



ANNUAL FINANCIAL REPORT
FOR THE PERIOD ENDED 30 JUNE 2024

FULCRUM DIVERSIFIED
ABSOLUTE RETURN FUND

ARSN 601 830 353

Ironbark Asset Management (Fund Services) Limited
ABN 63 116 232 154 AFSL 298626

Level 14, 1 Margaret Street
Sydney NSW 2000, Australia

P 1800 034 402 F +61 2 9290 3120
www.ironbarkam.com

Fulcrum Diversified Absolute Return Fund

ARSN 601 830 353

Financial report

For the year ended 30 June 2024

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Directors' report

The directors of Ironbark Asset Management (Fund Services) Limited (the "Responsible Entity"), the Responsible Entity of Fulcrum Diversified Absolute Return Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2024 and the auditor's report thereon.

Responsible Entity

The registered office and principal place of business of the Responsible Entity and the Fund is Level 14, 1 Margaret Street, Sydney, NSW 2000.

Directors

The following persons held office as directors of the Responsible Entity of the Fund for the period from 1 July 2023 to the date of this report:

B Carpenter
A Donald
C Larsen
R Kellerman

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia. During the year ended 30 June 2018, the Fund launched a retail class. As at 30 June 2024, the retail class remains as a dormant class with no units on issue. There are two classes of units and each unit within each class has the same rights attaching to it as all other units within that class of the Fund.

The Fund invests primarily in a highly diversified portfolio, consisting of equities, fixed income, property related securities and cash. The Fund also uses derivatives for investment purposes and efficient portfolio management.

The Fund did not have any employees during the year.

There was a change on investment objective on 01 Jun 2024. The Scheme 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 the Reserve Bank of Australia (RBA) cash rate.

Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended	
	30 June 2024	30 June 2023
Operating profit/(loss) for the year (\$'000)	109,923	(49,872)
Distributions paid and payable (\$'000)	6,028	-
Distributions (cents per unit)	0.4837	-
 Unit price as at 30 June		
Application price (\$)	1.0029	0.9219
Redemption price (\$)	1.0029	0.9219

Directors' report (continued)

Significant changes in the state of affairs

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Indemnification and insurance of officers and auditor

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of the Responsible Entity or the auditor of the Fund. So long as the officers of the Responsible Entity act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its related parties

Fees paid to the Responsible Entity and its related parties out of Fund property during the year are disclosed in note 17 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its related parties as at the end of the financial year are disclosed in note 17 of the financial statements.

Interests in the Fund

The movements in units on issue in the Fund during the year are disclosed in note 7 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that *ASIC Corporations Instrument*, unless otherwise indicated.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of the Responsible Entity.

Signed by:

3E5C79CEC8EB428...
Director

Sydney



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Ironbark Asset Management (Fund Services) Limited, as
the Responsible Entity of Fulcrum Diversified Absolute Return Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Fulcrum Diversified Absolute Return Fund for the financial year ended 30 June 2024 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.


KPMG



Nicholas Buchanan
Partner
Sydney
25 September 2024

Fulcrum Diversified Absolute Return Fund
Statement of comprehensive income
For the year ended 30 June 2024

Statement of comprehensive income

	Note	Year ended	
		30 June 2024 \$'000	30 June 2023 \$'000
Investment income			
Interest income from financial assets at fair value through profit or loss		10,347	6,082
Dividend income		651	459
Distribution income		117	13
Net foreign exchange gain/(loss)		(1,304)	(658)
Net gains/(losses) on financial instruments at fair value through profit or loss		117,759	(32,667)
Other income		<u>13</u>	<u>6</u>
Total investment income/(loss)		<u>127,583</u>	<u>(26,765)</u>
Expenses			
Management and Responsible Entity fees	17	11,910	13,286
Custody and administration fees		645	706
Transaction costs		2,488	5,424
Interest expense		2,219	3,623
Other expenses		<u>398</u>	<u>68</u>
Total expenses		<u>17,660</u>	<u>23,107</u>
Operating profit/(loss) for the year		<u>109,923</u>	<u>(49,872)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	8	(6,028)	-
(Increase)/decrease in net assets attributable to unitholders	7	<u>(103,895)</u>	<u>49,872</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Fulcrum Diversified Absolute Return Fund
Statement of financial position
As at 30 June 2024

Statement of financial position

		As at	
		30 June 2024	30 June 2023
	Note	\$'000	\$'000
Assets			
Cash and cash equivalents	9	322,827	366,195
Receivables	13	360	227
Due from brokers - receivable for securities sold		262,169	37
Financial assets at fair value through profit or loss	11	829,909	873,237
Margin accounts		<u>233,175</u>	<u>276,782</u>
Total assets		<u>1,648,440</u>	<u>1,516,478</u>
Liabilities			
Distributions payable	8	6,028	-
Payables	14	2,498	5,198
Due to brokers - payable for securities purchased		263,211	491
Financial liabilities at fair value through profit or loss	12	18,263	36,381
Margin accounts		<u>109,251</u>	<u>126,548</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>399,251</u>	<u>168,618</u>
Net assets attributable to unitholders - liability	7	<u>1,249,189</u>	<u>1,347,860</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

**Fulcrum Diversified Absolute Return Fund
Statement of changes in equity
For the year ended 30 June 2024**

Statement of changes in equity

The Fund's net assets attributable to unitholders are classified as a liability rather than equity under AASB 132 *Financial Instruments: Presentation*. As a result, the Fund has no equity and no items of changes in equity have been presented for the current or comparative financial period.

Fulcrum Diversified Absolute Return Fund
Statement of cash flows
For the year ended 30 June 2024

Statement of cash flows

	Note	Year ended	
		30 June 2024	30 June 2023
		\$'000	\$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss*		19,020,508	1,341,303
Purchase of financial instruments at fair value through profit or loss*		(18,876,933)	(1,338,873)
Net movement in margin accounts		26,310	14,584
Interest income received from financial assets at fair value through profit or loss		10,434	5,957
Dividends received		630	415
Distributions received from related schemes		119	11
Other income received		-	6
Interest expense paid		(2,219)	(3,623)
Management and Responsible Entity fees paid		(11,059)	(13,422)
Custody and administration fees paid		(509)	(722)
Transaction costs paid		(2,488)	(5,424)
Other expenses paid		(4,291)	(3,412)
Net cash inflow/(outflow) from operating activities	10(a)	<u>160,502</u>	<u>(3,200)</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		29,384	137,099
Payments for redemptions by unitholders		(231,950)	(123,890)
Distributions paid to unitholders		-	(3,099)
Net cash inflow/(outflow) from financing activities		<u>(202,566)</u>	<u>10,110</u>
Net increase/(decrease) in cash and cash equivalents		(42,064)	6,910
Cash and cash equivalents at the beginning of the year		366,195	359,943
Effects of foreign currency exchange rate changes on cash and cash equivalents		(1,304)	(658)
Cash and cash equivalents at the end of the year	9	<u>322,827</u>	<u>366,195</u>
Non-cash operating and financing activities	10(b)	18	16,521

*The comparatives have been presented to align with the changes adopted for current year. Refer to note 2.

The above statement of cash flows should be read in conjunction with the accompanying notes.

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1 General information

These financial statements cover Fulcrum Diversified Absolute Return Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme under the Corporations Act 2001 and was constituted on 12 September 2014.

The Responsible Entity of the Fund is Ironbark Asset Management (Fund Services) Limited (ABN 63 116 232 154) (AFSL 298626) (the "Responsible Entity"). The Responsible Entity's registered office is Level 14, 1 Margaret Street, Sydney, NSW 2000. During the year ended 30 June 2018, the Fund launched a retail class. As at 30 June 2024, the retail class remains as dormant class. There are two classes of units and each unit has the same rights attaching to it as all other units of the Fund.

The Fund invests primarily in a highly diversified portfolio, consisting of equities, fixed income, property related securities and cash in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

There was a change on investment objective on 01 Jun 2024. The Scheme 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 the Reserve Bank of Australia (RBA) cash rate.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities, except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unitholders

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

(i) Rounding of amounts

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that *ASIC Corporations Instrument*, unless otherwise indicated.

(ii) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS and interpretations as issued by the International Accounting Standards Board (IASB).

(iii) Use of judgements and estimates

Management makes estimates and assumptions that affect the reported amounts in the financial statements. These estimates and associated assumptions are continuously reviewed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, observable data is used to the extent practicable. Management may be required to make estimates and any changes in assumptions would affect the reported fair value of financial instruments.

2 Summary of material accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Comparatives

Certain comparative figures in the statement of cash flows have been presented to align with the changes adopted for current year:

- Cash flow presentation for the proceeds from sale and payments for purchase of financial instruments at fair value through profit or loss have been reclassified from investing activities to operating activities due to voluntary changes in the Fund's accounting policy.

There is no impact on the Fund's financial performance, changes in equity, net assets or any other quantitative metric of the Fund.

(b) New standards, amendments and interpretations

(i) New standards, amendments and interpretations adopted by the Fund

The Fund has adopted the following Australian Accounting Standards for the reporting period beginning 1 July 2023:

- AASB 2021-2 *Amendments to Australian Accounting Standards - Disclosure of Accounting Policies and Definition of Accounting Estimates* [AASB 7, AASB 101, AASB 108, AASB 134 & AASB Practice Statement 2].

AASB 2021-2 become effective for annual reporting periods beginning on or after 1 January 2023. The amendments require the disclosure of material accounting policies rather than significant accounting policies and clarify the distinction between accounting policies and accounting estimates. The amendments do not result in any changes to the accounting policies.

There are no other new accounting standards, amendments and interpretations that are effective for the first time for the reporting period beginning 1 July 2023 and have a material impact on the financial statements of the Fund.

(ii) New standards, amendments and interpretations effective after 1 July 2024 and have not been early adopted.

A number of new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2024 reporting period and have not been early adopted in preparing these financial statements.

Most of these are not expected to have a material impact on the financial statement of the fund. However, management is still in the process of assessing the impact of the new standard AASB 18 which was issued in June 2024 and replaces AASB 101 Presentation of Financial Statements.

(c) Financial instruments

(i) Classification and measurement

Assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Responsible Entity evaluates the information about these financial assets on a fair value basis together with other related financial information.

For equity securities, unit trusts and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest. However, they are neither held for collecting contractual cash flows nor for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

For other receivables and payables, including amounts due to/from brokers, these balances are classified at amortised cost as they are deemed to be held in a business model with the objective to collect contractual cash flows through to maturity, and whose terms meet the Solely Payments of Principal and Interest (SPPI) criterion by virtue of the fact that payments pertain to only principal and/or simple interest and have a maturity of less than 12 months.

Liabilities

Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

2 Summary of material accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification and measurement (continued)

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (due to brokers, distributions payable, management fees payable, administration fees payables and custodian fees payable).

Measurement

At initial recognition, the Fund measures its investments at fair value. Transaction costs are expensed in the statement of comprehensive income as incurred.

Subsequent to initial recognition, its investments at fair value through profit or loss are measured at fair value without any deduction for estimated future selling cost. Gains and losses arising from changes in the fair value of its investments at fair value through profit or loss category are presented in the statement of comprehensive income within 'Net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

For further details on how the fair values of financial instruments are determined please see note 4 to the financial statements

Subsequent to initial recognition, its investments measured at amortised cost will use the effective interest rate method and are presented net of provisions for impairment.

(ii) Recognition/Derecognition

The Fund recognises its investments on the date it becomes party to the purchase contractual agreement (trade date) and recognises changes in fair value of its investments from this date. Investments are derecognised on the date the Fund becomes party to the sale contractual agreement (trade date).

(iii) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Financial assets and liabilities that have been offset are disclosed in note 3 and note 4.

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be added to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercise their right to redeem units from the Fund.

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments are classified as equity where certain strict criteria are met. The units issued by the Fund do not meet the criteria as it has different contractual features. Consequently, the Fund classifies the net assets attributable to unitholders as financial liability.

The carrying amount of net assets attributable to unitholders is a reasonable approximation of fair value.

(e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Margin accounts

Margin accounts comprise cash held or owed as collateral for derivative transactions. The cash is held by or owed to the broker and is only available to meet margin calls. It is not included as a component of cash and cash equivalents.

2 Summary of material accounting policies (continued)

(g) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend and distribution income when the Fund's right to receive payments is established.

(h) Expenses

All expenses, including management fees, are recognised in the statement of comprehensive income on an accruals basis.

(i) Income tax

The Fund is not subject to income tax provided the taxable income of the Fund is attributed in full to its unitholders each financial year either by way of cash or non-cash. Unitholders are subject to income tax at their own marginal tax rates on amounts attributable to them. (including assessable capital gains).

The benefits of franking credits and foreign tax paid are passed on to unitholders, provided certain conditions are met.

(j) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable income and any other amounts as determined by the Responsible Entity. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

Distribution income not distributed is included in net assets attributable to unitholders. The change in this amount for the year represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

(k) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains/(losses) on financial instruments at fair value through profit or loss in the statement of comprehensive income.

2 Summary of material accounting policies (continued)

(l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and consequently measured at amortised cost.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(m) Receivables

Receivables may include amounts for interest and applications received for units in the Fund where settlement has not yet occurred. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting date. Amounts are generally paid within 30 days of being accrued for.

The distribution amount payable to unitholders as at the end of the reporting period is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

(o) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as management fees and other expenses have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC), hence management fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Payables are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flow on a gross basis.

(p) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

Overview

The Fund invests primarily in a highly diversified portfolio, consisting of equities, fixed income, property related securities and cash. The Fund also uses derivatives for investment purposes and efficient portfolio management. It holds these investments at the discretion of the Investment Manager, Fulcrum Asset Management LLP, in accordance with the provisions of the Fund's Constitution.

The nature and extent of the financial instruments employed by the Fund are discussed below. This note presents information about the Fund's exposure to each of the risks below, the Fund's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Fund's risk management framework. The risk management framework is in place to monitor the Fund's compliance with its governing documents and to minimise risks where appropriate in its investment activities. The risk framework also ensures the Investment Manager and the relevant service providers have adequate controls in place to manage the Fund's investment activities.

Reports from the Fund's Investment Manager include details of the controls it has in place to monitor compliance with the Fund's investment strategy, training and personnel management standards and procedures, and details of how the Investment Manager develops and maintains a disciplined and constructive control environment in which its employees understand their roles and obligations.

The Fund's investing activities expose it to the following risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holdings of financial instruments. Market risk embodies the potential for both losses and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Fund's strategy on the management of the investment risk is driven by the Fund's investment objective and all transactions are carried out within the investment guidelines set by the Responsible Entity. Information relating to the investment objective and guidelines can be obtained from the Product Disclosure Statement.

(i) Price risk

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from foreign exchange risk and interest rate risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect income.

Price risk is managed by the Investment Manager through diversification of the portfolio in accordance with the investment strategy and asset composition described in the Product Disclosure Statement.

A sensitivity analysis of price risk is provided in note 3(a)(iv).

(ii) Foreign exchange risk

The foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund operates internationally and holds both monetary and non-monetary assets dominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. However, the Investment Manager monitors the exposure of all foreign currency denominated assets and liabilities.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarizes the Fund's assets and liabilities that are denominated in these currencies.

	Net currency exposure	
	30 June 2024	30 June 2023
	A\$'000	A\$'000
US Dollars	238,806	200,206
Euro	271,154	286,320
Japanese Yen	233,078	165,361
Others	8,583	8,534
Total	751,621	660,421

A sensitivity analysis of foreign exchange risk is provided in note 3(a)(iv)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates

The Fund's interest bearing financial assets exposed it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund held cash at floating interest rates. The risk is measured using sensitivity analysis.

A sensitivity analysis of interest rate risk is provided in note 3(a)(iv).

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Fund's exposures to interest rate risk is set out in the following table:

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2024				
Assets				
Cash and cash equivalents	322,827	-	-	322,827
Receivables	-	-	360	360
Due from brokers - receivable for securities sold	-	-	262,169	262,169
Financial assets at fair value through profit and loss	223,564	795	605,550	829,909
Margin accounts	<u>233,175</u>	-	-	<u>233,175</u>
Total assets	<u>779,566</u>	<u>795</u>	<u>868,079</u>	<u>1,648,440</u>
Liabilities				
Payables	-	-	2,498	2,498
Distributions payable	-	-	6,028	6,028
Due to brokers - payable for securities purchased	-	-	263,211	263,211
Financial liabilities at fair value through profit and loss	326	3,689	14,248	18,263
Margin accounts	<u>109,251</u>	-	-	<u>109,251</u>
Total liabilities (excluding net assets attributable to unitholders)	<u>109,577</u>	<u>3,689</u>	<u>285,985</u>	<u>399,251</u>
Increase/(decrease) interest rate future and swaps	<u>72,310,738</u>	<u>318,184</u>	<u>248,656</u>	<u>72,877,578</u>
Net exposure	<u>72,980,727</u>	<u>315,290</u>	<u>830,750</u>	<u>74,126,767</u>

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2023				
Assets				
Cash and cash equivalents	366,195	-	-	366,195
Receivables	-	-	227	227
Due from brokers - receivable for securities sold	-	-	37	37
Financial assets at fair value through profit and loss	136,144	1,232	735,861	873,237
Margin accounts	<u>276,782</u>	<u>-</u>	<u>-</u>	<u>276,782</u>
Total assets	<u>779,121</u>	<u>1,232</u>	<u>736,125</u>	<u>1,516,478</u>
Liabilities				
Payables	-	-	5,198	5,198
Due to brokers - payable for securities purchased	-	-	491	491
Financial liabilities at fair value through profit and loss	581	5,551	30,249	36,381
Margin accounts	<u>126,548</u>	<u>-</u>	<u>-</u>	<u>126,548</u>
Total liabilities (excluding net assets attributable to unitholders)	<u>127,129</u>	<u>5,551</u>	<u>35,938</u>	<u>168,618</u>
Increase/(decrease) interest rate future and swaps	<u>17,737,080</u>	<u>71,010</u>	<u>-</u>	<u>17,808,090</u>
Net exposure	<u>18,389,072</u>	<u>66,691</u>	<u>700,187</u>	<u>19,155,950</u>

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(a) Market risk (continued)

(iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) and net assets attributable to unitholders to market risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Price risk		Interest rate risk	
	-10%	+10%	-100 bps	+100 bps
	Impact on operating profit/(loss)/Net assets attributable to unitholders			
	\$'000	\$'000	\$'000	\$'000
30 June 2024	(56,820)	56,820	(6,671)	6,671
30 June 2023	(69,561)	69,561	(6,563)	6,563

30 June 2024

Foreign exchange risk	Change in currency rate		Impact on operating profit and net assets attributable to unitholders	
	Increase	Decrease	Increase	Decrease
	%	%	A\$'000	A\$'000
US Dollars	+10	-10	9,681	(9,681)
Euro	+10	-10	124,282	(124,282)
Japanese Yen	+10	-10	153,195	(153,195)
Others	+10	-10	1,494	(1,494)

30 June 2023

Foreign exchange risk	Change in currency rate		Impact on operating profit and net assets attributable to unitholders	
	Increase	Decrease	Increase	Decrease
	%	%	A\$'000	A\$'000
US Dollars	+10	-10	550	(550)
Euro	+10	-10	(27,181)	27,181
Japanese Yen	+10	-10	(16,022)	16,022
Others	+10	-10	(211)	211

In determining the impact of an increase/decrease in operating profit/(loss) and net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonable possible shift in assumptions.

3 Financial risk management (continued)

(b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund's credit risk is minimised by the Investment Manager by monitoring counterparty creditworthiness and only dealing with listed exchanges and internally approved counterparties each with set limits. Internally approved counterparties and the associated credit limits are regularly reviewed and monitored by the Investment Manager.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers relevant, historical analysis and forward looking information in determining any expected credit loss. At the reporting date, all receivables and cash and cash equivalents are held with approved counterparties and are either callable on demand or due within 30 days. Management consider the probability of default to be low, as a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

At 30 June 2024, the Fund is exposed to credit risk on its investment in cash and cash equivalents, receivables and certificate of deposit. The total carrying amount of financial assets exposed to credit risk amounted to \$595,363,194 (2023: \$500,407,964).

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of debt securities by rating is set out in the table below.

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Debt securities		
AA+ to AA-	140,587	133,985
A+ to A-	<u>65,472</u>	<u>-</u>
Total debt securities	<u>206,059</u>	<u>133,985</u>

(i) Settlement of securities transactions

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. The Fund minimises concentration of credit risk by undertaking transactions with numerous brokers. The risk relating to unsettled transactions is considered small due to the short settlement period involved and the high quality of the brokers used. The Fund monitors the credit rating and financial positions of the brokers used to further mitigate credit risk.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made on purchases of securities only when the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A-1 or higher as determined by Moody's Investor Service (Moody's), Standard & Poor's (S&P) or Fitch Ratings (Fitch) (2023: A-1).

(iii) Derivative financial instruments

Transactions involving derivative financial instruments are usually with counterparties with whom the Fund entered into master netting agreements. Master netting agreements provide for net settlement of contracts with the same counterparty in the event of default. The credit risk associated with derivative financial assets subject to a master netting agreement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised. The exposure to credit risk reduced by master netting agreements may change significantly within a short period of time as a result of transactions subject to the arrangement.

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's Constitution provides for the daily application and redemptions of units and it is therefore exposed to the liquidity risk of meeting unitholders' redemptions.

The Fund's liquidity risk is managed on a daily basis by the Investment Manager in accordance with the policies and procedures in place. The risk management guidelines adopted are designed to minimise liquidity risk through:

- Ensuring that there is no significant exposure to illiquid or thinly traded securities at the time of purchase.
- Applying limits to ensure there is no concentration of liquidity risk to a particular counterparty.

The Fund's investments in equity securities are considered to be readily realisable. The Fund primarily holds investments in an active market which can be readily disposed. Only a limited proportion of these investments may not be actively traded on a stock exchange.

The Fund's investments in unlisted unit trusts expose it to the risk that the responsible entity or the manager of those trusts may be unwilling or unable to fulfil the redemption requests within the time-frame requested by the Fund. However, these investments are considered readily realisable unless the unlisted unit trusts are declared illiquid or suspended.

As an Alternative Investment Fund Manager (AIFM), Fulcrum Asset Management has in place, liquidity management systems and procedures to take into account the Fund's investment strategy generally and defines a minimum liquidity level for the Fund which is monitored regularly, liquidity profile and redemption policy of each Alternative Investment Fund (AIF). The Fund is largely invested through derivative and has therefore significant levels of cash and cash equivalents.

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unitholders' option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	At call \$'000	Total \$'000
As at 30 June 2024					
Distributions payable	6,028	-	-	-	6,028
Payables	2,498	-	-	-	2,498
Due to brokers - payable for securities purchased	263,211	-	-	-	263,211
Margin accounts	109,251	-	-	-	109,251
Net assets attributable to unitholders - liability	<u>1,249,189</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,249,189</u>
Contractual cash flows	<u>1,630,177</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,630,177</u>
As at 30 June 2023					
Distributions payable	-	-	-	-	-
Payables	5,198	-	-	-	5,198
Due to brokers - payable for securities purchased	491	-	-	-	491
Margin accounts	126,548	-	-	-	126,548
Net assets attributable to unitholders - liability	<u>1,347,860</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,347,860</u>
Contractual cash flows	<u>1,480,097</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,480,097</u>

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Maturities of net settled derivative financial instruments

The table below analyses Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

As at 30 June 2024	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Net settled derivatives					
Forward currency contracts	(8)	(1,332)	-	-	(1,340)
International currency options	(251)	(75)	-	-	(326)
International exchange traded options	-	(2,455)	-	-	(2,455)
Australian share price index futures	-	(2)	-	-	(2)
International share price index futures	(2,365)	(6,124)	-	(623)	(9,112)
International fixed interest futures	-	(3,223)	-	-	(3,223)
International swaps	-	-	-	(1,339)	(1,339)
International fixed interest options	(466)	-	-	-	(466)
Total net settled derivatives	(3,090)	(13,211)	-	(1,962)	(18,263)
As at 30 June 2023					
Net settled derivatives					
Australian fixed interest futures	-	(63)	-	-	(63)
Forward currency contracts	(1,724)	(5,834)	-	-	(7,558)
International exchange traded options	(3,568)	(3,481)	-	(26)	(7,075)
International share price index futures	(1,261)	(6,911)	-	(619)	(8,791)
International fixed interest futures	-	(5,488)	-	-	(5,488)
International swaps	-	-	(95)	(7,311)	(7,406)
Total net settled derivatives	(6,553)	(21,777)	(95)	(7,956)	(36,381)

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

3 Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Maturities of net settled derivative financial instruments

The table below analyses Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instruments \$'000	Gross amounts set off in the statement of financial position \$'000	Net amounts presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Collateral pledged/received \$'000	Net amount \$'000
As at 30 June 2024						
Financial assets						
Derivative financial instruments	56,556	-	56,556	(18,263)	-	38,293
Margin accounts	<u>233,175</u>	-	<u>233,175</u>	<u>(109,251)</u>	-	<u>123,924</u>
Total	<u>289,731</u>	-	<u>289,731</u>	<u>(127,514)</u>	-	<u>162,217</u>
Financial liabilities						
Derivative financial instruments	(18,263)	-	(18,263)	18,263	-	-
Margin accounts	<u>(109,251)</u>	-	<u>(109,251)</u>	<u>109,251</u>	-	-
Total	<u>(127,514)</u>	-	<u>(127,514)</u>	<u>127,514</u>	-	-
As at 30 June 2023						
Financial assets						
Derivative financial instruments	75,362	-	75,362	(36,381)	-	38,981
Margin accounts	<u>276,782</u>	-	<u>276,782</u>	<u>(126,548)</u>	-	<u>150,234</u>
Total	<u>352,144</u>	-	<u>352,144</u>	<u>(162,929)</u>	-	<u>189,215</u>
Financial liabilities						
Derivative financial instruments	(36,381)	-	(36,381)	36,381	-	-
Margin accounts	<u>(126,548)</u>	-	<u>(126,548)</u>	<u>126,548</u>	-	-
Total	<u>(162,929)</u>	-	<u>(162,929)</u>	<u>162,929</u>	-	-

(iv) Master netting arrangement-not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association ("ISDA") Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in this note.

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities at fair value on a recurring basis.

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (see Note 11 and Note 12)
- Derivative financial instruments (see Note 15)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2 of the financial statements.

Financial assets and liabilities are priced at last traded prices.

For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

4 Fair value measurement (continued)

(iii) Recognised fair value measurements

The following table below presents the Fund's assets and liabilities measured at fair value at 30 June 2024 and 30 June 2023.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2024				
Financial assets				
Derivatives	13,122	43,434	-	56,556
Unlisted unit trusts	-	543,030	-	543,030
Listed unit trusts	341	-	-	341
Debt securities	206,059	-	-	206,059
Listed equity securities	<u>23,923</u>	<u>-</u>	<u>-</u>	<u>23,923</u>
Total financial assets	<u>243,445</u>	<u>586,464</u>	<u>-</u>	<u>829,909</u>
Financial liabilities				
Derivatives	<u>14,792</u>	<u>3,471</u>	<u>-</u>	<u>18,263</u>
Total financial liabilities	<u>14,792</u>	<u>3,471</u>	<u>-</u>	<u>18,263</u>
As at 30 June 2023				
Financial assets				
Derivatives	10,398	64,964	-	75,362
Unlisted unit trusts	-	602,707	-	602,707
Listed unit trusts	1,199	-	-	1,199
Debt securities	-	133,985	-	133,985
Listed equity securities	<u>59,984</u>	<u>-</u>	<u>-</u>	<u>59,984</u>
Total financial assets	<u>71,581</u>	<u>801,656</u>	<u>-</u>	<u>873,237</u>
Financial liabilities				
Derivatives	<u>14,342</u>	<u>22,039</u>	<u>-</u>	<u>36,381</u>
Total financial liabilities	<u>14,342</u>	<u>22,039</u>	<u>-</u>	<u>36,381</u>

(iv) Transfer between levels

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy for the period ended 30 June 2024 and 30 June 2023.

(v) Fair value measurements using significant unobservable inputs (level 3)

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the year ended 30 June 2024 and 30 June 2023.

(vi) Financial instruments not carried at fair value

The Fund did not hold any financial instruments which were not measured at fair value in the statement of financial position during the year ended 30 June 2024 or 30 June 2023 except for receivables and payables which are subsequently measured at amortised cost. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

5 Auditor's remuneration

	Year ended	
	30 June 2024	30 June 2023
	\$	\$
Audit and review services		
Audit and audit related services - KPMG		
Compliance plan audit	4,226	3,931
Financial statements audit	<u>21,141</u>	<u>17,617</u>
Total remuneration for audit and audit related services	<u>25,367</u>	<u>21,548</u>
Non - audit services		
Tax compliance services - KPMG	<u>5,900</u>	<u>5,715</u>
Total remuneration for non - audit services	<u>5,900</u>	<u>5,715</u>
Total remuneration	<u>31,267</u>	<u>27,263</u>

The Auditor's remuneration is borne by the Investment Manager.

6 Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) arising from changes in the fair value measurement:

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Financial assets		
Net realised gain/(loss) on financial assets at fair value through profit or loss	41,058	30,862
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	<u>49,379</u>	<u>(8,526)</u>
Net gains/(losses) on financial assets at fair value through profit or loss	<u>90,437</u>	<u>22,336</u>
Financial liabilities		
Net realised gain/(loss) on financial liabilities at fair value through profit or loss	27,539	(56,192)
Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss	<u>(216)</u>	<u>1,189</u>
Net gains/(losses) on financial liabilities at fair value through profit or loss	<u>27,323</u>	<u>(55,003)</u>
Total net gains/(losses) on financial instruments at fair value through profit or loss	<u>117,760</u>	<u>(32,667)</u>

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

7 Net assets attributable to unitholders - liability

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	Year ended		Year ended	
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	Units '000	\$'000	Units '000	\$'000
Opening balance	1,461,755	1,347,860	1,429,461	1,368,010
Applications	31,167	29,384	143,462	137,099
Redemptions	(246,646)	(231,950)	(128,438)	(123,890)
Reinvestment of distributions	-	-	17,270	16,513
Increase/(decrease) in net assets attributable to unitholders	-	103,895	-	(49,872)
Closing balance	<u>1,246,276</u>	<u>1,249,189</u>	<u>1,461,755</u>	<u>1,347,860</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

During the year ended 30 June 2018, the Fund launched a retail class. As at 30 June 2024, the retail class remains as dormant class. There are two classes of units and each unit has the same rights attached to it as all other units of the Fund.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

8 Distributions to unitholders

	Year ended		Year ended	
	30 June 2024	30 June 2024	30 June 2023	30 June 2023
	\$'000	CPU	\$'000	CPU
Distributions				
Distributions payable 30 June *	<u>6,028</u>	0.4837	-	-
Total distributions	<u>6,028</u>		-	

* There are nil distribution for the financial year end 30 June 2023.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

9 Cash and cash equivalents

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Cash at bank	<u>322,827</u>	<u>366,195</u>
Total cash and cash equivalents	<u>322,827</u>	<u>366,195</u>

Cash at bank accounts are earning a floating interest rate of 2.85% (2023: 3.43%) as at 30 June 2024.

10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2024	30 June 2023
	\$'000	\$'000
Increase/(decrease) in net assets attributable to unitholders	103,895	(49,872)
Distributions to unitholders	6,028	-
Proceeds from sale of financial instruments at fair value through profit or loss	19,020,508	1,341,303
Payments for purchase of financial instruments at fair value through profit or loss	(18,876,933)	(1,338,873)
Net (gains)/losses on financial instruments at fair value through profit or loss	(117,759)	32,667
Net change in margin accounts	26,310	14,584
Net change in receivables	(133)	(183)
Net change in payables	(2,700)	(3,476)
Distributions reinvested	(18)	(8)
Net foreign exchange gain/(loss)	<u>1,304</u>	<u>658</u>
Net cash inflow/(outflow) from operating activities	<u>160,502</u>	<u>(3,200)</u>

(b) Non-cash operating and financing activities

The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plans	-	16,513
The following acquisitions were satisfied by participation in dividend and distribution reinvestment plan	<u>18</u>	<u>8</u>
Total non-cash operating and financing activities	<u>18</u>	<u>16,521</u>

As described in Note 2(j), income not distributed is included in net assets attributable to unitholders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

11 Financial assets at fair value through profit or loss

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Derivatives (note 15)	56,556	75,362
Australian equity securities	330	891
International equity securities	23,593	59,093
International certificates of deposit	206,059	133,985
Australian unlisted unit trusts	338,130	466,092
International unlisted unit trusts	204,900	136,615
Listed unit trusts	<u>341</u>	<u>1,199</u>
Total financial assets at fair value through profit or loss	<u>829,909</u>	<u>873,237</u>

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

12 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Derivatives (note 15)	<u>18,263</u>	<u>36,381</u>
Total financial liabilities at fair value through profit or loss	<u>18,263</u>	<u>36,381</u>

An overview of the risk exposures relating to financial liabilities at fair value through profit or loss is included in note 3.

13 Receivables

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Interest receivable	38	125
Dividends receivable	8	36
Distribution receivable	-	2
Tax reclaim receivable	31	-
Other receivables	<u>283</u>	<u>64</u>
Total receivables	<u>360</u>	<u>227</u>

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

14 Payables

	As at	
	30 June 2024	30 June 2023
	\$'000	\$'000
Management and Responsible Entity fees payable	1,906	1,055
Custody and administration fees payable	254	118
Other payables	338	4,025
Total payables	2,498	5,198

15 Derivative financial instruments

In the normal course of business, the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds the following derivative instruments:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Fund are exchange-traded. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

(c) Forward currency contracts

Forward currency contracts are primarily used by the Fund to economically hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period

Spot currency contracts are primarily used by the Fund for the purposes of trading settlements where the Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on the spot date. These contracts are valued and translated at the prevailing spot bid price at the end of each reporting period. The Fund recognises a gain or loss equal to any change in value between the date of the spot currency contract and reporting date.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

15 Derivative financial instruments (continued)

(d) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

A credit default swap is an agreement whereby one counterparty pays a regular fee, usually expressed as a percentage of the notional principal, to another counterparty in return for security against default by the underlying loan or asset.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

The Fund's derivative financial instruments at year end are detailed below:

	Contractual/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
As at 30 June 2024			
Forward currency contracts	1,012,716	23,751	1,340
International exchange traded options	12,312	4,826	2,455
International currency options	72,076,443	17,505	326
International fixed interest options	25	153	466
Australian share price index futures - securities sold short	(11,870)	121	2
International share price index futures	723,006	7,533	9,112
International fixed interest futures	262,601	642	3,223
International swaps	328,087	2,025	1,339
Total derivatives	74,403,320	56,556	18,263
As at 30 June 2023			
Forward currency contracts	4,399	11,957	7,558
International exchange traded options	433,422	38,211	7,075
International currency options	17,841,042	2,054	-
International fixed interest options	202	212	-
Australian share price index futures	2,506	8	-
International share price index futures	376,177	9,370	8,791
Australian fixed interest futures - securities sold short	(78,058)	421	63
International fixed interest futures	44,904	599	5,488
International swaps	-	12,530	7,406
Total derivatives	18,624,594	75,362	36,381

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

16 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in unlisted unit trusts (funds) to be structured entities. The Fund invests in unrelated managed funds for the purpose of capital appreciation and or earning investment income.

The unlisted unit trusts are managed in accordance with the investment strategy of the respective investment managers. The investment decisions are based on the analysis conducted by the investment managers. The return of the unlisted unit trusts is exposed to the variability of the performance of the investment strategies. The unlisted unit trusts are financed through the issue of redeemable shares to investors, and investment returns made on the funds invested. The investment managers receive a management fee for undertaking the management of these investments.

The Fund holds redeemable shares in each of the funds it invests in.

The exposure to investments in unlisted unit trusts are disclosed in the following table:

	Fair value of investment	
	30 June 2024	30 June 2023
	\$'000	\$'000
Fulcrum Alternative Beta Daily Fund	-	65,123
Fulcrum Fixed Income Absolute Return Fund	-	73,868
Fulcrum Multi Asset Trend Fund	91,719	57,240
Fulcrum EQ Disprsn	43,417	58,159
Fulcrum Thematic Mkt	202,994	211,701
Fulcrum Class Z USD	97,309	91,896
Fulcrum Funds II SPC	24,601	20,020
Fulcrum Funds SPC	-	24,700
Fulcrum Funds II SPC - Fulcrum Discretionary Macro SP	36,380	-
Fulcrum Funds II Spc – Fulcrum SH Macro Fund SP	46,610	-
Total unrelated Schemes	<u>543,030</u>	<u>602,707</u>

The fair value of the unlisted unit trusts is included in financial assets at fair value profit or loss in the statement of financial position. The fair value of the unlisted unit trusts will change on daily basis throughout the period and in subsequent periods and will cease when the investments are disposed of.

The Fund's maximum exposure to loss from its interests in the structured entities is equal to the total fair value of its investments in these entities as there are no off balance sheet exposures relating to them. The Fund's exposure to any risk from the structured entities will cease when these investments are disposed of.

During the year, the Fund did not provide financial support to the unlisted unit trusts and had no intention of providing financial or other support.

The Fund generated unrealised gains via its investment in the unlisted unit trusts which are disclosed in note 6.

17 Related party transactions

The Responsible Entity of the Fulcrum Diversified Absolute Return Fund is Ironbark Asset Management (Fund Services) Limited (ABN 63 116 232) (AFSL 298626). Accordingly, transactions with entities related to Ironbark Asset Management (Fund Services) Limited are disclosed below.

(a) Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the key management personnel.

Key management personnel of the Responsible Entity include persons who held office as directors of the Responsible Entity as at the date of the reports.

B Carpenter

A Donald

C Larsen

R Kellerman

There were no other key management personnel with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, during the year or since the end of the year.

(b) Key management personnel unitholdings

Key management personnel of the Responsible Entity did not hold units in the Fund as at 30 June 2024 (30 June 2023: nil).

(c) Key management personnel compensation

Key management personnel were paid by the Responsible Entity. Payments made from the Fund to the Responsible Entity did not include any amounts directly attributable to the compensation of key management personnel.

(d) Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the Responsible Entity, its key management personnel or their personally related entities at any time during the reporting period.

(e) Other transactions within the Fund

Apart from those details disclosed in this note, the Responsible Entity has not entered into any other material contract with the Fund and there were no material contracts involving director's interests at year end.

(f) Responsible Entity's fees and other transactions

Management fees

Management fees are calculated in accordance with the Fund's Constitution. The Investment Manager is entitled to receive management fees. For the year ended 30 June 2024, the management fee was 0.913% (2023: 0.931%) per annum of the net asset value of the Fund, inclusive of the net effect of GST and net of RITC.

Responsible Entity fees

Responsible entity fees are calculated in accordance with the Fund's Constitution. The Responsible entity is entitled to receive responsible entity fees. For the year ended 30 June 2024, the responsible entity fee was 0.023% (2023: 0.022%) per annum of the net asset value of the Fund.

Fulcrum Diversified Absolute Return Fund
Notes to the financial statements
For the year ended 30 June 2024
(continued)

17 Related party transactions (continued)

(f) Responsible Entity's fees and other transactions (continued)

Balances with related parties

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

	Year ended	
	30 June 2024	30 June 2023
	\$	\$
Management fees for the year	11,620,784	12,980,364
Responsible Entity fees for the year	289,504	305,505
Management fees payable at year end	1,882,370	1,030,741
Responsible Entity fees payable at year end	23,369	24,359

(g) Related party unitholdings

Parties related to the Fund (including the Responsible Entity, its related parties and other schemes managed by the Responsible Entity) hold units in the Fund, as follows:

	Number of units held opening Units	Number of units held closing Units	Fair value of investment \$	Interest held %	Number of units acquired Units	Number of units disposed Units	Distributions paid/payable by the Fund \$
30 June 2024							
Unitholder							
Fulcrum Diversified Investments Fund	194,668,038	141,503,785	141,914,147	11.35	-	53,164,254	684,421
30 June 2023							
Unitholder							
Fulcrum Diversified Investments Fund	207,805,897	194,668,038	179,464,464	13.32	35,967,170	49,105,029	-

(h) Investments

The Fund did not hold any investments in the Responsible Entity or its related parties during the year (2023: nil).

18 Events occurring after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2024 or on the results and cash flows of the Fund for the year ended on that date.

19 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities and commitments as at 30 June 2024 and 30 June 2023.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 35 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, and Interpretations issued by the Australian Accounting Standards Board, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of the Fund's financial position as at 30 June 2024 and of its performance for the financial year ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors for and on behalf of the Responsible Entity.

Signed by:

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Director

Sydney



Independent Auditor's Report

To the unitholders of **Fulcrum Diversified Absolute Return Fund**

Opinion

We have audited the **Financial Report** of Fulcrum Diversified Absolute Return Fund (the Fund).

In our opinion, the accompanying Financial Report of the Fund gives a true and fair view, including of the Fund's financial position as at 30 June 2024 and of its financial performance for the year then ended, in accordance with the *Corporations Act 2001*, in compliance with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2024;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes to the Financial Statements, including a summary of material accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Fund in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Other Information is financial and non-financial information in the Fund's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Ironbark Asset Management (Fund Services) Limited (the Responsible Entity) are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other



Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of Ironbark Asset Management (Fund Services) Limited (the Responsible Entity) are responsible for:

- preparing the Financial Report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Fund, and in compliance with *Australian Accounting Standards* and the *Corporations Regulations 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Fund, and that is free from material misstatement, whether due to fraud or error; and
- assessing the Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.



KPMG

Nicholas Buchanan
Partner
Sydney
25 September 2024