)	Liquid diversifying strategies	**Absolute Return**
Percentage of Risk	30-40%	30-50%	0-10%	**6-8% volatility**
Historical Beta to Equities	+0.3	-0.1	+0.1	**+0.2**

Past performance is not a guide to future performance and future returns are not guaranteed. The chart above is provided for illustrative purposes only and is subject to change. It is based on historic fund data.

The individual strategy percentage of risk range is provided as a proportion of the total risk of the portfolio. Standalone risk by strategy is calculated by the strategy weight in the portfolio multiplied by the standard deviation of portfolio holdings in that strategy category. It is measured independently of other strategies and does not take into account their potential offsetting effect. The volatility range represents standard deviation which measures historical variability of returns around the average for an individual position, asset or group of assets. Higher standard deviation suggests greater risk.

Why invest with Fulcrum?

An independent firm with an experienced investment team. Fulcrum is an independent asset manager, founded in 2004 by Andrew Stevens and Gavyn Davies. Headquartered in London, with an office in New York, the firm has more than 70 employees with total assets under management of $5.0bn as at end June 2021. The same senior investment team have managed our portfolios from our inception and our team of economists, strategists and analysts have worked together through several decades and all manner of market environments.

Repeatable results with a broad base of performance drivers. Our approach is to combine the benefits of three performance drivers, namely Hit Ratio (i.e. the quality of investment ideas), Asymmetry (the skill in implementing those ideas) and Breadth (the number of ideas). Such strategies are more likely to generate attractive and repeatable investment outcomes that are demonstrably not the result of luck and do not necessitate unreasonably long investment horizons.

Academic rigor. Our investment process is guided by economic theory and backed by empirical research. This provides a valuable reference from which to frame our thinking and research, helping us to combine the fundamental and behavioral factors in underlying investment markets.

Multidisciplinary. We leverage the full suite of capabilities available within Fulcrum – across the areas of global macro, risk premia, thematic equities, alternative solutions, and responsible investing – to help us achieve our investment objectives for clients.

Responsible Investing. Our heritage as a macroeconomic specialist brings with it a mindset that helps us to understand the risks of and investment opportunities relating to Responsible Investment. We believe that by combining the use of suitable external ratings with our own analysis we will be better able to see the full risk picture.

Key differentiators of DAR

Return generation:

- Diversified multi-asset portfolio investing across the four liquid asset classes of equities, bonds, currencies, and commodities.
- Fund targets long-term absolute returns in all market conditions over rolling five-year periods, with lower volatility than equity markets and in excess of cash and inflation.

Risk Mitigation:

- Permanent hedging overlay to help reduce participation in declining equity markets.
- Historically the fund has exhibited lower drawdowns than equity markets.

Complementarity:

- Dynamic global asset allocation subject to strict risk limits.
- Aims to deliver a more stable profile of returns with a lower realized sensitivity to traditional equity and bond markets.

Why Fulcrum Diversified Absolute Return Fund?

- Low correlations to traditional assets.
- Rising correlations of bonds with equities.
- Low potential returns from bonds.
- DAR returns are not dependent upon any one asset class, factor, or time horizon.

Contact us

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Disclosure

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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