Fulcrum Diversified Absolute Return (FARIX)

August 31, 2023

Description

Fulcrum Diversified Absolute Return aims to 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	1.18%
Net Expenses*	1.13%
40 Act Launch Date	7/31/2015
AUM ($)	$221m
Firm AUM	$8.3bn

*Contractual through April 30, 2024

Investment Process

	Dynamic Asset Allocation		Discretionary Macro		Diversifying Strategies		Diversified Absolute Return
Description	Medium term directional views across global equities, commodities and bonds	+	Shorter term trading of economic/market transitions across all asset classes	+	Medium term trend following, technical signals on >170 markets	=	Absolute Return
Percentage of Risk	30-40%		40-50%		0-10%		5.0% Portfolio Standard Deviation
Expected Equity Beta	+0.3		-0.1		+0.1		+0.2

Net Performance

	as of August 31, 2023			as of June 30, 2023				
	August	YTD	Since Inception**	Q2-23	1 Year	3 Year	5 Years	Since Inception**
Fulcrum Diversified Absolute Return	-0.67%	-1.77%	2.27%	-0.11%	-1.91%	2.68%	3.51%	2.27%
Wilshire Liquid Alternatives[1]	-0.29%	3.15%	1.33%	0.59%	1.67%	2.44%	1.50%	1.19%
HFRX Global Hedge Fund Index[2]	0.33%	1.49%	1.47%	0.64%	1.31%	2.04%	1.71%	1.39%
Bloomberg US Agg Total Return[3]	-0.64%	1.37%	0.94%	-0.84%	-0.94%	-4.44%	0.77%	1.05%

*Note returns for periods greater than one year are annualized. **Inception date: July 31, 2015. [1]Represents the Wilshire Liquid Alternative Index which 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) (Bloomberg ticker: WLIQA).[2]The HFRX Global 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 ticker: HFRXGL). [3]Represents the Bloomberg US Agg Total Return 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-throughs), ABS and CMBS (agency and non-agency) (Bloomberg ticker LBUSTRUU).*

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.

Portfolio Performance

The month of August saw US long-term interest rates hit a 16-year high, which exerted downward pressure on asset valuations globally. The proximate driver of these moves appeared to be strong US economic data, with elevated readings for industrial production, retail sales and housing activity pushing the Atlanta Federal Reserve's Q3 GDP nowcast to 5.6% (QoQ, % Ann.). These developments saw the market price higher long-run policy rates. Federal Reserve Chair Powell seemed to validate these expectations at his Jackson Hole Symposium speech, where he noted that, despite the progress made on taming price pressures, policy will remain tight until inflation has stabilised at the 2% target.

Towards the end of the month, survey data pointed to a deterioration in economic activity across Europe. This was particularly acute in Germany, where Fulcrum's nowcast of current economic activity moved further into contraction territory. A slowing Chinese economy also weighed on growth sentiment, as China continued to suffer from a property-led slowdown as well as weak demand from both domestic and global consumers. Moreover, Chinese authorities appeared reluctant to embark on major stimulus efforts, which further compounded market pessimism. The US also saw weaker job vacancies data towards the end of the month, which coincided with a partial retrenchment in long-term yields.

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

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Against this backdrop, global equities were down -2.8%[4] in August. Emerging markets saw greater declines than their developed market counterparts, given their higher sensitivity to US financial conditions as well as the weakness emanating from China. Global bonds also saw declines of -1.4%[5], led entirely by interest-rate movements as credit spreads remained accommodative. The appeal of higher long-term real interest rates in the US caused a significant rally in the US dollar. Global commodities edged higher by +0.6%[6] as a +2.7% rally in energy prices outweighed declines in metals and agricultural commodities.

The fund posted a negative performance of -0.67% in August, bringing year-to-date returns to -1.77%. Dynamic Asset Allocation (DAA) saw losses[-0.5%], whilst Discretionary Macro (DM) [-0.1%] and Diversifying Strategies (DS) were little changed on the month.

Within DAA, losses were led primarily by a long exposure to equities, whilst fixed income and commodities were close to unchanged.

Within DM, underlying strategies remained uncorrelated to broader market moves and were flat over the month. On the positive side, Thematic Equities had a strong month, driven by gains in Obesity Treatment, Oil Majors and a negative stance on Chinese equities. Dynamic Convexity also saw gains from put options in the S&P 500[7] and the simultaneous sell-off in equities and bonds. Finally, Macro Models were successful at capitalizing on trends in macroeconomic data, particularly in the commodities space.

On the negative side, our positive stance on UK assets, including the pound, FTSE 100[8] and gilts, detracted from returns within Equity Macro and Cross Asset, while Volatility strategies suffered from the continued low level volatility in currency markets. Within the Currencies strategy more broadly, losses were made on long Japanese yen positioning, as well as Latin American currencies, which saw negative returns as central banks in the region started cutting interest rates.

Elsewhere, Diversifying Strategies (DS) were little changed on the month as losses from equity trend-following were offset by gains from currencies, commodities, and rates.

Portfolio Positioning & Outlook

Dynamic Asset Allocation

For DAA, the allocation to equities remains underweight but rose slightly over the month as global valuations became more attractive. Meanwhile, the fixed income allocation remains substantially underweight due to elevated bond volatility and the highly inverted yield curve, which diminishes the attractiveness of duration relative to cash. In contrast, the commodity allocation remains slightly overweight, and has increased recently, with declining volatility and building price momentum generating a more constructive outlook for the asset class.

Discretionary Macro

Within Fixed Income we have a long duration stance with regional differentiation. This takes the form of a short position in US duration relative to Europe, given the growing relative momentum of the US economy. This also informs our short euro vs US dollar positioning within Currencies, which should benefit from further signs of a European slowdown as well as more cautious talk on policy from the European Central Bank (ECB). We have recently initiated long positioning at the short-end of the UK market, judging that, amid slowing domestic activity and signs of stress in the property market, the Bank of England may struggle to deliver the amount of interest rate hikes currently priced in the forward swaps curve.

Within equities, we maintain exposure to UK markets, which continue to have attractive valuations on a relative basis and attractive option-based implementation structures. The past month has demonstrated the value of downside equity protection from the Dynamic Convexity strategy, in which we continue to hold outright as well cross asset option structures that should help protect against a sharp fall in equities.

In Commodities, we have slightly trimmed our exposure to energy markets, taking profits from the recent rally. Going forward, we see less room for upside in the oil price, given the willingness of Saudi Arabia to use unilateral production changes to help keep prices stable. We also hold a diversified basket of precious metals, which provides an attractive counterbalance to our long-dollar orientation in the Currencies book.

Overall, the portfolio remains at close to average exposure in equities, slightly long duration and is focused on a selection of other investment ideas that are less directional in nature.

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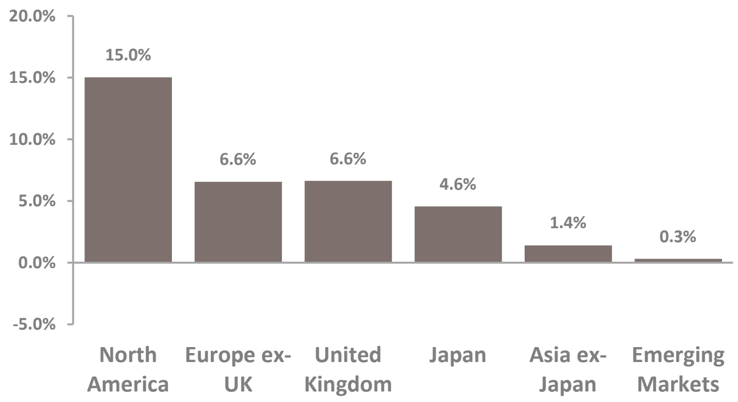
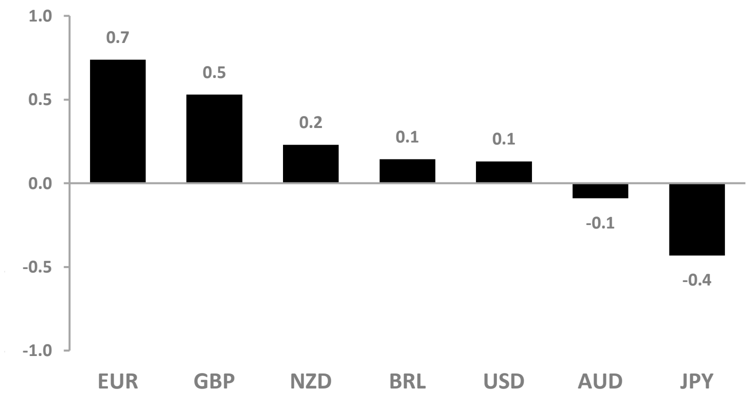
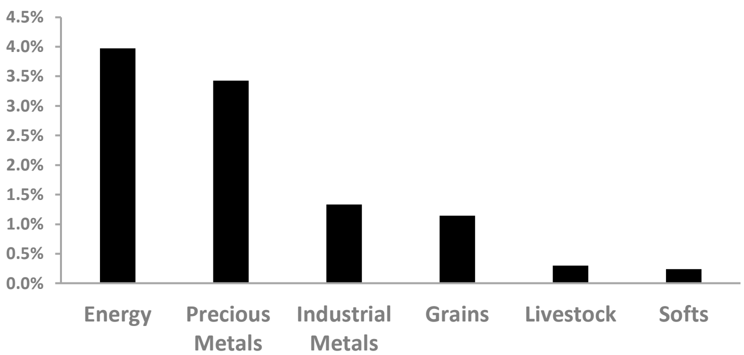
Net Equity Exposure by Region: 34.5%



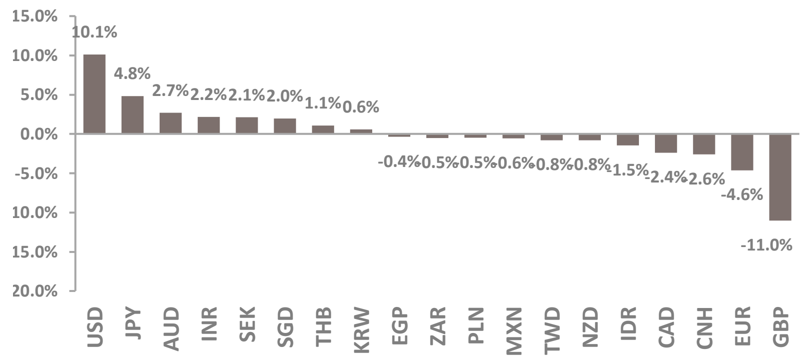
Net Duration Exposure (years): 1.3



Net Commodity Exposure: 10.4%



Net Currency Exposures



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Data as at 08/31/2023. Source: Fulcrum Asset Management LLP.

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Fulcrum Diversified Absolute Return (FARIX)

Multi-Asset Investment Team

Gavyn Davies
Founding Partner & Chairman

- BBC, Executive Chairman
- Goldman Sachs, Chief Economist, Managing Director and Partner
- HM Treasury Forecasting Panel UK
- Policy Unit at 10 Downing Street, Economic Policy, Economist then adviser to the Prime Minister
- St John's College, Cambridge

Suhail Shaikh, CFA
Partner, Chief Investment Officer

- Goldman Sachs, Investment Strategy Group, Global Equity then Global Fixed Income & Currency Asset Management
- London School of Economics & Political Sciences
- BSc in Management
- CFA Charterholder

Andrew Bevan, PhD
Partner

- Fulcrum Asset Management
- Goldman Sachs, Managing Director, Head of Global Markets Research
- Bear Stearns, Managing Director, head of Financial Analytics and Structured Transactions Group
- PhD International Monetary Economics, PhD in Theology

Fulcrum Asset Management

- Fulcrum is defined by the strength of its research and disciplined investment approach.
- Core focus on global, multi-asset investing across liquid markets.
- Based in London with more than 95 employees, Fulcrum is an independent asset manager founded in 2004, with assets under management of $8.3bn.
- The team has a long history of working together in a collaborative environment.

[4] The MSCI AC World Index is a stock index that tracks nearly 3,000 stocks in 48 developed and emerging markets countries.
[5] The Bloomberg Global Aggregate Index is a flagship measure of global investment grade debt from twenty- four local currency markets.
[6] The S&P GSCI serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time.
[7] The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.
[8] FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization.

Disclosure

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 at least April 30, 2024 excluding 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 vehicles or derivative instruments; borrowing costs; taxes; and extraordinary expenses, such as litigation expenses.

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 marketrallies. 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 andregulatory developments. Derivatives involve special risks including correlation, counterparty, liquidity, operational, accounting andtax risks. These risks, incertaincases, 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 andpolitical, economic and currency risks anddifferences 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. 17414632-NLD 09/25/2023

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