

Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report March 2022

Performance ¹	1 month	3 months	1 year	2 year	3 year	5 year	Inception
Fund	0.46%	-0.76%	-1.98%	1.54%	3.19%	3.78%	3.65%
Benchmark ²	0.57%	1.24%	4.16%	2.63%	2.48%	2.13%	2.07%
Excess Return	-0.11%	-1.99%	-6.14%	-1.09%	0.71%	1.65%	1.58%

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, 31 March 2022.

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	\$11bn
Management Fee	0.50% p.a.
Buy/Sell Spread	+0.05% / -0.05%
Distribution Frequency	Quarterly

Sector Exposure	
Government – National	74%
Government - State	26%
Total	100%

Rating Exposure	
AAA	54%
AA	34%
A	13%
Total	100%

Region Exposure*	
Australasia	-7%
Europe	36%
N. America	71%
Total	100%

Interest Rate Duration (years)	
12 month average	-0.1
Since inception average	0.1

* Australasia = Australia, New Zealand, Japan; Europe = France, Germany, UK ; N. America = USA, Canada

*Physical weights for sector and rating exposure

Source: Ardea Investment Management, S&P Ratings

Portfolio Commentary

Performance for the month of March was +0.46% (after fees).

The backdrop is one of severe pressure in global bond markets, as central banks react to the relentless rise in inflation. Significant uncertainty persists over the path for interest rates, underpinning continued elevated volatility in bonds, even as equities staged a turnaround in the month. Many conventional bond indices finished March with monthly losses of 3-4% and quarterly losses of 5-6%, which for some benchmarks is the worst quarterly performance in decades.

This turbulence in global bond markets benefited the Fund's positions in interest rate options (+0.5%) and associated hedging activity to manage the duration impact of options on the portfolio, reflected in the RV rates (+0.3%) attribution category. These positions are implemented to capture relative value opportunities within segments of global interest rate option markets (such as targeting comparable implied vs realised volatility differences) and to support portfolio risk balance. Contributions from options were spread across a few markets - as the increase in global rates volatility was broadly based – notably in USD (+0.2%), EUR (+0.2%) and AUD (+0.1%). Within most markets, shorter-term rates volatility increased relative to longer-term volatility, reflecting the large repricing of policy rate expectations.

Option positions help offset risk from other parts of the portfolio, which can sometimes detract from returns in high volatility periods. Throughout March, ongoing macro shocks continued to drive large changes in the shape of global yield curves. This environment is having a spill-over effect on some of the Fund's more micro-focused RV curve (-0.8%) positions, which detracted from returns. Within the RV curve component, CAD (-0.6%) and GBP (-0.2%) exposures had the largest impact, mostly reflecting changes in the shape of curves in the short end. The underlying positions have multiple long and short legs. For example, long in one cheap maturity (as identified by RV analysis) with offsetting short positions in nearby surrounding maturities. Elsewhere, this type of RV curve exposure produced narrowly mixed results, with small positives offsetting small negatives.

Bond vs derivative (+0.4%) positions added to returns in March and have recently seen considerably less volatility than movements in yield curve and outright yield levels. Over last month, the gains reflected favourable basis movements between bonds and swap or futures hedges, mostly in the AUD and USD markets.

The Fund maintains a structural beta exposure to inflation and these positions were flat in March after providing a significant uplift over the preceding year. Inflation beta exposures are implemented through AUD inflation-linked bonds and swaps (with the interest rate risk hedged). Throughout March, market focus on rising commodity prices and global supply constraints pushed AUD inflation expectations higher over the first half of the month, before moderating over the second half following the rise in policy rate expectations (which markets anticipate will somewhat offset inflation pressure down the track). While correlated with global developments, AUD term inflation pricing remains under realised inflation levels and a long way under the historically extreme inflation levels seen in European and US consumer price reports (which is contributing to broader bond market pressure).

Market Commentary

Please see the Ardea website for our thoughts on markets and investment themes. Our latest article is available [here](#).

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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