

TM Fulcrum Diversified Core Absolute Return C Acc GBP

April 2020
Investment Research

Outcome

The fund aims to generate absolute returns over the long term, with a strong focus on downside protection. The objective is inflation plus 3% to 5% p.a. after fees over rolling five-year periods. Although the objective is linked to inflation, in practice the fund is run no differently to if it were to have a cash plus 3%-5% objective. We believe the fund's long-term objectives and strategy fit our capital preservation and capital accumulation outcomes and may appeal to investors who are looking for exposure to global financial markets through a more controlled, risk-adjusted strategy. Take note, however, that investor capital is not guaranteed and is at risk.

Capital Accumulation	Capital Preservation	Income	Inflation Protection
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Performance Objective

The fund aims to achieve returns that exceed inflation (as measured by the retail price index) by approximately 3% to 5% p.a. after fees over rolling 5-year periods.

Active/Passive: Active	IA Sector: IA Targeted Absolute Return
Launch Date: 27/11/2014	Fund Size (as at 09 Apr 2020): £172.8m
Yield: -	Distribution Pay Date: Mar 31 (Final)
Fund Manager: Fulcrum Investment Team	Ongoing Charge Figure: 0.85%
Domicile: United Kingdom	Transaction Cost ex Ante: 0.87
Multi-Manager: No	



Fund Opinion

The fund has a clear objective of delivering long-term absolute returns, with lower volatility than equity markets. The management team seek to achieve this in an incremental manner through a highly diversified portfolio of risk-modelled positions across equities, fixed income, currencies, commodities and alternative investments. The fund has been designed with the aim of generating sustainable equity-like returns with half of the volatility of equity markets. It also aims to protect investors' capital during extreme dislocations in financial markets although, in practice, the managers cannot eliminate the risk of loss over any 12-month period.

A lot of things can go wrong in a complex, multi-asset investment strategy such as this. There is no guarantee that directional or relative value positions, whether expressed outright or through derivatives, will prove to be incorrect and profitable. That said, for such a strategy to work it must have the right foundations and structures in place. In this instance, we believe the fund has a well-constructed investment process, an experienced investment team, supportive resources and a solid risk management framework. Many members of the team have impressive credentials as economists and investors. All this helps to underpin our conviction in the strategy.

The managers of this fund often take directional views on markets and the fund usually has a structural weighting of around 25-35% in equities. Whilst this weighting can vary, exposure to equity markets is always likely to be present in the fund to some degree and investors should be aware that this means that the fund may exhibit some correlation to global equity markets.

Fund Description

Fulcrum Asset Management was established in 2004 by Gavyn Davies and Andrew Stevens plus a coterie of other ex-Goldman Sachs investment personnel. The firm specialises in macroeconomic and market research and manages both absolute and relative return strategies across the main, liquid asset classes in financial markets. Fulcrum has over 50 employees with more than half dedicated to research and risk management.

Fulcrum's investment philosophy is based on the belief that combining fundamental and behavioural research in a disciplined and structured style should lead to repeatable outcomes. The investment process is well constructed and multi-layered with economists, strategists, specialist researchers and senior investment staff contributing to the analysis of global financial markets.

In a nutshell, the investment team tries to identify where we are in the business cycle and what actions policy makers will take next. Focused around 3-5 core macroeconomic themes, augmented with a number of "satellite" ideas, the fund usually has around 20-30 investment positions. The satellite ideas usually have a shorter-term shelf life whilst the core views tend to be longer in duration but both are formulated from the group's analysis of fundamental and market behavioural factors. The shorter-term satellite ideas are sourced from the firm's specialist equity, fixed income and foreign exchange teams.

The investment team is made up of senior investment personnel who decide on the appropriate ways to express the house view on markets, the sizing of individual ideas, the diversification across strategies and time horizon. The fund's named managers, Suhail Shaikh and Nabeel Abdoula, may use derivatives to optimise the overall risks of the portfolio. These may include put options, the function of which are to protect against some of the less likely but high impact adverse events which could occur.

Performance will be predominantly driven by the investment team's directional views across asset classes and from the relative value positions. However, the managers will at times use shorter-term strategies in order to capitalise on short-term trends within financial markets. Using derivatives to manage the risks in the portfolio helps to reduce the need for aggressive asset allocation changes but, more importantly and in times of severe financial market stress, these positions are expected to moderate losses.

The managers can implement the house views through an arsenal of different types of instruments. However, there is a strong focus on risk management running all the way through the investment process. The firm's risk committee, which is made up of senior personnel and is chaired by Andrew Stevens, is ultimately responsible for the risk management of the fund. The risk committee receives daily risk reports and meets weekly to review the hedging positions. There is therefore separate and independent risk oversight.

Risk Summary

The expected volatility range of the fund is 6%-8% p.a., which is approximately half that of global equities. The fund has hard risk limits written into its mandate, so in extreme circumstances the risk team can step in to dial down risk in the portfolio. In addition there are risk contribution limits in individual asset classes to avoid concentration risks. The investment team is very conscious of liquidity. Fixed income exposure largely comprises government bonds, with credit playing a very light role in the portfolio as the team is seeking daily liquidity in their fixed income holdings. Outright directional views tend to be in equity markets (unless the team see tremendous value in credit). Any hedging overlay is based on the investment team's judgment, which is in turn heavily research informed.

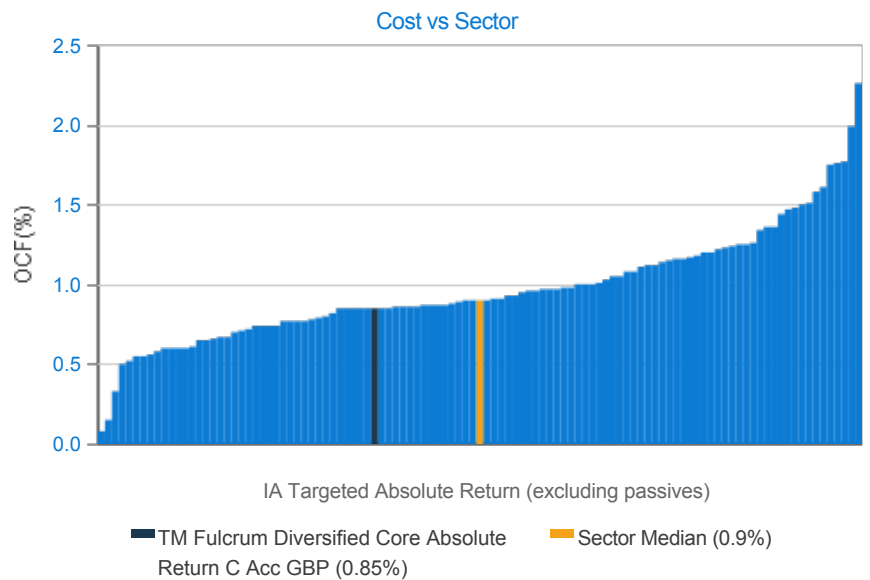
Overall, the fund is managed in a disciplined manner but the portfolio will usually have directional biases and therefore can be affected by broad moves in markets. The fund has a similar risk-return objective to a number of multi-asset hedge funds. However, the fees charged by Fulcrum for the product are significantly lower than those found in the hedge fund industry. Such a targeted risk-return profile may be attractive to a range of potential investors, though the strategy is a complex one and it may only be suitable for experienced and sophisticated investors.

Value for Money

(Calculation as at 15 Apr 2020)

The fund's current ongoing charge figure has been capped at 90 basis points, which is below the IA Targeted Absolute Return sector median. However, this is a space with a broad church of funds, all with different objectives and investment parameters. Nonetheless, we believe this fund is fair value for money based on the quality of the management team and the impressive resources dedicated to the strategy.

Following the introduction of MiFID II regulations in January 2018, asset management firms are now required to disclose all costs and charges related to the running and administration of funds. This can include items outside of the OCF, such as research costs. As a result, Fulcrum Asset Management will be absorbing the costs associated with their research, which should slightly reduce the overall fee paid by investors. This step is at the discretion of each fund group, but it is one that a number of firms have followed.



This chart shows the ongoing charge figure (OCF) for the fund relative to the median and all other funds in the sector. Each blue bar represents the OCF of an individual fund's 'primary' share class as meets the Investment Association's definition.

ESG Integration

Company Assessment	0	1	2	3
The company does not have an explicit or discernible approach to or consideration of ESG factors.				
UN PRI Strategy & Governance Rating	A			
Fund Assessment	0	1	2	3
There is no explicit or discernible approach to or consideration of ESG factors in the fund's investment process.				

Responsible Investing Approach

Exclusion	Sustainability	Impact
×	×	×

Additional Information

Annualised Return	0.41%
Annualised Volatility	5.18%
Max Drawdown	-5.33%
Max Gain	3.46%
Max Loss	-4.12%
Sharpe Ratio	0.00
Sortino Ratio	-0.41

(3 year data to last month end)

Currency of Share Class

GBP

Fund Price (as at 09 Apr 2020)

10495.0 pence

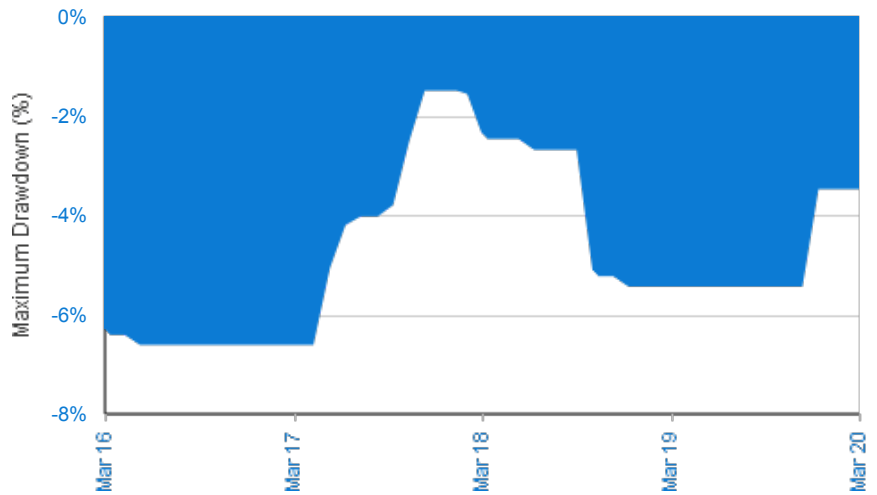
Benchmark

UK Retail Price index

Discrete Annual Performance to Last Quarter End

Period	Fund (%)	Sector (%)	Quartile Ranking
0-12m	2.1	-3.3	1
12-24m	0.1	-1.0	2
24-36m	2.0	1.8	2
36-48m	1.7	3.2	3
48-60m	-4.8	-0.4	4

Maximum Drawdown (Rolling 12 Months)



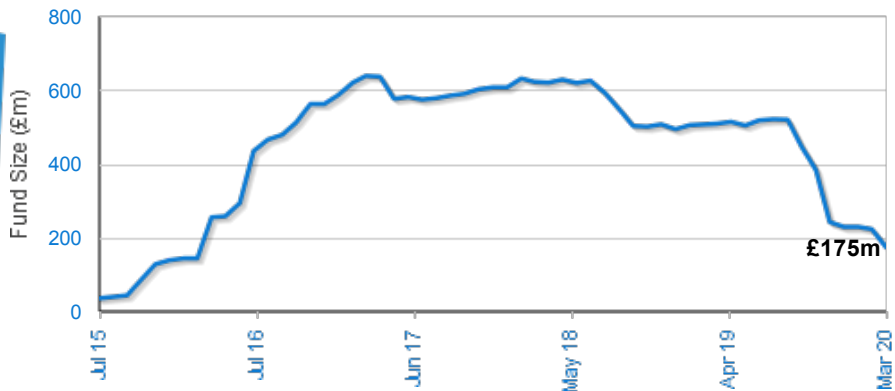
Asset Allocation Positioning

Name	%
Global Fixed Interest	59.2
International Equities	23.4
Alternative Investment Strategies	6.7
Commodity & Energy	3.6

(Data as at 28 Feb 2020)

Assets Under Management

(Data as at 09 Apr 2020)



Financial Express Crown Rating



Financial Express Alpha Manager Rating

N

Qualitative Risk Assessment

	Significant	Potentially Significant	Not Significant
Equity Risk		●	
Interest Rate Risk		●	
Credit Risk		●	
Exchange Rate Risk		●	
Liquidity Risk			●
Emerging Markets Risk		●	
Derivative Risk	●		
Manager Risk	●		

Equity Risk

The fund will generally have a significantly lower exposure to equity markets than a conventional equity fund. Moreover, such equity market exposure may be reduced further through hedging strategies.

Interest Rate Risk

Higher interest rates may adversely affect valuations of financial assets but the manager may adopt hedging strategies to reduce these risks.

Credit Risk

This is a multi-asset fund that can have exposure to credit markets, though this will usually be limited.

Exchange Rate Risk

The fund has some exposure to assets denominated in foreign currencies. Changes to exchange rates may impact the fund's price.

Liquidity Risk

The fund invests in liquid assets and any sale should be possible at close to the prevailing market price.

Emerging Markets Risk

The fund has the ability to invest in securities issued by governments or companies in emerging markets, though the bulk of the portfolio will be invested in developed markets.

Derivative Risk

The fund makes extensive use of derivatives to gain exposure to securities. These derivative instruments are employed by the manager to mitigate and manage risk. Derivatives are complex instruments and there is a chance that they may not behave in a manner that the manager intends in certain circumstances. The use of derivatives may also add to counterparty risks.

Manager Risk

The manager is seen as an important element in Square Mile's rating of the fund, although potential replacements may exist elsewhere in the organisation.

FE Risk Rating: 24

SRRI: 4

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