Quarterly Investment Review - Q2 2021

Fulcrum Diversified Absolute Return Fund (FARIX)

FUND OBJECTIVE

Fulcrum Diversified Absolute Return Fund aims to achieve long-term absolute returns.

In seeking to achieve its aim of long-term absolute returns, the Fund aims to hold a diversified portfolio and achieve long-term absolute returns in all market conditions over rolling five-year periods, with lower volatility than equity markets and in excess of inflation.

Investments are sought with a focus on liquidity and are multi-asset in nature with exposure across equity, fixed income, currency and commodity markets globally.

Fund Information

Institutional Class	FARIX
Management Fee	0.90%
Gross Expenses	1.19%
Net Expenses[1]	1.09%
40 Act Launch Date	7/31/2015
AUM ($)	$110.0m
Firm AUM	$5.0bn

PERFORMANCE SUMMARY

The Fund posted a positive performance of +2.25% for the second quarter, with positive contributions coming from each of our Directional, Relative Value and Diversifying Strategies.

The key drivers of returns from the Directional Strategies came from our exposure to US and European equities. Within Relative Value the key contributors were from positioning within currencies, commodities, and our volatility strategies. Detractors came from within our fixed income and equity macro positioning.

Our long Chinese renminbi and US dollar positions were the main performers within currencies. Additionally, our long exposure to oil performed well as did the exposure to carbon emissions.

Within fixed income, our US steepener underperformed as short-term interest rates increased relative to long-term rates on the back of the Federal Open Markets Committee (FOMC) meeting in June, thereby resulting in an overall flatter yield curve. While we continue to hold a net negative duration bias, we have reduced our exposures.

Finally, Diversifying strategies captured a broad set of returns across strategies and assets.

CUMULATIVE NET PERFORMANCE

	as of June 30, 2021							
	Q2	**YTD**	**1 Year**	**3 Years**	**5 Years**	**Since Inception[2]**	**Equity Correlation[6,7]**	**Fixed Income Correlation[7,8]**
FARIX	2.25%	6.38%	10.58%	6.66%	4.99%	3.34%	0.3	-0.3
Wilshire Liquid Alternative[3]	2.25%	4.47%	11.59%	3.80%	3.25%	2.24%	0.9	0.2
Wilshire Liquid Alts Global Macro[4]	2.30%	4.19%	9.34%	3.64%	1.56%	0.90%	0.4	0.3
HFRI Macro Index[5]	4.55%	8.85%	15.49%	6.06%	3.32%	2.96%	0.4	0.3

[1]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 at least October 31, 2021, excludes shareholder servicing fees, acquired fund fees and expenses ("AFFE"), taxes, interest expense, dividends on securities sold short and extraordinary expenses; the net expense ratio includes these fees and 2021. This limit represents what investors have paid as of the prospectus dated 10/31/20. [2]Inception date: July 31, 2015. Annualized return. [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 MSCI World TR USD Hedged (Bloomberg ticker: WHANWIHD). [7]Data analysis provided since inception of the Fund. [8]Represents BC Global Aggregate USD Hedged (Bloomberg ticker: LEGATRUH). Source: Fulcrum Asset Management LLP, Bloomberg.

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.

Quarterly Investment Review

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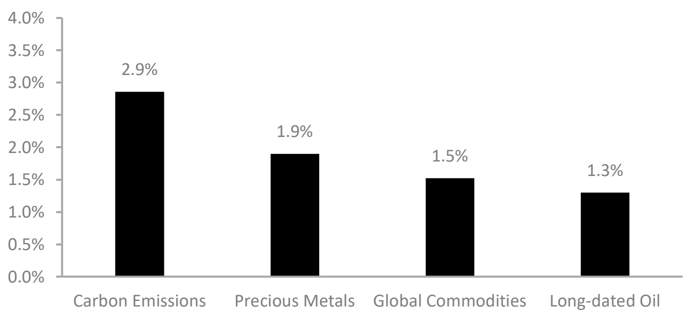
PORTFOLIO COMPOSITION

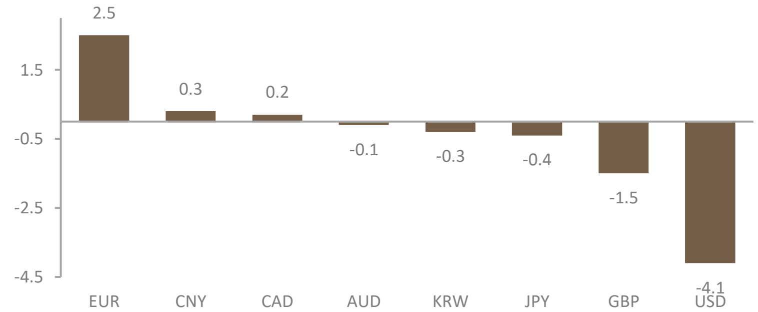
During the quarter we built up our long US dollar position in anticipation of the Fed's reaction to stronger inflation data. We have since taken profit and have turned more neutral on the US dollar given the Fed's muted reaction and the fact that any slowdown in the labour market will be met with a delay of the Fed timeline. We also closed the precious metals' view during the quarter given our views on real yields though we have since re-initiated a small long position. We remain tactically positioned within government bonds, favouring a net short duration bias mainly in the US.

Given our outlook, we are positioned pro-cyclically. However, we recognise the potential risk of a more pronounced slowdown emanating from Asia and have looked to reduce our exposure there, with China in particular offering opportunities to hedge against an unforeseen global slowdown given their recent policy shift. We remain positive on the US, UK, and Europe and see an idiosyncratic slowdown originating out of the US as unlikely in the current circumstances. However, we are more neutral on the US dollar given that any perceived or actual slowdown will be met with a more accommodative Fed.

Net Commodity Exposure: 7.6%



Net Duration Exposure (years): -3.5



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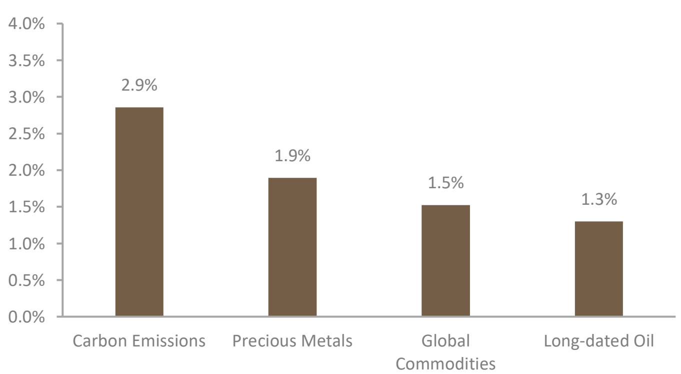
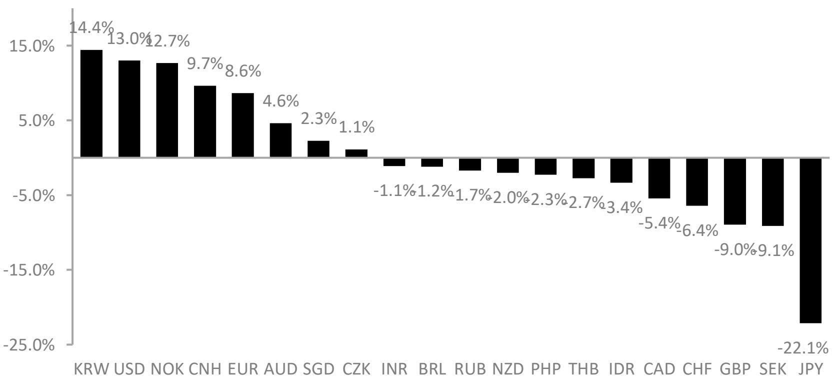


Net Currency Exposures



Data as at 06/30/2021. Source: Fulcrum Asset Management LLP.

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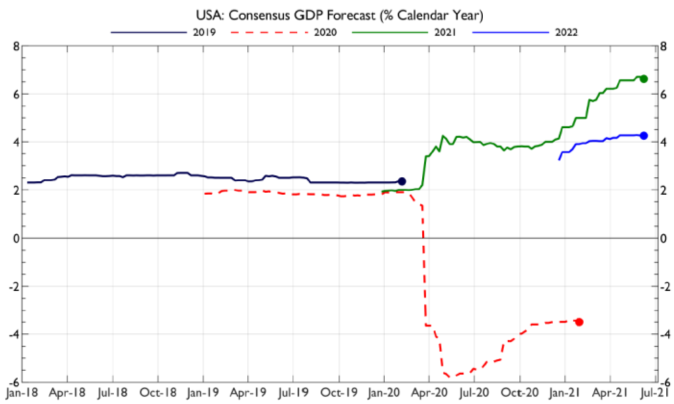
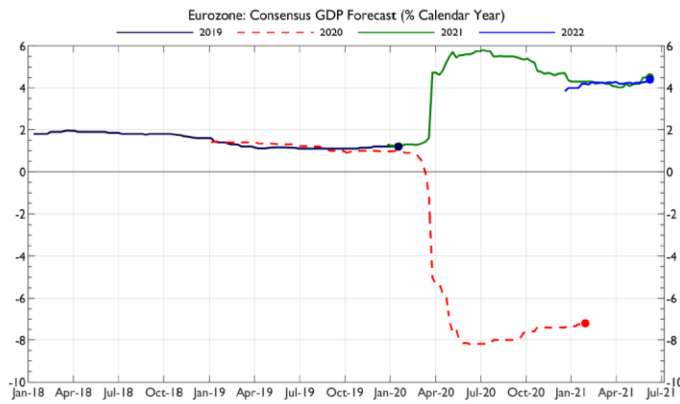
MARKET REVIEW AND OUTLOOK

Global Recovery Remains On Track But Risks Remain

We expect the global recovery to continue as countries vaccinate their population and reduce the risk of healthcare strain. Several developed countries – notably US, UK and Europe – will return to some form of economic and social normalcy in the coming months, while developing countries and regions, such as South East Asia, Latin America and South Africa, will face several more quarters of restrictions. Overall, growth expectations across the major economies have been steadily rising, and now stand at above 6.5 per cent for the US and 4.5 per cent for the Eurozone.



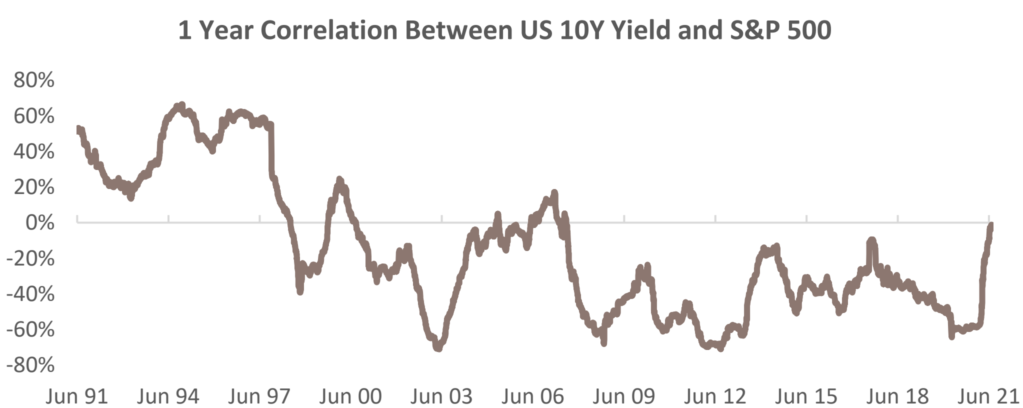


Expectations about the recovery continue to improve.
Sources: Bloomberg LLP, Fulcrum Asset Management LLP

However, a good environment for economic recovery may not necessarily mean much further upside for asset prices in the short-term given the increased vulnerability that looms, namely expiration of job support schemes, business supports and the potential scaling back of monetary policies. While we view these risks as balanced in the short term, as we outline in the next section, the Fed has moved from a proactive position to one that is more reactive to incoming data. As a result, it will adapt its monetary policy stance accordingly, which could be in either direction.

The rapid spread of the Delta variant, which is deemed to be 40-70 per cent more transmissible than the Alpha variant, risks delaying domestic recoveries, especially in countries with low levels of immunity. Scientists estimate that the immunity threshold to prevent high levels of infection has gone up due to the higher transmissibility, with some estimates putting the immunity threshold as high as 80 to 90 per cent of the adult population. Here, emerging market countries are most at risk given their low levels of vaccination to date.

On a separate note, one of the key drivers of portfolio risk, the correlation between equity and bonds, has very recently turned positive for the first time in over a decade. The resultant lack of diversification provided by government bonds could lead to a period of de-risking as investors reassess the vulnerability of their portfolios to risk assets.



1-year correlation between US 10-year yield and S&P 500 has turned positive, making bonds a less effective hedge for risk assets.
Sources: Bloomberg LLP, Fulcrum Asset Management LLP

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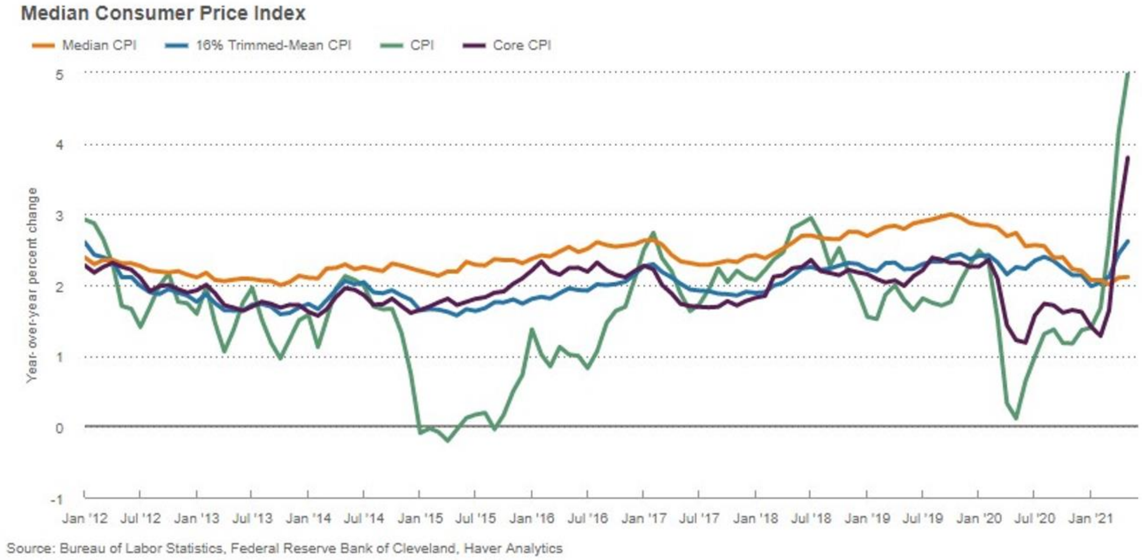
The Transitory Inflation Gamble

While asset prices continue to reflect increased economic optimism, with the S&P 500 and Nasdaq at all-time highs as at quarter end and oil prices above pre-pandemic levels, the strength of underlying demand relative to supply continues to exert pressure on prices and has thus eliminated the price level shortfall target of the Federal Reserve.



Cumulated CPI over two years to May 2021 has been above 4 per cent (2 per cent p.a.) when measured by any of the inflation measures (CPI, Core CPI, Median CPI, Trimmed Mean CPI).

The recent strength in underlying inflationary pressures has led the Federal Open Market Committee (FOMC) to shift higher its 2021 expectations for Core Personal Consumption Expenditure (PCE) inflation at its latest June meeting, compared to its previous meeting, and revise its interest rates "dots" upwards. This was a significant change in policy relative to expectations but in line with the changes in the data. Nevertheless, the "dots" remain below any policy rules at all horizons, indicating the dovishness of the Federal Reserve.

While the Fed rightly attributes the inflationary pressures to transitory factors, we believe that the probability of an inflation surprise is as high as it has ever been, and we do not feel this is fully appreciated by broader asset markets. The Fed's dilemma in meeting its dual mandate, especially if inflation continues to surprise to the upside while the labour market recovers slowly, makes policy more discretionary and data dependent, bringing to the fore "tantrum risks".

The Fed's dilemma was highlighted with the latest labour market reports in the US. Firstly, the jobs recovery has been slower than most anticipated, with job creation significantly below pre-pandemic levels. Secondly, the increase in average hourly earnings has been running at a higher pace relative to pre-pandemic levels, suggesting that wages are being reset higher despite jobs not being back to pre-pandemic levels.

Final Word

We believe that the underlying global growth trend continues to be strong and, crucially, it is strong enough to weather three key risks on the horizon, namely an anticipated deceleration in the US (as we move past peak reopening growth rates), weaker Chinese data (particularly in relation to the consumer), and the Delta variant resurgence in cases.

The US deceleration is largely as we anticipated following peak reopening growth rates. Whilst Chinese data has been slightly weaker than expected, we see this as largely a function of the prior policy choice for regulatory tightening and restrictive financial conditions. The recent move to lower the Reserve Requirement Ratio highlights that this policy choice is now shifting towards accommodation which should start to reverse some of this slowdown. With respect to the accelerating wave of Delta cases globally, vaccinations continue to provide very good protection against severe cases and hospitalisations. While we continue to monitor the situation, we are cautiously optimistic that hospitalisations will remain low and the re-opening, led by the UK, can continue. There will be more definitive data over the next few weeks, especially after July 19th, which will be carefully watched by other countries as well.

Ultimately, any transmission of weakness from local economies to the global economy would be via trade (e.g. goods and global manufacturing) as opposed to localised services which are affected by lockdowns. Policy makers globally continue to intervene fiscally as and when necessary to try and prevent lockdowns in one area of the economy from affecting the rest (and therefore the global economy), and we do not see this playbook changing for the time being. Global trade and manufacturing remain strong and, if anything, continue to be affected by supply side bottlenecks as opposed to a lack of demand. This makes further inflationary pressures a real possibility.

Given our outlook, we are positioned pro-cyclically. While we largely maintain this view, we are alert to the potential risk of a more pronounced slowdown emanating from Asia and have looked to reduce our exposure there, with China in particular offering opportunities to hedge against an unforeseen global slowdown given the recent policy shift. We remain positive on the US, UK, and Europe and see an idiosyncratic slowdown originating out of the US as unlikely in the current circumstances. However, we are more neutral on the US dollar given that any perceived or actual slowdown will be met with a delay of the Fed timeline by markets. Ultimately, should any growth scare by markets be misplaced, we see the potential for additional easing of financial conditions as a source to re-accelerate US growth in particular.

Glossary of Terms:

Core CPI - measures the change in the costs of goods and services but does not include those from the food and energy sectors.

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

CPI - also known as Consumer Price Index, it measures changes in the price level of a weighted average market basket of consumer goods and services purchased by households. It measures inflation.

Duration - measure of a bond's sensitivity to changes in the interest rate.

Median CPI - represents the one-month inflation rate of the component whose expenditure weight is in the 50th percentile of price changes.

Personal Consumption Expenditures - measure of imputed household expenditures defined for a period of time

Yield Curve - illustrates the relationship between maturity dates and yields. The yield curve for a particular bond market is the result of plotting the yields offered on varying bonds against the maturities of those bonds.

16% Trimmed-Mean CPI - a measure of core inflation calculated by the Federal Reserve Bank of Cleveland. It excludes the CPI components that show the most extreme monthly price changes. This series excludes 8% of the CPI components with the highest and lowest one-month price changes from each tail of the price-change distribution resulting in a 16% Trimmed-Mean inflation estimate.

Indices:

BC Global Aggregate USD Hedged - a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

HFRI Macro Total Index - representative of investment managers who trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency and commodity market.

MSCI World TR USD Hedged - free float-adjusted market capitalization weighted index designed to provide a broad measure of large and mid-cap equity performance across 23 developed markets countries.

Wilshire Liquid Alternative Global Macro Index - measures the performance of the global macro strategy component of the Wilshire Liquid Alternative Index. It is designed to provide a broad measure of the liquid alternative global macro market.

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).

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