FULCRUM DIVERSIFIED ABSOLUTE RETURN FUND (USD)

Quarterly Investment Review

3Q 2023

FULCRUM

Investment innovation
Macro foundations

FULCRUM

Contents

FULCRUM

Net Performance

As of September 30, 2023								
	Q3	YTD	1 Year	3 Years	5 Years	Since Inception[1]	Equity Correlation[5,6]	Fixed Income Correlation [5,7]
FARIX	-0.11%	-2.21%	-2.87%	2.40%	3.10%	2.19%	0.4	-0.2
Wilshire Liquid Alternative[2]	-0.20%	2.39%	4.21%	1.85%	1.41%	1.23%	0.9	0.4
HFRX Global Hedge Fund Index[3]	0.75%	1.38%	1.55%	1.83%	1.94%	1.44%	0.8	0.2
Bloomberg US Agg Total Return[4]	-3.23%	-1.21%	0.64%	-5.21%	0.10%	0.61%	0.3	1.0

Fulcrum Diversified Absolute Return Institutional Class has a gross expense ratio of 1.18% and a net expense ratio of 1.13%.

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

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.

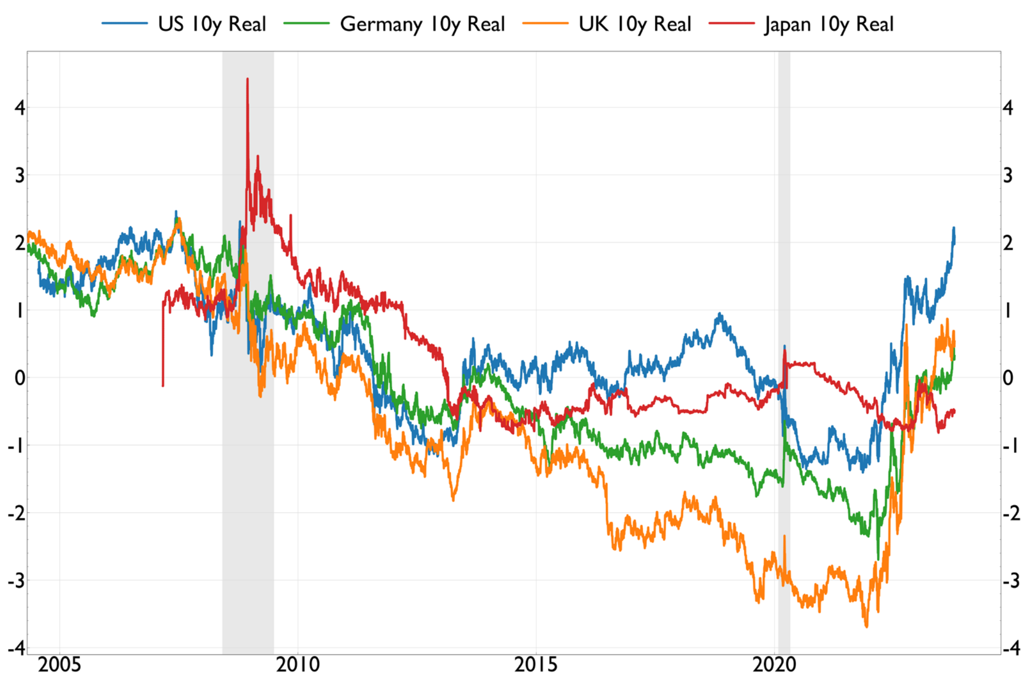
17513517-NLD-10302023

Market and Portfolio Review

Market Review

The third quarter of 2023 saw a simultaneous sell-off across global equity (-3.3%[1]) and bond markets (-3.6%[2]) as rising US yields hit valuations and pushed the dollar to a 10-month high. Notably, the fixed income sell-off was led primarily by the long-end of the curve, with US 10-year real yields hitting their highest since 2007 (see Figure 1). This occurred alongside a robust US growth outlook, combined with talk of higher-for-longer rates by the Federal Reserve. Meanwhile, global commodities rose over the quarter, driven largely by a +28.8%[3] surge in energy prices as oil supply tightened significantly.

Figure 1: 10-year Inflation-Linked Bond Yields (%)



Source: Bloomberg

Note: Data from 2000-01-01 to 2023-10-18. Shaded areas indicate US recessions.

The quarter began with an improvement in market sentiment as inflation saw significant declines across developed markets. This, combined with strong US economic data, raised global risk appetites and boosted equity valuations in July. By the month of August, however, market sentiment was hit by the persistent rise in long-term bond yields, which occurred alongside a significant rally in energy prices. These dynamics intensified in September, where global equities and bonds fell sharply as the dollar and oil rose further.

[1] MSCI AC World Total Return Gross USD (Bloomberg Ticker: GDUEACWF Index)
[2] Bloomberg Global-Aggregate Total Return Index (Bloomberg Ticker: LEGATRUU Index)
[3] S&P GSCI Energy Total Return CME (Bloomberg Ticker: SPGSENTR Index)

Throughout this period, comments by Federal Reserve officials had a pivotal impact on markets. At the Jackson Hole Symposium in August, Chair Powell reiterated the need to keep policy tight and emphasised the Fed's data-dependent approach. More consequential, however, was the outcome of the Federal Open Market Committee (FOMC) meeting in September, where officials upgraded their forecast for short-term interest rates and GDP growth over the next year. At the press conference subsequently, Powell explicitly recognised that the longer-run neutral rate of interest (also known as r*) may be higher than previously expected.

At the September Monetary Policy Committee meeting, the Bank of England (BoE) voted narrowly in favour of keeping interest rates on hold against the backdrop of a large decline in inflation. The BoE also noted signs of a slowdown in economic activity, and expressed confidence that policy was already in "restrictive" territory. These developments helped to push the pound to an 8-month low against the dollar. The European Central Bank (ECB) raised rates in September, though they also signaled that policy was reaching sufficiently tight levels. Meanwhile, the Bank of Japan (BoJ) opted to keep its policy of yield curve control in place.

On the commodities side, energy prices had been rising steadily throughout the quarter on signs of an increasingly tight global oil market. This accelerated at the beginning of September as Saudi Arabia and Russia announced a coordinated extension of production cuts. In contrast, the climb higher in real interest rates throughout the quarter weighed on the attractiveness of precious metals, which saw a -3.8%[4] decline.

Elsewhere, China continued to see instability in its housing market, with growing fears of additional defaults among real estate developers. There were some signs of a pickup in activity however, with manufacturing surveys and retail sales improving throughout the quarter.

[4] S&P GSCI Precious Metals Index Total Return (Bloomberg Ticker: SPGSPMTR Index)

Performance Review

Gains were led by Discretionary Macro (DM) [+0.9%] offsetting declines from Dynamic Asset Allocation (DAA) [-0.6%] and and Diversifying Strategies (DS) [-0.1%].

Within DAA, losses were led by holdings of equities as global valuations declined. The fixed income holdings also detracted, but by less than equities owing to the underweight bond positioning going into the quarter. These losses were partly offset by positive performance from an overweight commodities stance.

The majority of Discretionary Macro sub-strategies across a variety of asset classes were additive over the quarter. We saw gains coming from long positions at the front end of the sterling interest rates curve amid the more supportive UK policy and inflation backdrop, while short euro positions benefited from US growth relative outperformance and widening interest-rate differentials. A long Japanese yen position was penalised by broad US dollar strength and the BoJ's decision to maintain its loose policy stance.

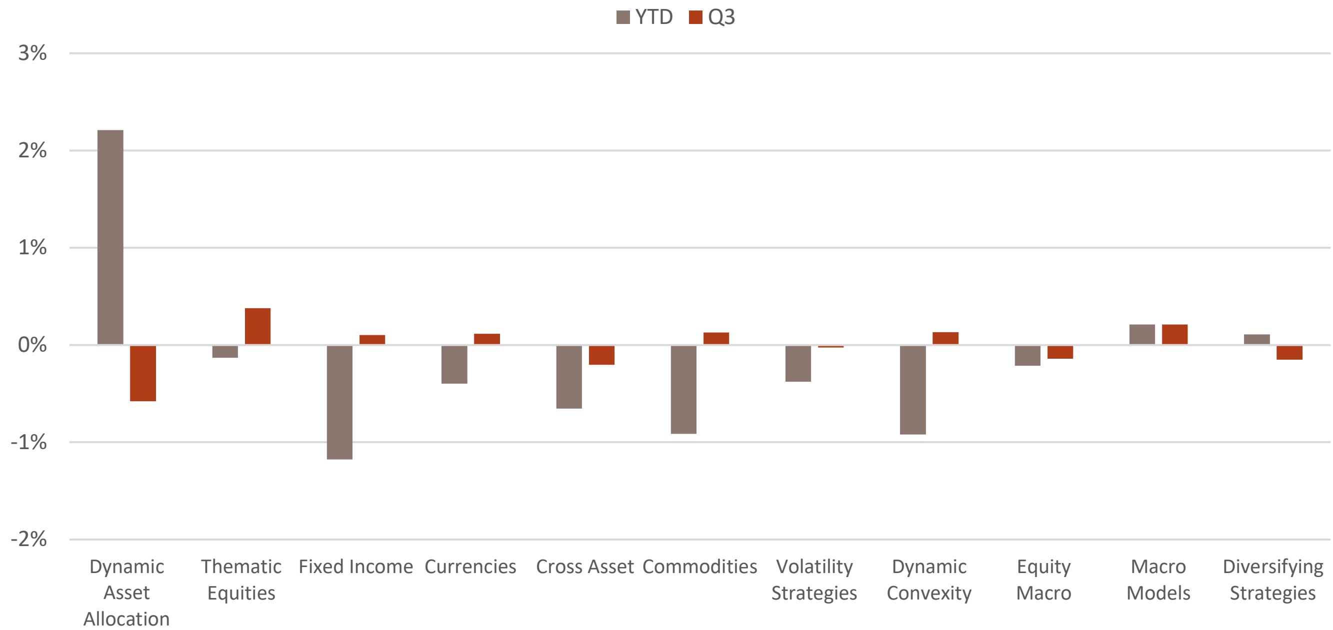
Our commodities positions also performed well over the quarter. Our long oil position saw gains amidst tightening supply from Russia and Saudi Arabia, although there were some losses from the UK Carbon Emissions position as the government overhauled regulations.

Thematic Equities had a positive quarter driven by gains across various themes. A long energy position did well as oil rallied, while being long obesity drug companies has been particularly beneficial following the positive result of drug trials. Our long European equities position elsewhere in the portfolio was weighed down by weak manufacturing data impacting the economic outlook for the region.

Our focus on embedding Dynamic Convexity in the portfolio was helpful late in the quarter, driven primarily by a hybrid option structured to benefit from a combination of higher oil prices and a lower S&P 500. Outright equity puts also helped as equity markets declined. Volatility saw gains from relative value volatility, dispersion, and dividends over the quarter, offsetting losses in equity option replication and FX correlation.

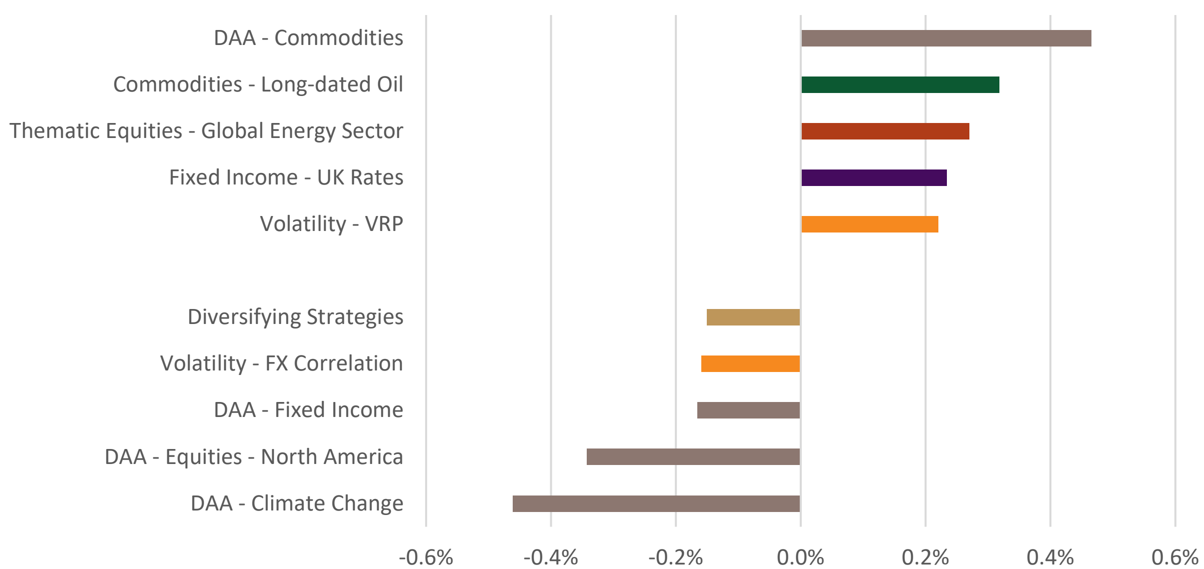
Elsewhere, the trend-following Diversifying Strategies detracted from returns, with losses from currencies offsetting gains from fixed income and interest-rate swap trades.

Figure 2: Third Quarter - Portfolio Attribution[5]



Source: Fulcrum Asset Management LLP

Figure 3: Third Quarter – Top and Bottom Contributors to Portfolio Returns



Source: Fulcrum Asset Management LLP

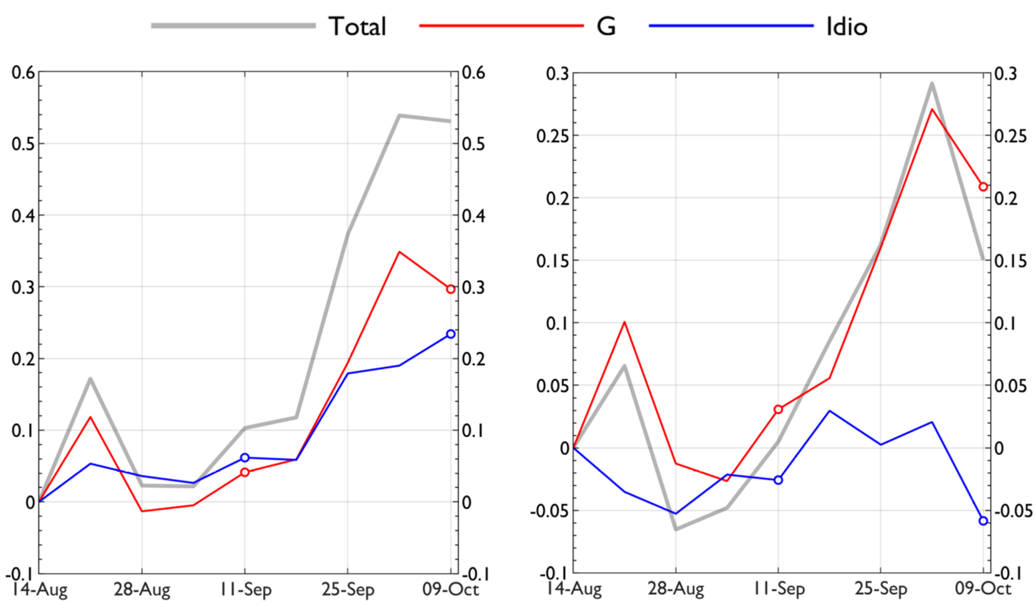
[5] Past performance is not a guide to future performance and future returns are not guaranteed.

Macro and Investment Outlook

US yields see idiosyncratic surge

The US 10-year yield rose by +75bps[6] over the third quarter of 2023. As well as being large on an absolute basis, this move was particularly impressive in *relative* terms. In order to quantify this, we use a global factor model of developed market bond yields (see Figure 4). The red line (labelled G) shows how much of the total yield change is explained by a global yield factor, and the blue line (labelled Idio) how much can be attributed to country-specific developments.

Figure 4: US (LHS) versus Germany (RHS) Yield Change Decomposition (ppt)[7]

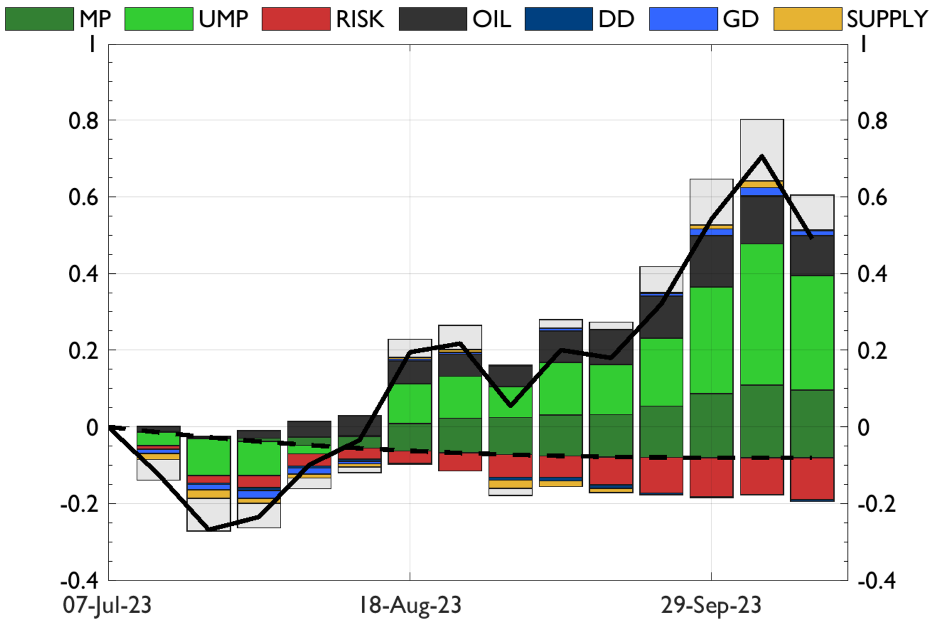


Source: Fulcrum Asset Management LLP

Figure 4 shows that, since August, the global factor has acted to raise yields in the US and Germany. However, the US saw additional idiosyncratic tightening that accelerated towards the end of the quarter. These moves prompted commentary by Lorie Logan and Philip Jefferson at the Federal Reserve, with Logan noting that higher long-term yields could "leave less need for additional monetary policy tightening" by the Fed. Our modelling of asset prices conveys a similar message, as shown by our structural decomposition of the Goldman Sachs US Financial Conditions Index (FCI) changes in Figure 5.

[6] US Generic Govt 10 Year (Bloomberg Ticker: USGG10YR Index)
[7] Figure 4 shows the results from a Factor Model estimated on the bond yields of the main developed market economies, allowing a decomposition of the total (Total, grey) yield move into global (G, red) and country idiosyncratic (Idio, blue) impacts.

Figure 5: Goldman Sachs US FCI Change Structural Decomposition[8]



Source: Fulcrum Asset Management LLP, Goldman Sachs

Note: Data from 2023-07-07 to 2023-10-17

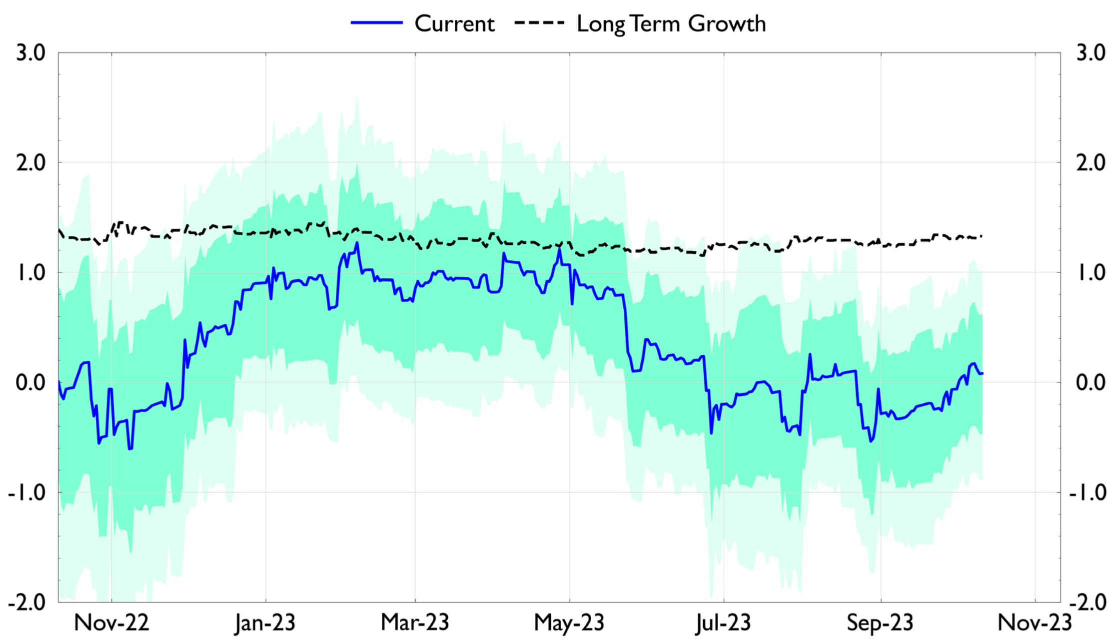
We see a large tightening in US financial conditions over the quarter, driven primarily by an Unconventional Monetary Policy (UMP) shock (light-green bar), which is identified as a bear-steepening in the yield curve. This hit equity valuations across the board and pushed up the US dollar, even as conventional Monetary Policy (MP) shocks (dark-green bar) had little impact. Going forward, Fed officials are likely to continue monitoring this tightening channel and how it is feeding through into the real economy.

European activity shows signs of improving as inflation falls

The European economy had shown signs of significant weakness in the first half of 2023 (see Figure 6). This was particularly acute in Germany, which has suffered from a slowing global industrial cycle, a weak Chinese economy, and the lagged effects of last year's energy crisis.

[8] Figure 5 shows the results from a model which estimates movements in the Goldman Sachs FCI as a function of fundamental structural shocks hitting the economy. These shocks are: Monetary Policy (MP, dark green), Unconventional Monetary Policy (UMP, light green), Risk Sentiment (RISK, red), Oil Supply (OIL, black), Domestic Demand (DD, dark blue), Global Demand (GD, light blue) and non-oil Supply (SUPPLY, yellow). The remaining variation not explained by these shocks is shown in the grey bar. 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.

Figure 6: Euro Area Nowcast (%, Annualised)[9]



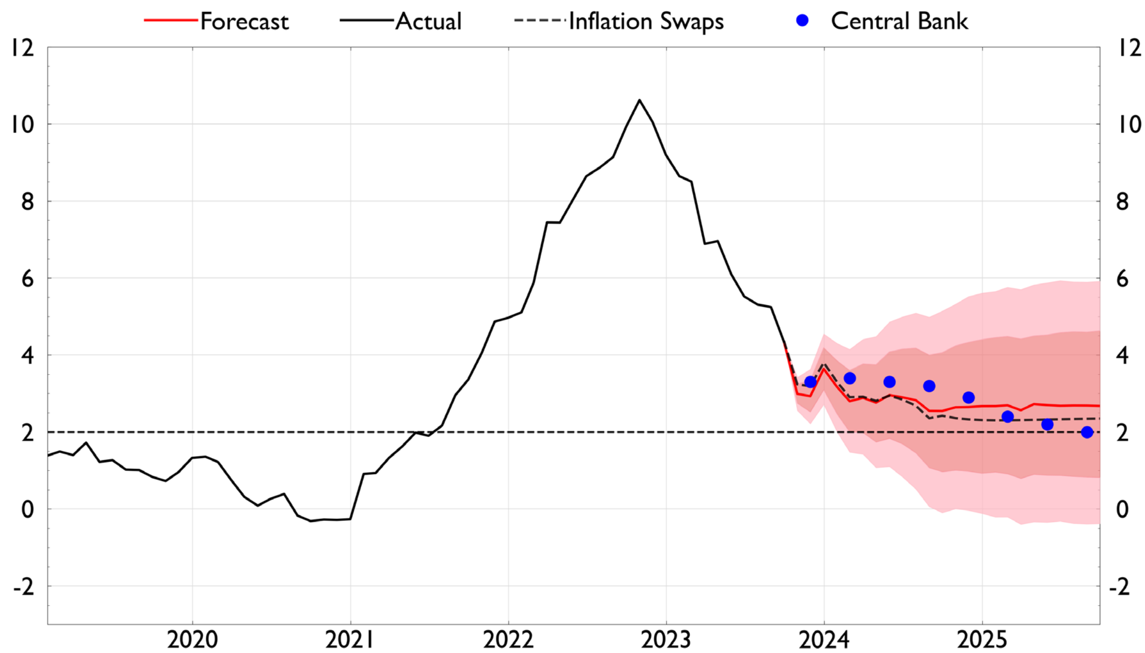
Source: Fulcrum Asset Management LLP

Note: Data from 2022-10-18 to 2023-10-18

Towards the end of the third quarter, however, our Euro Area nowcast has detected an improvement in activity, led by an improvement in services and manufacturing surveys. Moreover, the labour market has remained historically tight across the currency bloc, with the unemployment rate dropping below its pre-pandemic level in September. This has kept nominal wage gains robust, which, when combined with a rapid decline in inflation (Figure 7), should boost real income growth. Going forward, this should support household consumption, which has remained very weak compared to that seen in the US.

9 Figure 6 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. The dark and light green shaded areas represent the 68% and 90% confidence intervals of the model, respectively.

Figure 7: Euro Area Headline Inflation Forecast (%, YoY)[10]



Source: Fulcrum Asset Management LLP

Note: Data from 2019-01-01 to 2023-09-30, forecasts thereafter

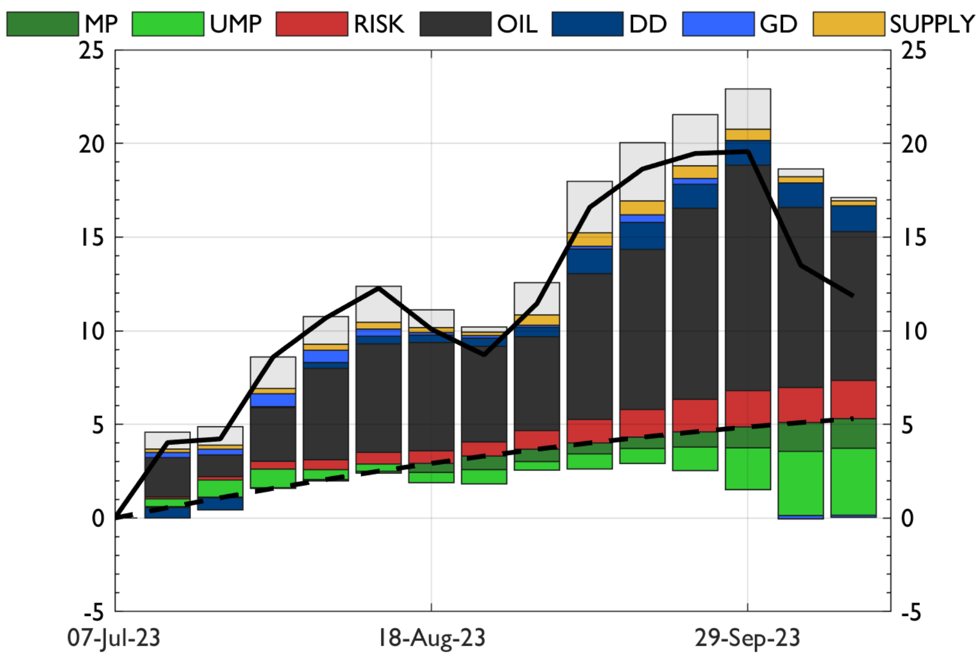
There have also been nascent signs of a pickup in Asian manufacturing activity in September, with Korean and Taiwanese data displaying positive momentum. Given Europe's exposure to global trade, these developments support a more constructive outlook for the European economy.

Geopolitical developments challenge global risk sentiment

Energy prices began rising early in the third quarter, boosted by resilient demand and a tight global oil market. Oil prices then spiked in early September on the announcement by Saudi Arabia and Russia that production cuts would be extended. Turning to our structural decomposition of the oil market (Figure 8), we can see that this was read as a large oil (OIL, black bar) shock, which can be read as a sudden deterioration in oil supply.

[10] Figure 7 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. The dark and light red shaded areas represent the 68% and 90% confidence intervals of the model, respectively.

Figure 8: Brent Crude Oil Change Structural Decomposition (%)[11]



Source: Fulcrum Asset Management LLP

Note: Data from 2023-07-07 to 2023-10-17

Although the impact of this shock diminished towards the end of the quarter, oil prices remain significantly above their lows of 2023, reversing much of the declines seen over the past year. Moreover, with the outbreak of conflict in the Middle East, which is a major supplier in the global energy market, further disruptions to supply may be on the horizon. This has already partly materialised with the shutting of a natural gas field off the coast of Israel, which coincided with a +65%[12] rise in the European benchmark.

[11] Figure 8 shows the results from a model which estimates movements in the Brent Crude oil price a function of fundamental structural shocks hitting the economy. These shocks are: Monetary Policy (MP, dark green), Unconventional Monetary Policy (UMP, light green), Risk Sentiment (RISK, red), Oil Supply (OIL, black), Domestic Demand (DD, dark blue), Global Demand (GD, light blue) and non-oil Supply (SUPPLY, yellow). The remaining variation not explained by these shocks is shown in the grey bar. 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.

[12] ICE Endex Dutch TTF Gas Spot Price (Bloomberg Ticker: TTF0NXHR Index).

Final word

On the DAA side, the allocation to equities remains underweight as expected excess returns remain low. Although the fixed income allocation has risen slightly amid the steepening of the yield curve, it remains substantially underweight given the elevated bond volatility and high relative returns from cash. In contrast, the commodity allocation is overweight, boosted by relatively low asset class volatility and a strong US growth outlook.

In the Discretionary Macro Fixed Income portfolio, we maintain our long positioning at the short end of the UK yield curve. This is informed by the weak backdrop for UK economic activity and house prices, coupled with recent declines in both headline and core inflation. Moreover, we have also moved to a long exposure in US Treasuries relative to Europe due to the outsize move in US yields as well as the signs of an improvement in the European growth picture.

We have a long Euro vs US dollar position, which would also benefit from any compression in the Euro Area - US rates differential. Moreover, we are positively exposed to the Japanese Yen, as the currency's historically weak level and the BoJ's capacity for intervention has created a convex expected return profile. We believe that UK and Japanese equities have attractive valuations on a relative basis. We maintain a diversified basket of precious metals and oil exposures, which carries important upside potential given the recent geopolitical developments.

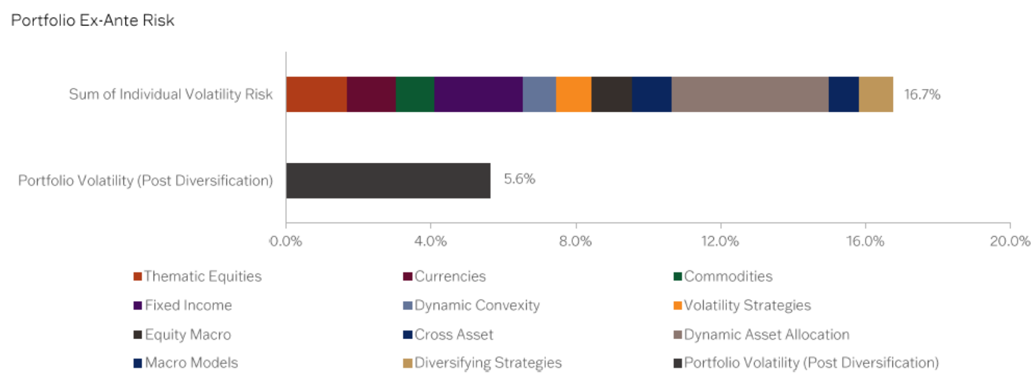
We continue to utilise hybrid options structures that would pay off in the event of simultaneous equity and bond declines alongside increases in the price of oil. This provides an important hedge for the overall portfolio against further monetary policy or energy supply shocks.

Overall, the portfolio is close to average exposure to equities and above average in terms of duration, whilst focusing on investment ideas that are less directional in nature.

Portfolio Positioning

Individual Risk Allocation by Strategy

The tables below decompose the percentage of total portfolio risk that each individual investment contributes. While the sum of individual risks is almost 17%, total portfolio volatility is much lower, at 5.6%, reflecting embedded diversification benefits.



Discretionary Macro	11.5%

Fixed Income	2.5%
US Rates	0.8%
UK Rates	0.7%
Japanese Rates	0.2%
European Rates	0.2%
Australian Rates	0.2%
Scandinavian Rates	0.1%
LATAM Rates	0.1%
CEEMEA Rates	0.0%

Volatility Strategies	1.0%
VRP	0.3%
FX Correlation	0.2%
European Dividends	0.2%
Global Vol RV	0.2%
Volatility Carry	0.1%
Global Dispersion	0.0%
Tactical Dividends	0.0%

Cross Asset	1.1%
Japan Macro	0.5%
UK Macro	0.3%
SH Macro	0.2%

Commodities	1.1%
Precious Metals	0.9%
Long-dated Oil	0.2%

Macro Models	0.8%
Activity Model	0.3%
Supply Model	0.3%
Basis Momentum	0.3%

Currencies	1.3%
Euro	0.3%
Japanese Yen	0.2%
LATAM Currencies	0.2%
Asian Currencies	0.1%
Chinese Renminbi (Yuan)	0.1%
UK Pound	0.1%
Australian Dollar	0.1%
Swiss Franc	0.1%
CEEMEA Currencies	0.0%
Scandinavian Currencies	0.0%
Canadian Dollar	0.0%
South African Rand	0.0%

Dynamic Convexity	0.9%
Equities vs Commodities	0.5%
Equities vs Rates	0.2%
Commodities	0.1%
Equities	0.1%
Fixed Income	0.0%
Currencies vs Rates	0.0%

Equity Macro	1.1%
US Equities	0.4%
Long Distressed Tech	0.3%
UK Equities	0.3%
European Equities	0.1%
Long Precious Equities	0.1%
Climate Change Impact	0.0%

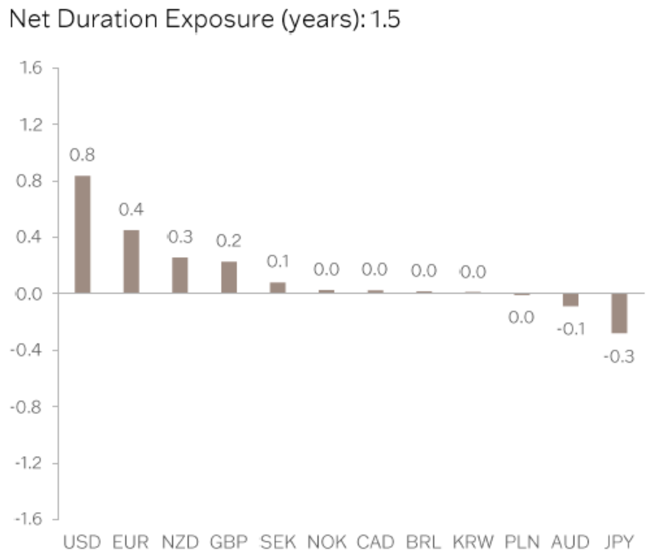
Thematic Equities	1.7%
Consumer Trends	0.3%
Global Energy Sector	0.3%
Technology Disruption	0.3%
Climate Change	0.2%
Global Financials	0.2%
Healthcare Trends	0.1%
Cyclicals	0.1%
Defensive	0.1%
Idiosyncratic	0.1%

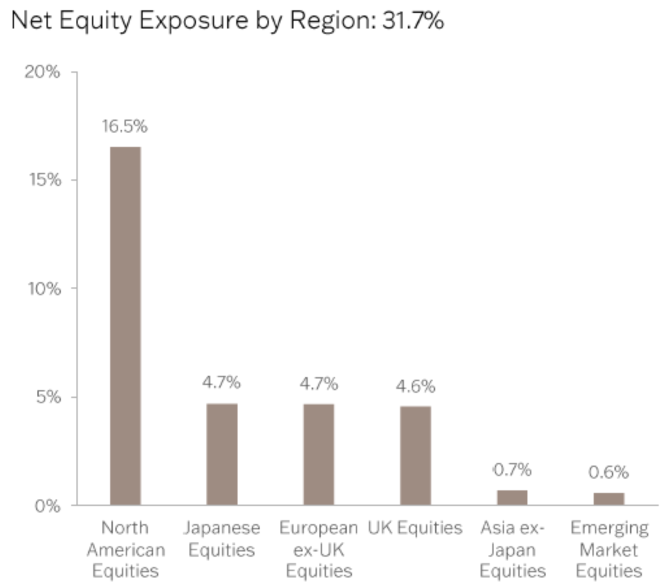
Dynamic Asset Allocation	4.3%
Equities -Climate Change	1.3%
Commodities	1.0%
Equities -North America	0.9%
Fixed Income	0.5%
Equities -Europe ex-UK	0.2%
Equities -Japan	0.1%
Equities -United Kingdom	0.1%
Equities -Asia ex-Japan	0.1%

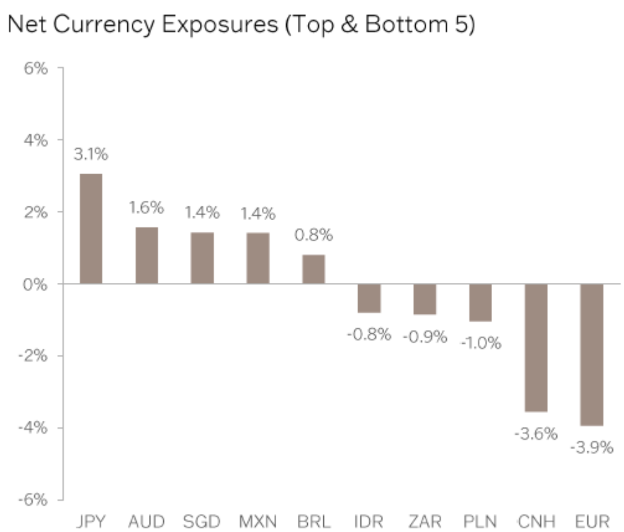
Diversifying Strategies	0.9%

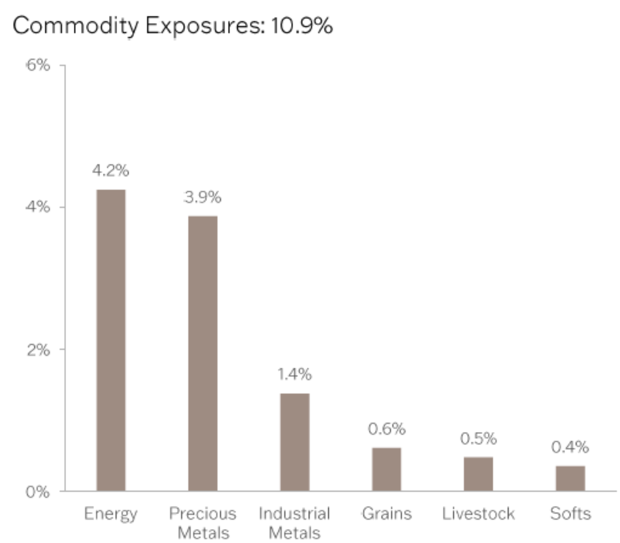
For illustrative purposes only. Subject to change. Data as at 09/30/2023. Source: Fulcrum Asset Management LLP.

Portfolio Exposures









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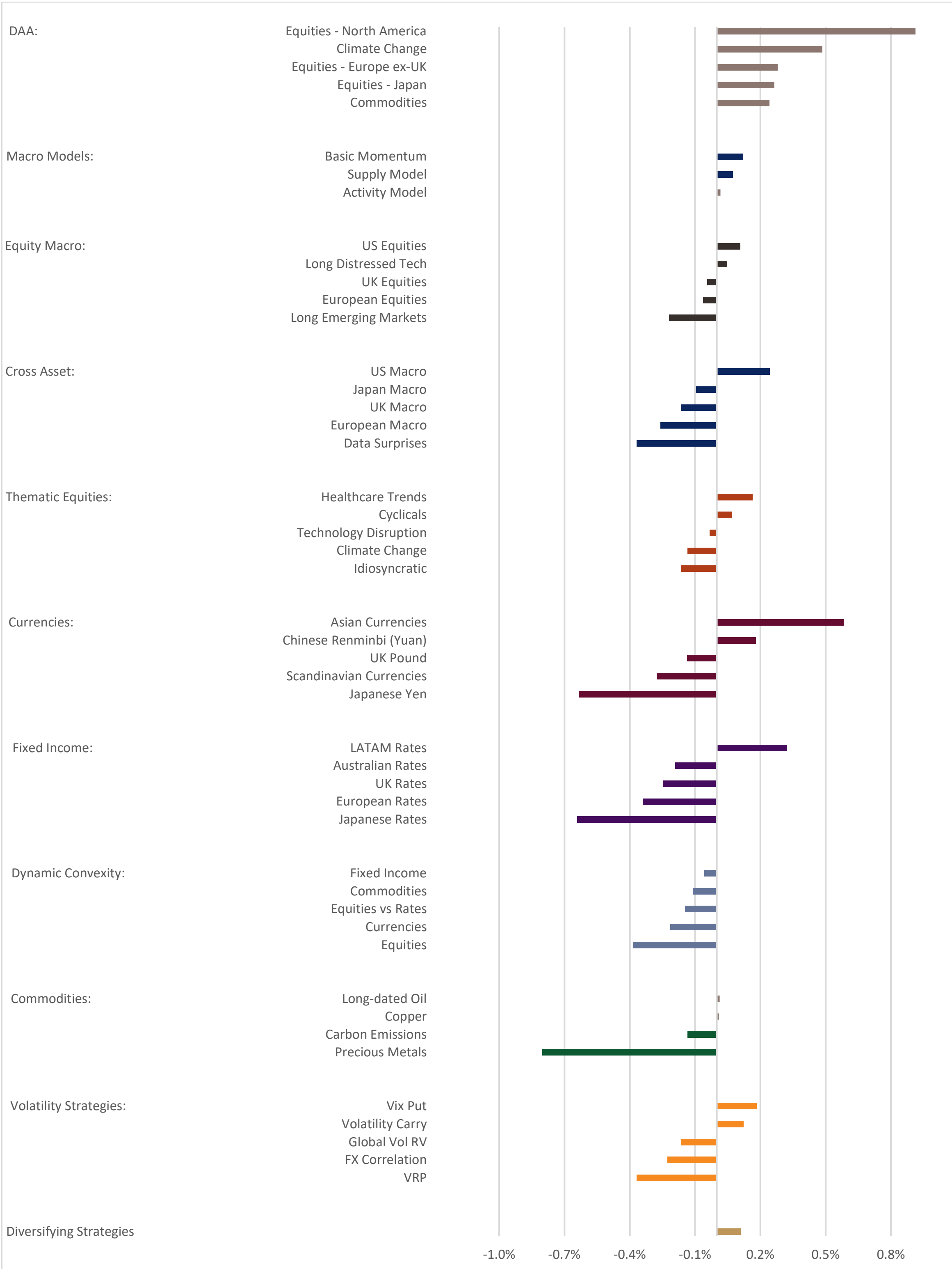
Summary of P&L Drivers - 2023



For illustrative purposes only. Subject to change. Data as at 09/30/2023.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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