

Fulcrum Diversified Core Absolute Return

Targeted Absolute Return

Introduction

The objective of the fund is to deliver returns of inflation +3-5% (gross) p.a. over rolling 5-year periods. This is to be achieved with an ex-ante volatility limit of 12%. The fund uses a hedging overlay to help protect against daily losses and is daily priced. The fund is looking to deliver attractive risk adjusted returns in a manner uncorrelated to equity and bond markets.



[Click here to read the Fulcrum approach to ESG investing.](#)

Why RSMR Rate this Fund

- Offers investors an absolute return approach with low correlation to conventional asset classes.
- Fund is managed by an investment team whose specialisation and sole focus is on absolute return strategies.
- Senior team members are vastly experienced and have worked together for many years.
- Macro driven asset allocation is dynamically and actively managed using liquid asset classes.
- Fund returns are primarily driven by manager skill rather than equity or bond market beta.
- Looks to deliver uncorrelated positive risk adjusted returns whilst avoiding large drawdowns.

Fund Process

The strategy invests across global equities, global bonds, commodities and currencies and looks to use the most cost effective ways of implementing investment ideas. There is an extremely wide investment universe subject to the liquidity constraints of the strategy. The majority of investments are conducted through futures, but there are also baskets of stocks when there is a requirement for greater customisation in implementation. Concentration risk of single companies is avoided. Within equities, fixed interest and currencies there can be investment in developed markets and emerging markets, together with equity themes. The fund can also invest in commodities and diversifying strategies such as trend and risk premia.

The senior team members who manage the fund focus on idea generation and have economists, strategists, and analysts reporting into them. The economic environment, market valuations, behavioural factors and the political landscape help determine the asset allocation.

The fund typically holds 20-30 uncorrelated views with diversification across global asset classes and investment styles. Typically, the fund may have 30-40% of its risk in directional strategies with 30-50% of the risk in relative value strategies and 0-10% in diversifying strategies. The majority of views have a 6-18 month time horizon, although the team will also look at shorter term opportunities over 1-6 months. These shorter term ideas will often have a negative correlation with longer term views. Position sizing is based on conviction and the volatility of the asset. The overall volatility of the fund on an ex-ante basis is 12%. There is some level of hedging within the main portfolio to navigate market shocks. Directional exposure to conventional type assets can be changed dynamically and historically this component of the strategy has had a beta of 0.3 to equity markets. The relative strategy bucket historically has no beta to equity markets and is used to improve risk adjusted returns. Market neutral ideas use a combination of fundamental and behavioural analysis including country and sector selection together with themes in currency. Diversifying strategies within the fund could include carry, trend, and risk premia.

Core investment themes are discussed at the Weekly Investment Committee meeting which looks at broad macro developments, portfolio risks, and hedging. These core themes are then translated into investment ideas across all asset classes and geographies. Behavioural factors can add satellite ideas to the fund and the phase of the economic cycle can have significant implications for asset prices, particularly at cyclical turning points. While fundamentals are important drivers of asset prices over the long term, short term variations are often more sensitive to behavioural factors, so a variety of these are monitored, most notably momentum and sentiment. The relative weighting applied to these factors is discussed and actively managed by the senior investment team. Within the fund risk factors such as portfolio concentration and key factor exposure are continuously managed, and outcomes are modelled under different risk scenarios. Currency is also a driver of return and currency risk is typically 10-20% of overall portfolio risk with around a quarter of the returns generated from currencies since inception.

Evaluation

The fund has the potential to perform well in all market conditions through its unconstrained approach but could appear dull if risk assets are performing strongly. It is looking to achieve consistent positive returns which are attractive on a risk adjusted basis.

Application

The fund can be used as a core holding in the absolute return sector based on the consistency of returns. The fund is not looking to keep pace with risk assets when these perform strongly.

Our Opinion

Fulcrum is an independently owned asset manager specialising in global multi asset absolute return investing, so is in effect providing a UCIT wrapped global macro strategy. The fund has successfully delivered a return profile complementary to equities and bonds using a different return stream. The

strategy has delivered returns with a different asset mix to many in the multi asset space as it has not been reliant on either credit beta or bond market duration. Equity exposure has been dynamically managed but within controlled constraints and the team look to understand volatility to size positions in an appropriate way. At a practical level, the fund is managed below its volatility limit, so there is not pressure to de-risk or de-lever if volatility rises.

The fund is differentiated from many multi asset absolute return funds and offers investors exposure to a global macro hedge fund strategy at lower costs, but also with lower levels of leverage. This limits volatility, but also tones down returns. It has not relied on government bond market duration to hedge out equity market downside or volatility. Returns from market neutral strategies in terms of both relative value and currencies have been strong versus the wider absolute return peer group.

The fund offers investors a genuinely uncorrelated global macro strategy at a relatively low cost as unlike most hedge funds there is no performance fee. The fund takes a pragmatic view on markets and is prepared to dynamically alter asset allocation as and when conditions change. Fulcrum has a highly experienced team of senior investors who have all worked together in previous roles. The firm focus is on macro driven, absolute return strategies with a top down orientated investment process. In a zero rate world the performance objective as with all absolute returns is challenging over shorter timeframes, but the fund has been more successful than most multi-asset offerings in the sector at delivering positive returns on a consistent basis and avoiding significant drawdowns.



Important Notice

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