FULCRUM DIVERSIFIED ABSOLUTE RETURN FUND (USD)

Quarterly Investment Review

2Q 2023

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Investment innovation
Macro foundations

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Contents

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Net Performance

As of June 30, 2023								
	Q2	YTD	1 Year	3 Years	5 Years	Since Inception[1]	Equity Correlation[5,6]	Fixed Income Correlation[5,7]
FARIX	-0.11%	-2.10%	-1.91%	2.68%	3.51%	2.27%	0.3	-0.2
Wilshire Liquid Alternative[2]	0.59%	1.80%	1.67%	2.44%	1.50%	1.19%	0.9	0.4
HFRX Global Hedge Fund Index[3]	0.64%	0.63%	1.31%	2.04%	1.71%	1.39%	0.8	0.2
Bloomberg US Agg Total Return[4]	-0.84%	2.10%	-0.94%	-4.44%	0.77%	1.05%	0.3	1.0

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.

Fulcrum Diversified Absolute Return Institutional Class has a gross expense ratio of 1.18% and a net expense ratio of 1.13%. As of the prospectus dated March 10, 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 April 30, 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.

The Fulcrum Diversified Absolute Return Fund is distributed by Northern Lights Distributors, LLC.

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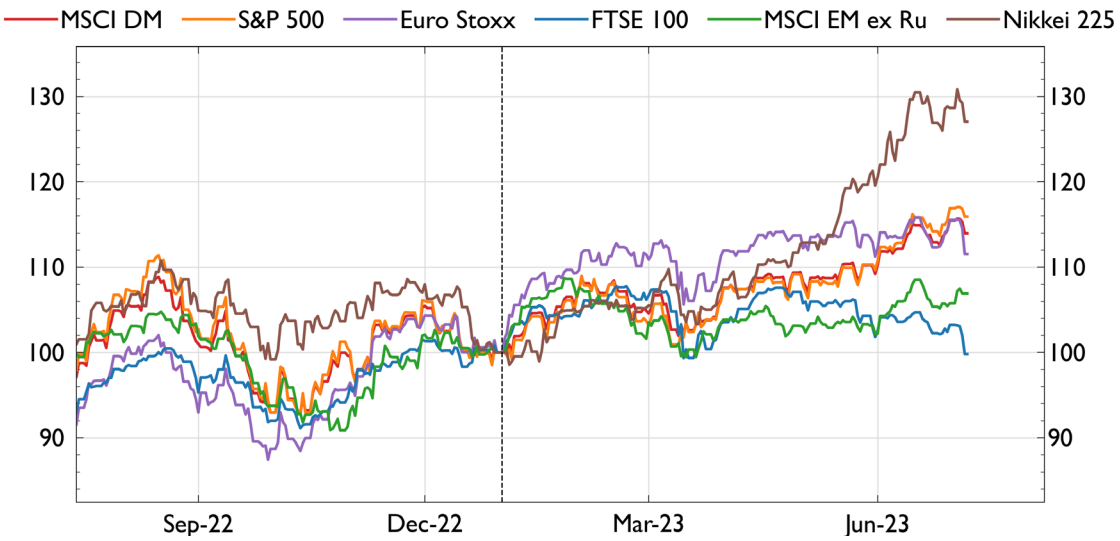
Market and Portfolio Review

Market Review

The second quarter of 2023 saw global equities return +6.2%[1], building on the strong gains seen in the first quarter. The strength was led by developed market equities, which returned +6.8%[2] (see Figure 1), whilst emerging markets were up by only +0.9%[3] over the quarter, weighed down by significant declines in Chinese equities. Meanwhile, a sharp rise in developed market interest rates caused global bonds to return -1.5%[4]. Commodities returned -2.7%[5], as precious metals fell sharply and as both industrial metals and energy registered large declines amid weak Chinese economic activity.

Figure 1: Equities Total Returns (2023-01-01 = 100)



Source: Fulcrum Asset Management, Bloomberg

The quarter began with signs of market stabilisation following the US banking sector turmoil in March. This was aided by the fact that US economic data remained robust, and the pace of deposit outflows from community banks eased. Throughout the months of May and June however, the economic picture for Europe and China worsened, with increasing signs of a global industrial slowdown. Weakness was particularly acute in Germany, where our estimate of real-time activity growth fell sharply over the quarter. The US appeared more insulated from these headwinds, with job growth continuing to surprise to the upside and consumer spending remaining resilient.

Against this backdrop, as well as a boom in valuations for companies active in Artificial Intelligence, US equities exhibited very strong performance in May and June, leading global indices higher. Meanwhile, Japanese equities

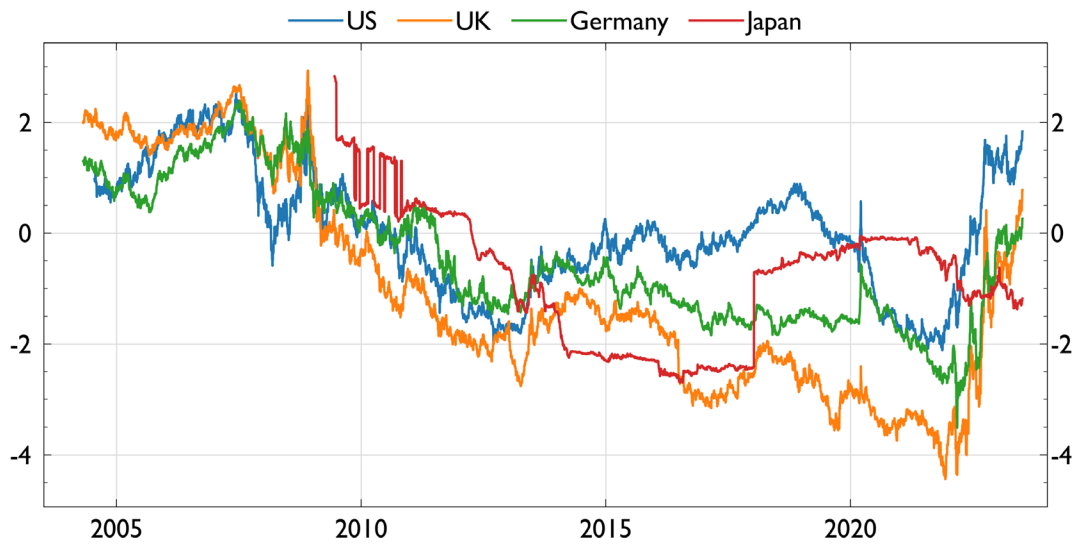
[1] MSCI All-Country World Net Total Return Index (Bloomberg ticker: NDUEACWF Index)
[2] MSCI World Net Total Return Index (Bloomberg ticker: NDDUWI Index)
[3] MSCI Emerging Markets Ex. Russia Net Total Return Index (Bloomberg ticker: M1EF Index)
[4] Bloomberg Global-Aggregate Total Return Index (Bloomberg ticker: LEGATRUU Index)
[5] S&P Goldman Sachs Commodity Total Return Index (Bloomberg ticker: SPGSCITR Index)

experienced double-digit gains on the back of robust economic data as well as a highly accommodative policy stance from the Bank of Japan (BoJ).

Although headline inflation declined significantly across markets, elevated core inflation and tight labour markets kept policymakers vigilant. The UK was the most notable example of this, with regular pay growth coming in significantly above consensus at 7.2% (YoY) in the three-months to April, alongside an unexpected acceleration in core inflation in May. Following this, the Bank of England (BoE) raised interest rates by a surprise +50bps[6] in June, and markets priced in a progressively tighter path for the Bank Rate going forward.

At the June Federal Open Markets Committee (FOMC) meeting, Federal Reserve officials projected that two further rate hikes would be needed given the persistence of inflation and strength of the economy. Despite the Euro Area's economic weakness, the European Central Bank (ECB) also signalled further tightening to come and emphasised the danger of second-round effects from wages. The euro and pound saw benefits over the quarter from the upward shift in ECB and BoE policy rate expectations. Furthermore, this synchronised tightening from the major central banks pushed real interest rates in most developed markets, as measured by inflation-linked bond yields, to their highest level in 15 years.

Figure 2: 5-year inflation-linked bond yields (%)



Source: Fulcrum Asset Management, Bloomberg

In contrast, the BoJ remained committed to its policy of Yield Curve Control despite a continued acceleration in underlying inflation. This led to a sharp decline in long-term real yields in Japan, helping to buoy equity valuations (see Figures 1 and 2). Meanwhile, faced with a slowing economy, subdued inflation and a fragile property market, the People's Bank of China (PBOC) cut interest rates and there was increasing talk of a fiscal support package from the central government. Given this backdrop, the US dollar appreciated significantly against the yen and renminbi.

[6] Please note that one basis point is equal to one hundredth of one percent.

Performance Review

The portfolio posted a negative performance of -0.11%, with losses from Discretionary Macro (DM) of -1.6% offsetting gains of +1.3% from Dynamic Asset Allocation (DAA) and gains of +0.5% from Diversifying Strategies (DS).

Within DAA, gains were led by long exposure to equities, whilst commodities were the main detractor. Fixed income, which we are underweight, had a small negative impact. Returns from DS were led by currencies and commodities positioning within trend-following strategies

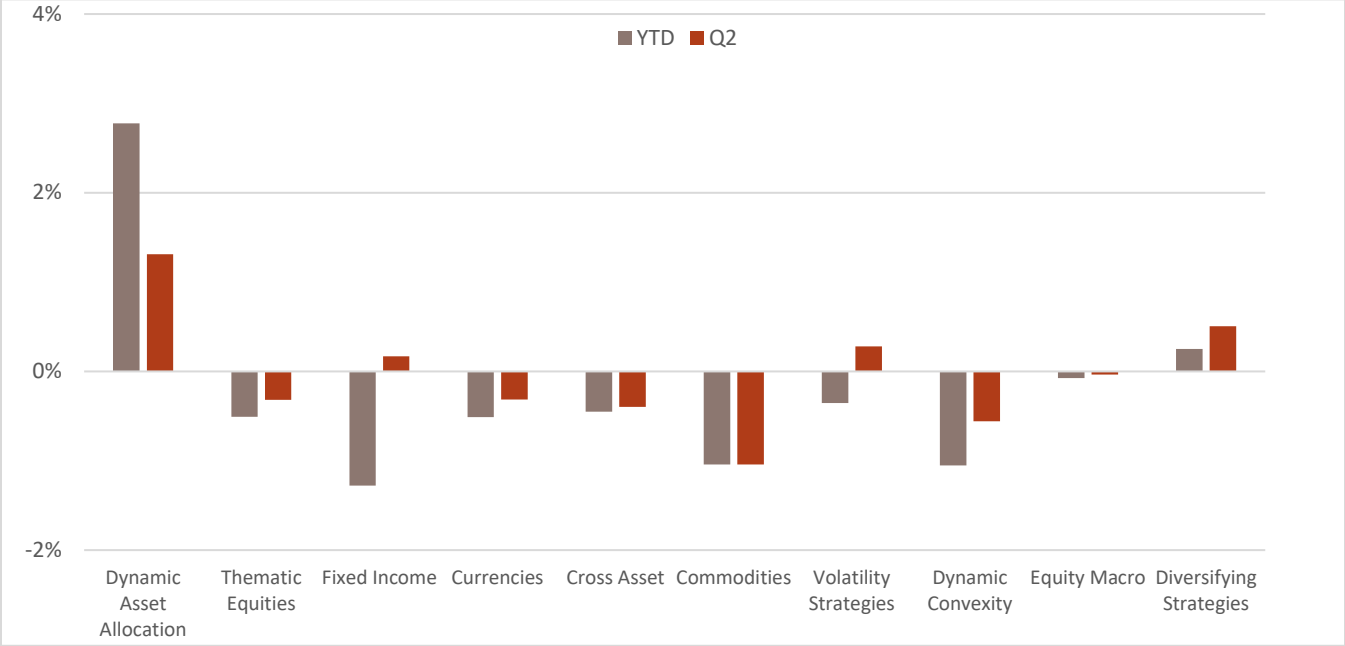
Within DM, Fixed Income contributed positively over the quarter, as long positioning in Mexican and Brazilian rates benefited from a substantial decline in forward rate pricing across emerging markets. Performance within currencies was roughly flat over the quarter, with positive performance from emerging market Asian currencies offset by losses on our long Japanese yen holdings as the BoJ maintained its loose policy stance.

Meanwhile, in Equity Macro, option-based exposure to the FTSE 100 detracted after the upside inflation surprise and resultant sell-off in U.K. assets. Equity Thematic also saw losses, as declining energy prices and global industrial weakness led to falls in oil producers and oil refining companies. This weakness in energy prices affected the Commodities strategy, which also detracted from its exposure to precious metals, given the sharp rise in real yields. Cross Asset saw losses driven by continued defensive positioning from the macro models.

Elsewhere, Dynamic Convexity had a difficult quarter, with low volatility across asset classes resulting in limited payoffs and detractions from option premia. Finally, Volatility strategies had a strong quarter, with gains concentrated in Chicago Board Options Exchange Volatility Index (VIX) carry, VIX put and equity dispersion positions.

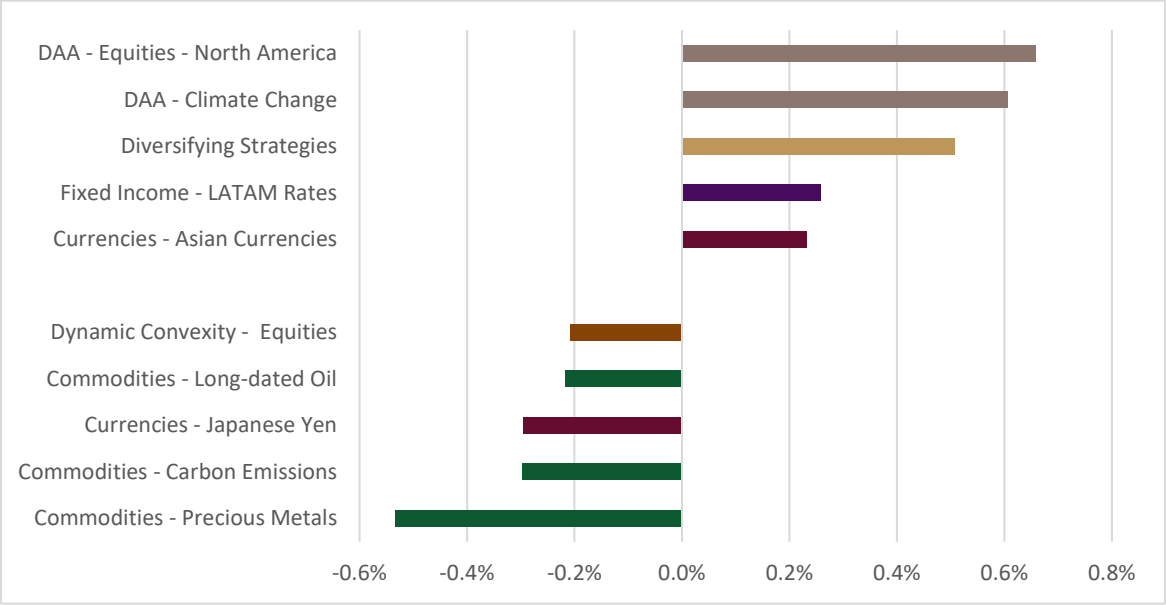
The following charts detail the portfolio attribution from all our investment strategies over the second quarter of 2023. We also outline below the top and bottom five contributors to the portfolio's return over the quarter.

Figure 3: Second Quarter - Portfolio Attribution



Source: Fulcrum Asset Management LLP

Figure 4: Second Quarter – Top and Bottom Contributors to Portfolio Returns



Source: Fulcrum Asset Management LLP

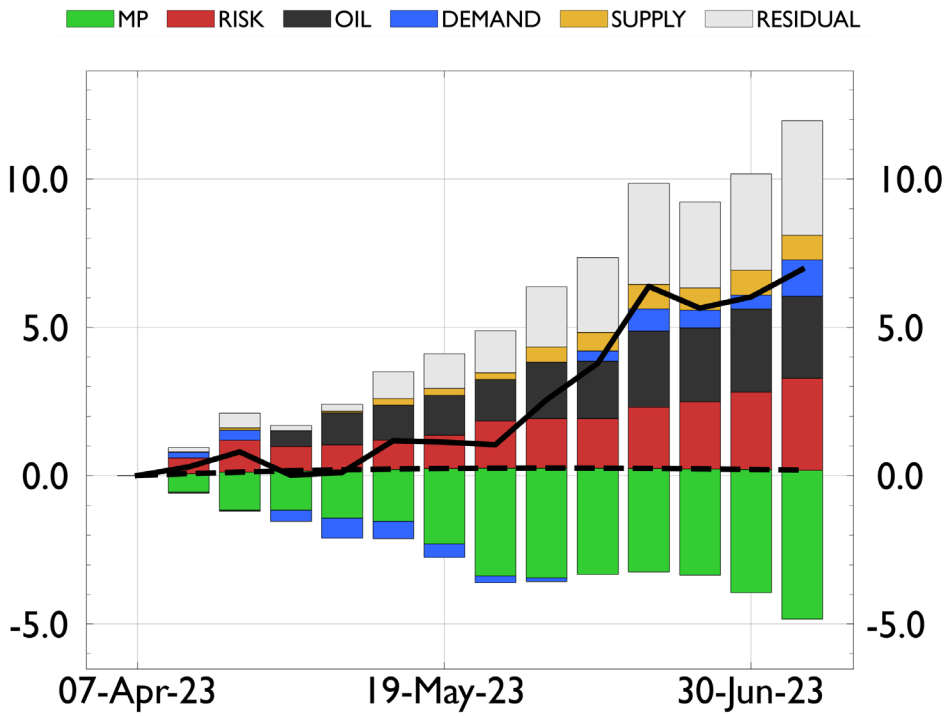
Past performance is not a guide to future performance and future returns are not guaranteed.

Macro and Investment Outlook

US equities remain buoyant despite higher interest rates

One of the interesting features of the equity market rally in Q2 of 2023 is that it coincided with rising real interest rates, which, all else equal, should put downward pressure on valuations. Indeed, our high-frequency asset price modelling of the S&P 500 shows that tighter monetary policy did act as a drag on equities over the quarter (see the green "MP" bar in Figure 5). Importantly, however, there were offsetting shocks that acted to raise valuations overall, most notably a sharp improvement in risk sentiment and an idiosyncratic decline in oil prices (see red "RISK" and black "OIL" bars in Figure 5). Our model also picked up an improvement in aggregate demand and non-oil supply (see blue "DEMAND" and yellow "SUPPLY" bars in Figure 5), which was most evident towards the end of the quarter.

Figure 5: Structural Decomposition of S&P 500 Returns (% cumulative)[7]

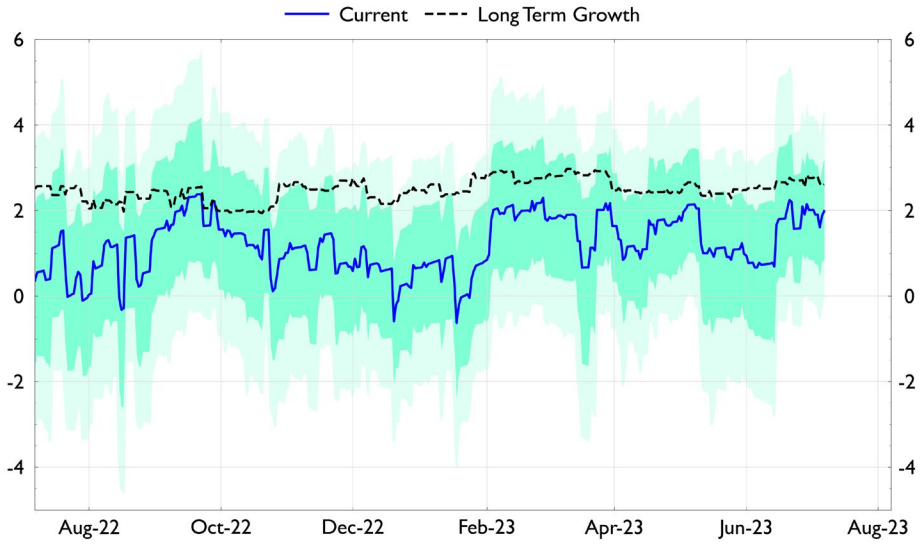


Source: Fulcrum Asset Management

[7] Figure 5 shows the results from a Fulcrum model which estimates movements in the S&P 500 as a function of fundamental structural shocks hitting the economy. These shocks are: Monetary Policy (MP), Risk Sentiment (RISK), Oil Supply (OIL), Aggregate Demand (DEMAND) and non-oil Aggregate Supply (SUPPLY). The remaining variation not explained by these shocks is shown in RESIDUAL. The shocks are identified using a Bayesian Structural VAR (SVAR) model which combines traditional sign restrictions with narrative restrictions relating to key historical market events. The dashed line represents the SVAR's forecast in the absence of any structural shocks.

The strength of US equities came as the American economy continued to weather the global industrial slowdown. Our current nowcast of economic activity growth in the US remains close to its long-term trend (see Figure 6). In contrast, our estimate for the Euro Area is close to recessionary territory, with declines led largely by weakness in the manufacturing sector (see Figure 7). Importantly, our estimate of long-term activity growth for the US sits nearly two percentage points higher than that for the Euro Area.

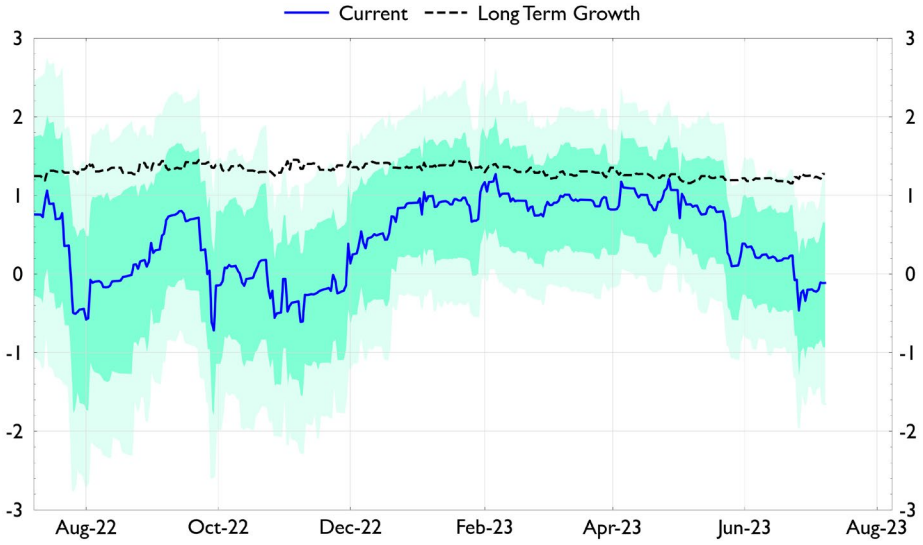
Figure 6: US estimate of real-time activity (%, Ann.)[8]



Source: Fulcrum Asset Management

[8]Figures 6 show Fulcrum's proprietary nowcast, which is a Bayesian Dynamic Factor Model that takes a range of hard economic data and survey information to provide an accurate and timely indication of economic activity.

Figure 7: Euro Area estimate of real-time activity (%, Ann.)[9]



Source: Fulcrum Asset Management

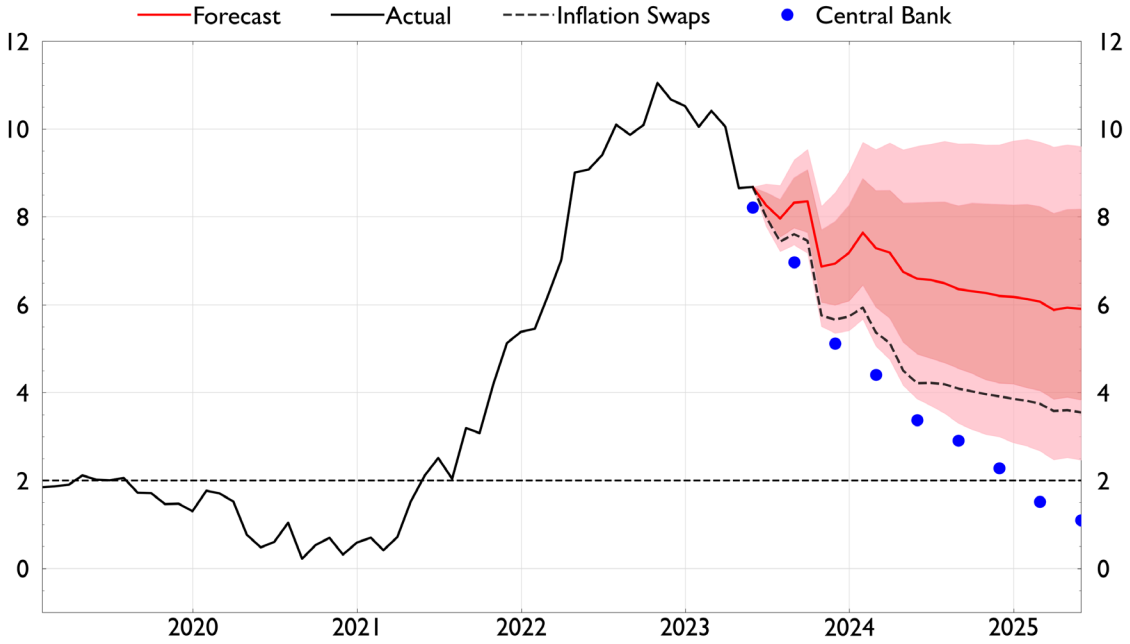
With core inflation still elevated in the US and the Euro Area, officials at the Federal Reserve and ECB have continued to emphasise the need for further tightening. Given its stronger near and medium-term growth prospects, the Fed should be more able to sustain higher real yields than the ECB, though policy rates in Europe are still likely to remain high on an absolute basis. This sets equites up for a potentially more challenging second half of 2023, with further hawkish monetary policy shocks remaining a distinct possibility.

UK inflation surprise prompts interest rate surge

As the European energy crisis has eased, both the UK and Euro Area have seen headline inflation fall from the double-digit levels seen at the end of last year. The pace of the decline for the UK, however, has been considerably slower than expected. Going forward, our forecast in Figure 8 points to material upside risk to both the BoE's latest projection (blue dots) and the market-implied inflation path (dashed line).

[9]Figures 7 shows Fulcrum's proprietary nowcast, which is a Bayesian Dynamic Factor Model that takes a range of hard economic data and survey information to provide an accurate and timely indication of economic activity.

Figure 8: UK Headline CPI Inflation Forecast (YoY, %)[10]



Source: Fulcrum Asset Management

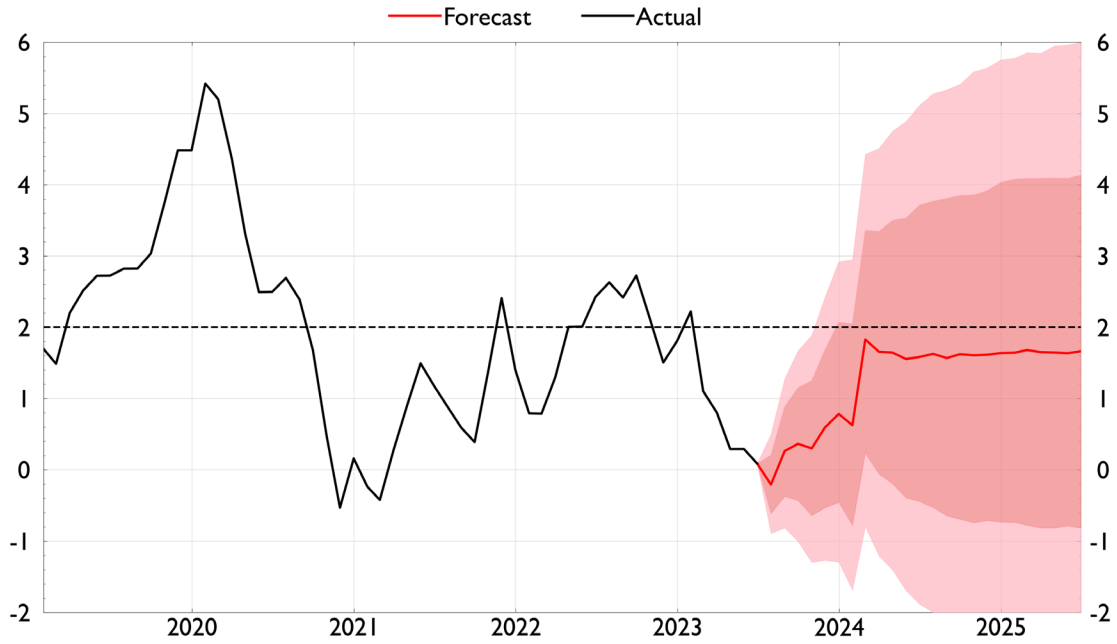
Given these developments, combined with a persistently tight domestic labour market, markets have priced in a more aggressive reaction from the BoE, with the sterling Overnight Index Swaps pointing to a peak Bank Rate of 6.5% by March 2024. Although the BoE has recently validated these more hawkish expectations, it faces the difficult task of containing price pressures without causing a sharp economic slowdown. This may limit the extent to which the BoE can accommodate the path of real interest rates currently priced by markets.

Pressure builds for China stimulus

In stark contrast with the UK and rest of the developed world, inflationary pressures in China have remained muted. Our forecast sees Chinese inflation hovering around 0% (YoY) for the next several months and sitting below 2% (YoY) in the medium term (see Figure 9).

[10]Figure 8 shows the results from a Fulcrum model, which combines an estimate of current trend inflation, similar to that developed in Stock and Watson (2007), with a Bayesian Vector Auto Regression.

Figure 9: China Headline CPI Inflation Forecast (YoY, %)[11]



Source: Fulcrum Asset Management

Unlike Western nations, China did not embark on a large-scale fiscal stimulus campaign during Covid-19. Moreover, recent declines in house prices have weakened household balance sheets and acted as a drag on construction activity, hitherto a significant driver of China's economic growth. This has led to persistently weak domestic demand and dis-inflationary pressures in China, which is being compounded by a slowdown in global trade and manufacturing activity.

In response to this, the PBOC has cut several of its key policy rates and Premier Li Qiang has tried to reassure investors with promises of fiscal support. Focus will likely be around what form this package might take, as the previous formula for economic stimulus – namely heavy spending on housing and infrastructure – may be difficult given the highly elevated debt burdens among corporations and local governments.

[11]Figure 9 shows the results from a Fulcrum model, which combines an estimate of current trend inflation, similar to that developed in Stock and Watson (2007), with a Bayesian Vector Auto Regression.

Final word

On the DAA side, we remain overweight cash, but by less so than previously, as falling volatility in equities, bonds and commodities has increased their relative attractiveness. Furthermore, lower inflation and rising long-term yields has raised the expected returns on bonds, increasing the allocation towards fixed income. Allocations to commodities have also increased, as expected returns have been led higher by the broad-based improvement in risk appetite and economic sentiment evident in markets.

For DM Fixed Income, we remain overall long duration, but look to see higher US yields vis-à-vis those in the Euro Area, given the significantly more robust near and medium-term growth dynamics in the US. Moreover, we hold long exposure to UK duration, judging that the current forward rate curve prices an implausibly large +150bps[12] in further interest rate hikes from the BoE. This also informs our long dollar versus euro and pound positioning within Currencies strategies. With regards to Asian FX, we continue to hold short positions in the Chinese renminbi as a weakening economy is likely to put continued downward pressure on domestic interest rates.

In the DM equities space, we prefer exposures to Europe over the US. Particularly after the recent tech-related rally in the US, European equities continue to offer substantially more attractive valuations, and may benefit from any appreciation in the US dollar.

In the Commodities space, we maintain a diversified basket of oil and precious metals. Despite oil showing little reaction to recent events in Russia, the combination of significant supply uncertainty and strong energy demand projections leaves important upside potential for oil prices.

Finally, although markets have recently remained buoyant despite higher interest rates, elevated and persistent core inflation raises the likelihood of further hawkish shocks to monetary policy. As such, in Dynamic Convexity we retain options structures that will pay off in the event of significant and simultaneous declines in fixed income and equity markets.

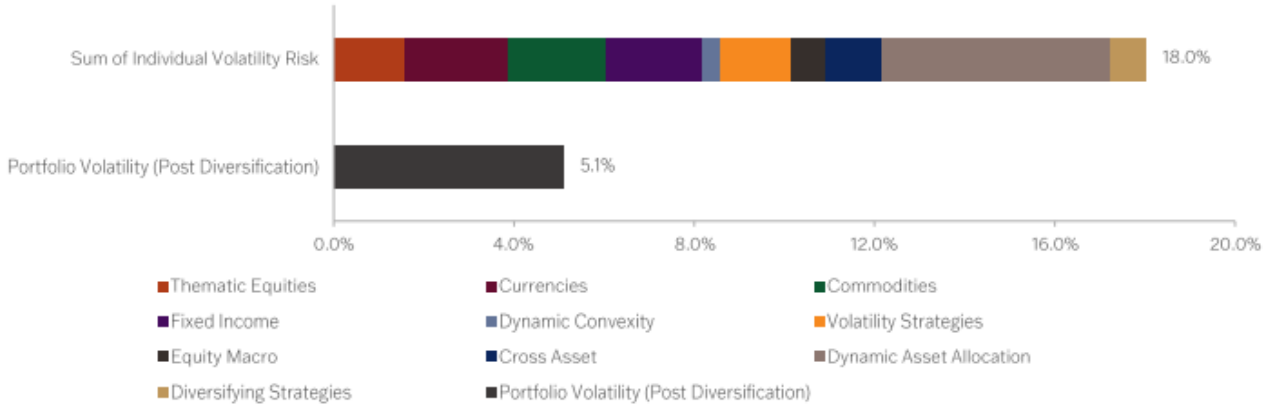
Overall, we maintain a defensive stance, whilst continuing to focus on investment ideas that are less directional in nature.

[12] Please note that one basis point is equal to one hundredth of one percent.

Portfolio Positioning

Individual Risk Allocation by Strategy

While the sum of individual risks is almost 18%, total portfolio volatility at 5.1%, reflecting embedded diversification benefits.



Discretionary Macro	12.2 %
Fixed Income	**2.1%**
UK Rates	0.8%
US Rates	0.4%
LATAM Rates	0.3%
Australian Rates	0.2%
European Rates	0.2%
Japanese Rates	0.2%
Scandinavian Rates	0.1%
Canadian Rates	0.0%
Volatility Strategies	**1.6%**
VRP	0.6%
FX Correlation	0.4%
Volatility Carry	0.2%
European Dividends	0.2%
Global Vol RV	0.1%
S&P Call Ratio	0.1%
Tactical Dividends	0.0%
Cross Asset	**1.3%**
UK Macro	0.4%
Data Surprises	0.3%
European Macro	0.3%
Japan Macro	0.3%
Commodities	**2.2%**
Precious Metals	1.0%
Long-dated Oil	0.6%
Carbon Emissions	0.6%

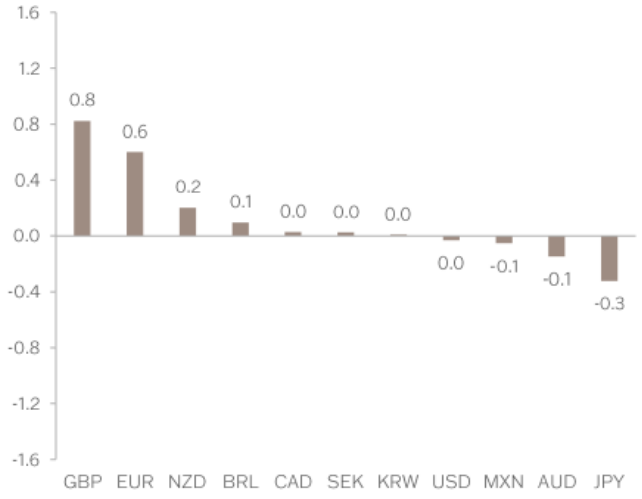
Currencies	2.3%
UK Pound	0.6%
Euro	0.5%
Chinese Renminbi (Yuan)	0.4%
Japanese Yen	0.2%
Scandinavian Currencies	0.2%
Asian Currencies	0.1%
Australian Dollar	0.1%
CEEMEA Currencies	0.1%
Canadian Dollar	0.1%
LATAM Currencies	0.1%
Dynamic Convexity	**0.4%**
Equities	0.1%
Equities vs Rates	0.1%
Equities vs Commodities	0.1%
Fixed Income	0.0%
Commodities	0.0%
Equity Macro	**0.8%**
UK Equities	0.4%
Long Distressed Tech	0.2%
European Equities	0.2%
Climate Change Impact	0.0%
Thematic Equities	**1.6%**
Technology Disruption	0.4%
Global Energy Sector	0.4%
Cyclicals	0.2%
Consumer Trends	0.2%
Climate Change	0.1%
Healthcare Trends	0.1%
Idiosyncratic	0.1%
Global Financials	0.1%

Dynamic Asset Allocation	5.0%
Equities-Climate Change	1.7%
Equities-North America	1.5%
Commodities	0.8%
Fixed Income	0.5%
Equities-Europe ex-UK	0.2%
Equities-Japan	0.1%
Equities-United Kingdom	0.1%
Equities-Asia ex-Japan	0.1%
Diversifying Strategies	**0.8%**

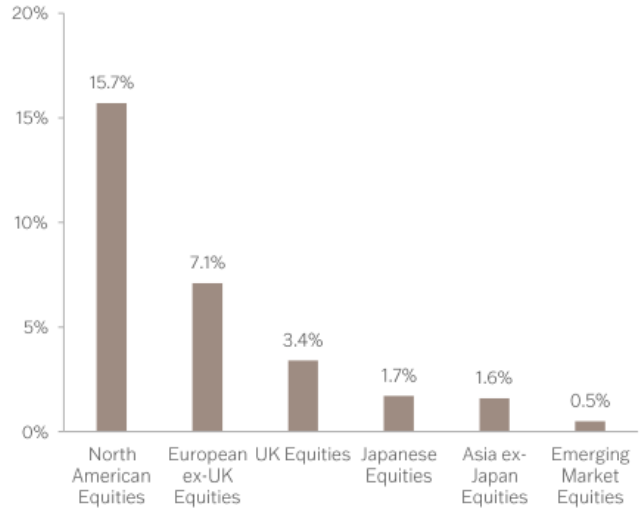
For illustrative purposes only. Subject to change. Data as at 06/30/2023. Source: Fulcrum Asset Management LLP.

Portfolio Exposures

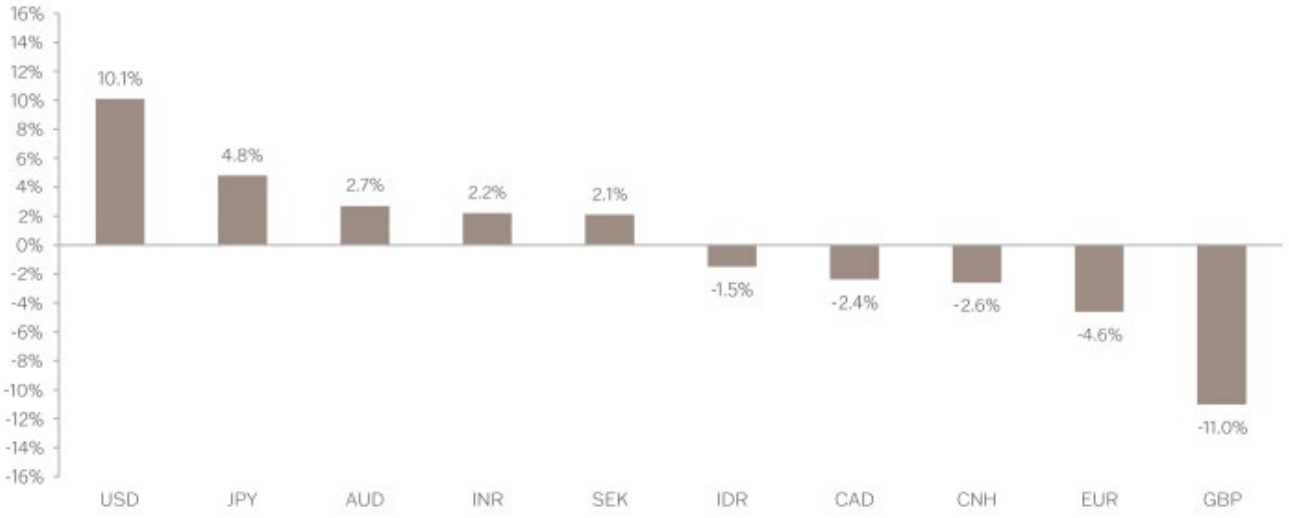
Net Duration Exposure (years): 1.2



Net Equity Exposure by Region: 29.9%



Net Currency Exposures (Top & Bottom 5)



For illustrative purposes only. Subject to change. Data as at 06/30/2023. Source: Fulcrum Asset Management LLP.

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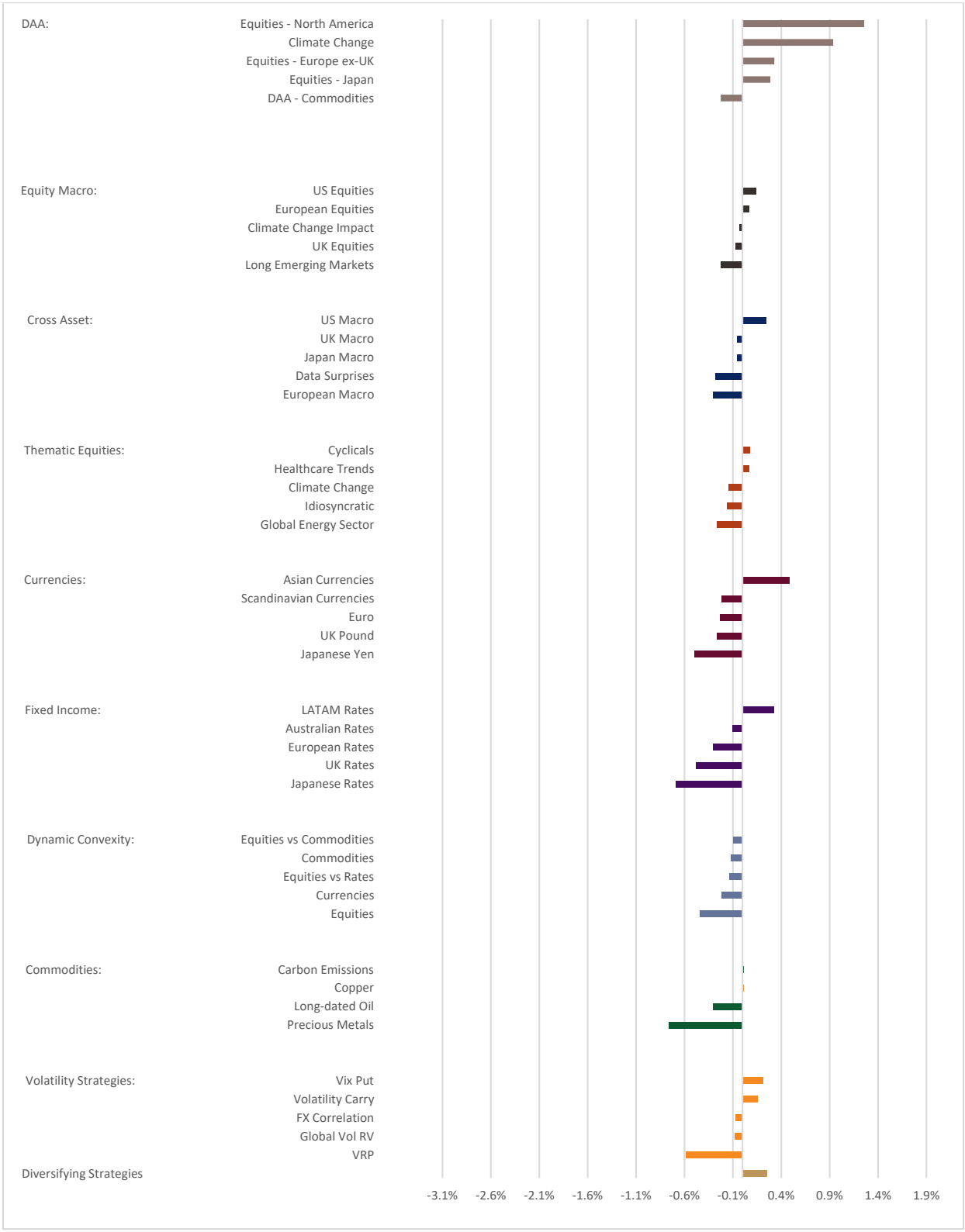
Summary of P&L Drivers - 2023



For illustrative purposes only. Subject to change. Data as at 06/30/2023.Source: Fulcrum Asset Management LLP using RiskMetrics

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.

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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