

Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report April 2022

Performance ¹	1 month	3 months	1 year	2 year	3 year	5 year	Inception
Fund	1.00%	0.47%	-1.14%	1.78%	3.33%	3.86%	3.72%
Benchmark ²	0.40%	1.82%	5.24%	3.62%	2.85%	2.39%	2.18%
Excess Return	0.60%	-1.35%	-6.38%	-1.84%	0.48%	1.48%	1.54%

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 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		Rating Exposure		Risk Contribution by Currency	
Government – National	72%	AAA	60%	AUD	19%
Government - State	28%	AA	34%	CAD	11%
Total	100%	A	6%	EUR	27%
		Total	100%	JPY	0%
				NZD	1%
				GBP	15%
				USD	27%
				Total	100%

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

Source: Ardea Investment Management, S&P Ratings

Portfolio Commentary

Performance for the month of April was +1.00% (after fees).

The historically poor performance of global government bond markets continued through April, despite weaker equities. The April moves build on the big first quarter sell-off in bonds, leading to double-digit year-to-date losses for duration-heavy benchmarks. The combination of high inflation, aggressive central bank policy tightening and global growth concerns are causing significant upheaval across asset classes.

Against this challenging market backdrop, the Fund's RV strategy delivered positive returns. We outline the drivers of performance with reference to our broad risk-factor level performance attribution.

Significant benefits continue to flow from exposure to interest rate options (+0.4%) and associated hedging activity, reflected in the RV rates (+0.4%) component of the performance attribution. These positions benefit directly from ongoing elevated volatility in global interest rate markets and reinforce the defensive alternative attributes of pure RV at a time of significant upheaval in financial markets. Across markets, USD (+0.2%) and AUD (+0.10%) option positions added the most value. Over the last month, there has been a notable pickup in volatility at the long end of the US curve, which has significant global cross-asset implications.

The Fund also benefited from a broad exposure to the basis between government bonds and interest rate swaps and futures, called Bond vs Derivative (+0.2%) in our attribution breakdown. Within this category are a wide range of positions, but gains were driven in the last month by EUR (+0.2%) and AUD (+0.1%), offsetting a small drag from the US and other markets. Underlying themes behind positions vary significantly across the portfolio. Recently, flows in EUR are benefiting government bond performance relative to swap, alongside the seismic shift in views on interest rates, which is seeing an abandonment of widely held "Japanification" views. This outlook is underpinning significant swap paying interest to hedge EUR rates risk for the first time in years. Similar themes are playing out in AUD, where bonds are outperforming swaps broadly amid swap hedging interest.

However, these spreads are also influenced by liquidity premiums, whereby anticipated future changes to money market funding conditions are also contributing to bonds outperforming swaps. The Fund is targeting specific points on the curve – particularly at longer maturities - where risk-reward in bonds is also favourable vs futures and swaps based on the supply/demand outlook.

The inflation beta (+0.2%) exposures contributed to performance in April. These exposures are implemented through AUD inflation-linked bonds and swaps (with the interest rate risk hedged). Ongoing global inflation pressures supported slightly higher market inflation pricing over the month. The shortest-dated inflation-linked bond (3y to maturity) outperformed longer maturities following a higher-than-expected Q1 CPI report late in the month. However, there remains an historically wide gap between the reported CPI statistics - where headline inflation is over 5% per annum – and bond market pricing where inflation expectations held around 2.4-3.0% in April.

RV curve (-0.2%) exposures were a small detraction. There was limited spill-over in April from large macro volatility into the Fund's more micro-focused curve positions. Across markets, there was significant variation in performance. AUD (-0.5%) was the biggest drag, reflecting underperformance in some exposures at the 10-15y part of the curve relative to short positions in shorter and longer tenors (some of the underlying trades with negative curve attribution contributed positively to the bond vs derivative attribution line). Curve positions in the USD (+0.3%) market added modestly to performance, with gains spread across a wide spectrum of maturities out to 30 years. Curve attribution in other markets was mixed.

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.

Contact

For further information, please contact:

Fidante Partners Investor Services

P: 13 51 53

E: info@fidante.com.au

W: www.fidante.com.au

For Financial planner enquiries, please contact:

Your local **Business Development Manager** or

E: bdm@fidante.com.au

For institutional enquiries, please contact:

Jeremy Gordon

Head of Client Management

Ardea Investment Management

E: Jeremy.gordon@ardea.com.au

www.ardea.com.au



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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