

Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report April 2023

Performance ¹	1 month	3 months	1 year	2 year	3 year	5 year	Inception
Fund	-0.46	4.19	3.33	1.07	2.30	3.83	3.69
Benchmark ²	0.30	1.22	6.71	6.08	4.71	3.36	2.62
Excess Return	-0.76	2.97	-3.38	-5.01	-2.41	0.47	1.07

¹ Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

² The Fund benchmark is the Australian Consumer Price Index.

Source: Fidante Partners Limited, 30 April 2023.

Fund Features

Unique 'relative value' investment strategy: The Fund adopts a relative value investment strategy to access a range of fixed income return sources that are independent of interest rates.

Tight risk control: The Fund specifically targets low volatility returns by using a range of risk management strategies.

Diversification benefits: The Fund offers significant diversification benefits when combined with conventional bond, credit and equity investments in an investment portfolio.

Capital preservation: The Fund prioritises capital preservation by only investing in high quality government bonds, related derivatives and cash like investments. However, the Fund is not guaranteed.

Protect long term purchasing power: The Fund explicitly targets a return exceeding Australian inflation rates to protect long term purchasing power.

Daily liquidity: The Fund only invests in the most liquid segments of global fixed income markets.

Experienced and stable investment team: Ardea's investment team has decades of experience across global fixed income markets. Majority employee ownership of the Ardea business fosters team stability.

Fund Facts

Portfolio Manager	Ardea Investment Management
Investment Objective	The Fund targets low volatility returns exceeding cash rates and inflation, by investing in a global portfolio of high quality government bonds that prioritises capital preservation and liquidity.
Investment Horizon	Recommended min. 2 years
Inception Date	20 July 2012
Fund Size	\$7.5bn
Management Fee	0.50% p.a.
Buy/Sell Spread	+0.05% / -0.05%
Distribution Frequency	Quarterly

Sector Exposure		Rating Exposure		Risk Contribution by Currency	
Government – National	68%	AAA	57%	AUD	35%
Government - State	32%	AA	40%	CAD	12%
Total	100%	A	3%	EUR	18%
		Total	100%	JPY	0%
				NZD	1%
				GBP	11%
				USD	24%
				Total	100%

Source: Ardea Investment Management, S&P Ratings

Portfolio Commentary

Performance for the month of April was -0.46%.

April was less eventful for markets following the extreme moves in March with volatility easing although by month end the First Republic Bank in the US was taken over by the Federal Deposit Insurance Corporation and then most of its assets sold to JPMorgan Chase, this was the third major bank failure in the U.S. in less than two months and is likely to keep US regional banks in the headlines for the month ahead. The RBA left the cash rate unchanged at 3.60% which was its first pause in rate increases since it started increasing rates in May 2022, delivering a cumulative increases of 3½ percentage points. The BoC also paused whilst the RBNZ and Riksbank both increased rates. The US Fed and the ECB did not meet in April however both meet in the first week of May and both are expected to increase their cash rate.

Moves in rates markets were more restrained in April, for example in Australia 10y bond futures, 3.56%, traded in a 41bp range v 84bp in March, whilst 3years, 2.98%, traded in a 46bp range v 106bps in March. AUD swap spreads narrowed over the month and volatility declined in rates markets as did equity market volatility which closed at its lowest level for over a year.

There were two key domestic economic releases, inflation data, the headline annual inflation rate came in 7% y/y down from 7.8% y/y at the Dec quarter but above consensus forecasts and remains stubbornly high, the trimmed mean printed at 6.6%. The second was employment data which was stronger than forecast with the unemployment rate printing at 3.5%. In other markets US payrolls data was better than expected while UK inflation was higher than anticipated driven by rising food costs keeping the inflation rate above 10%.

Following the rate hike pause in April the RBA has surprised the markets on 2 May by again tightening rates by a further 0.25% to 3.85% sighting concern over services side inflation, a tight labour market and wages growth. Market participants are now looking for further increases over coming months as the RBA remains committed to return inflation to target which may mean the policy cycle could remain higher for longer.

The Fund is positioned across a large number of RV trades, overall the RV strategies detracted over the month and were spread across the various markets with AUD positions having the main impact. Within these strategies curve RV contributed while bond verses derivatives and option volatility both detracted.

The retraction of implied volatility was the main detractor within the portfolio overall with GBP and EUR positions impacting to a slightly greater extent. RV curve positions added with gains in EUR, USD and GBP. Positions in Bond verses Derivative in AUD detracted marginally overall with swap spread narrowing relative to bond produced slight underperformance from bond-swap however this was partly offset by better performance of semis. RV trades in 0-10yr part of the EUR curve and the belly of the AUD and USD curve have performed. The fund's beta exposure to cash continues to add to returns in the rising rates environment while inflation beta positions produced a flat outcome.

The Fund was active in adding new RV positions in April as we continue to take advantage of historically large pricing anomalies in government bond markets, which are being created by large shifts in the supply/demand balance due to high issuance volumes and central bank quantitative tightening. Core European and UK markets have been notable sources of new RV this year.

Market Commentary

Please see the Insights section of the [Ardea website](#) for our latest thoughts on markets and investment themes.

Understanding Performance

Performance is evaluated over rolling 2 year periods for consistency with the recommended minimum investment horizon of 2 years. Over short-term horizons it is expected that portfolio performance will fluctuate in a range around the expected long-term investment outcome, including periods of negative returns. This is because the Fund's targeted return is not expected to materialise evenly over the investment horizon.

We use the concept of 'expected performance variability' to objectively define a range of short-term performance fluctuation that is consistent with the investment strategy operating as expected. This range is based on the Fund's volatility target of 2% p.a. and translates to an expectation for monthly performance to commonly fluctuate in a range of -0.4% to +0.7%.

The Fund's highly differentiated investment approach generates returns exclusively from capturing RV mispricing opportunities across global interest rate markets. This approach is intentionally independent of the level of bond yields, the direction of interest rates and broader bond market themes.

The Fund's portfolio construction process intentionally diversifies risk across many different types of independent and modestly sized RV trades. Therefore, performance is the cumulative result of interactions between hundreds of trades entered, exited, and held over the preceding months.

For these reasons, the Fund's performance is ordinarily not driven by a few key trades, nor can it be mapped to broader market fluctuations or macro themes. This is intentional, because the Fund aims to deliver volatility controlled returns that exhibit low correlation to the performance of government bond, credit, and equity markets. This is precisely why the Fund can offer compelling diversification benefits when combined with conventional investments.

Please note that monthly performance attribution is heavily influenced by short-term 'noise' and ordinarily offers little genuine information value.

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This material has been prepared by Ardea Investment Management Pty Ltd (ABN 50 132 902 722, AFSL 329 828) Ardea, the investment manager of the Ardea Real Outcome Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Ardea and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Ardea and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the Banking Act 1959 (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (Challenger ADI) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.

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