31 December 2021

# ATRIUM EVOLUTION SERIES - DIVERSIFIED FUND AEF 5

## INVESTMENT OBJECTIVE

To maximise returns within the constraint of ensuring that portfolio risk, or volatility, does not exceed 5% over the investment time horizon.

| PERFORMANCE | Since Inc p.a. | 10 Yrs p.a. | 7 Yrs p.a. | 5 Yrs p.a. | 3 Yrs p.a. | 1 Yr | 3 Mths | 1 Mth | Vol S.I. p.a. | 3 Yr Vol | Sharpe Ratio |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Atrium Evolution Series - Diversified Fund AEF 5 | 5.2% | 5.3% | 4.3% | 4.4% | 5.7% | 6.2% | 1.1% | 0.7% | 3.0% | 3.2% | 1.1 |
| RBA Cash Plus 2.5% | 4.4% | 4.2% | 3.7% | 3.4% | 3.0% | | | | | | |

## KEY HIGHLIGHTS

The Fund finished the 2021 calendar year strongly, returning in excess of its cash plus objective while remaining well within its risk limits. Since inception, we have achieved on both our risk and return objectives while delivering investors a much smoother return profile compared to peers.

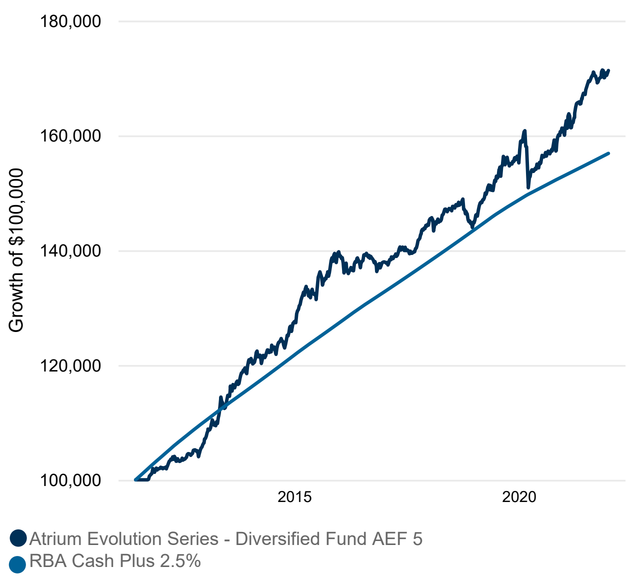
Within our growth drivers, the key contributor to performance was the Fairlight Global Small and Mid Cap Fund which outperformed its benchmark by over 3% for the quarter (and more than 7% for the calendar year).

Our direct domestic equity strategy delivered mixed returns for the quarter, but continues to deliver returns in excess of the benchmark over the longer term.

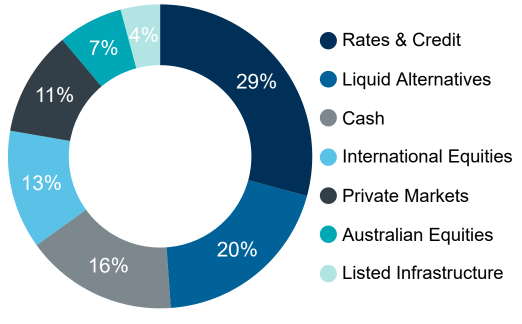
Over the quarter we modestly reduced the allocation to liquid alternatives in the Fund after redeeming entirely from both the Regal Tasman Market Neutral Fund and the GMO Systematic Global Macro Fund.

As we focus on the new year ahead, we remain cognisant of a number of risk factors impacting markets as the stage seems to be set for the US Fed (and other major Central Banks, including our own RBA) to begin to increase interest rates and remove some of the excess liquidity that has fueled markets.

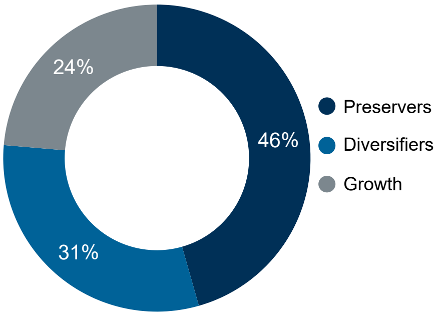
## PERFORMANCE (SINCE INCEPTION)




## ASSET CLASS EXPOSURE




## RISK EXPOSURE




Source: Atrium, Iress. Allocations shown in the 'Asset Class Exposure' and 'Risk Exposure' charts as at the date of this report.

Source: Atrium, Iress. Performance shown as at the date of this report. Inception date is 24 June 2011. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. Performance is after fees and costs and assumes re-investment of all distributions.

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## MARKET COMMENTARY

The December quarter saw a further rise in equities, dominated by a strong performance in the US (+11.0%) as the market closed the quarter by hitting a record high. The Australian S&P/ASX 200 index generated +2.1% for the quarter. Bond yields rose in general, the US dollar firmed as did the Australian dollar, and market volatility (as represented by the VIX) declined, despite seeing a sharp bounce in November.

While the US market saw a further strong positive quarter and finished on a series of record highs, this was on weaker trading volumes. Beneath the surface, the recent rise in bond yields has caused an important change; Information Technology, the largest sector in the US market, is no longer leading the gains. The Nasdaq index, which has a greater exposure to technology, generated a return of 8.4% reflecting this change of leadership. One "new economy" stock which did perform very well again, was electric vehicle manufacturer Tesla (+36.3%), despite unusual statements from the founder around reducing his holding in the stock. Automobile manufacturing was the second strongest sub-sector of the market led by Tesla – second only to Real Estate Investment Trusts, but perhaps more impressively, Ford which gained 47.0%. Banks lagged the market, as the flattening yield curve has the potential to negatively impact earnings, and COVID-sensitive sectors such as Airlines and Casinos, were amongst the worst performers as the Omicron strain hit markets.

European markets underperformed slightly over the quarter, returning 7.7%. Emerging markets were negative for the quarter (-0.9% in local currency terms), perhaps the most notable was Turkey where the market generated 32.1% in local currency terms but fell -11.2% when measured in US dollar terms due to the collapse of the currency, as the central bank took a highly unusual approach to dealing with inflation. Brazil was also sharply negative as the local central bank continues to hike rates aggressively, and Russia was weak. The Hong Kong market fell -4.7%, as Chinese tech continues to be hit by policy pronouncements in China.

The Australian equity market saw further quarterly gains, generating 2.1%. The banks were a key focus, particularly Westpac (-17.9%), as earnings were weaker than expected, and investors focused on the implications of the flattening yield curve on net interest margins, and inevitable lingering concerns around the sustainability of house prices. At the lead was Consumer Services, led by perennial underperformer Telstra, which returned 6.4%, partly on policy driven support for its Asian network. Financials declined -3.7%for the quarter, although there was substantial dispersion within this. Macquarie Group continued its rise, +12.9%, while Magellan Financial Group struggled into year-end, -40.0% for the quarter.

Bond markets remain a key focus for global markets, given the sharp increase in recorded inflation over the latter part of 2021. The increase had been put down to temporary factors – by both the market, and by central banks – although this has been increasingly questioned. Headline inflation printed at 6.8% for November (with the more important core measure at 4.9%, a number not seen since the early 1990s), and the US Federal Reserve seemed somewhat panicked, indicating in December that the tapering of its bond purchases would proceed at a quicker pace, and that rate rises should be expected over 2022. The pressure was understandably felt more at the short end (2 yr US bond yields rose 46 basis points (bps) over the quarter), and the long end was relatively stable (+2.3bps to 1.51%). Australian bond yields were under greater pressure, rising 18 bps to 1.67%, with most of the damage done in October when the Reserve Bank of Australia was seen as making a clumsy exit from its previous policy of supporting short-dated bond yields. Credit markets were slightly weaker over the quarter.

The Australian dollar reversed a run of three consecutive declines, rising 0.9% to 0.728 against the US dollar, although it remains near the lower end of the recent trading band. The US dollar rose on a trade-weighted basis, often seen as a positive for global risk markets. Despite the rise in the US dollar, gold generated +6.1% for the quarter (as real – inflation adjusted - bond yields declined quite sharply), and oil clocked up its seventh consecutive quarterly rise.

## PORTFOLIO COMMENTARY

The Fund finished the 2021 calendar year strongly, returning in excess of its cash plus objective while remaining well within its risk limits. Since inception, we have achieved on both our risk and return objectives while delivering investors a much smoother return profile compared to peers.

Our preservers allocation was a minor detractor to performance over the quarter as government bond yields rose and credit markets were increasingly volatile. While the RBA maintained its record low interest rate policy, it did however abandon its yield control policy which caused short term interest rates to rise.

The CQS Multi Asset Credit Fund was one of the standout performers due to the outperformance of high yield and loan markets over the quarter, along with the MCP Wholesale Investments Trust (managed by Metrics Credit Partners) which was relatively stable during the quarter. On the other side of the ledger, Kapstream Absolute Return Income Fund was marginally lower, notwithstanding that it had reduced risk noticeably leading into the year end, while Smarter Money Higher Income Fund was adversely impacted by its exposure to semi-government bonds which suffered from fears of deteriorating Australian state finances due to the pandemic.

Our diversifiers were a positive contributor over the quarter. The key drivers of positive returns over the quarter included the Man Alternative Style Risk Premia Access Fund, which returned over 5% for the quarter and had its best calendar year since inception. The key underlying contributors included the equity sleeve (namely value and quality factor signals), while the low equity beta strategy also delivered as markets pivoted away from high beta growth stocks over the quarter. The P/E Global FX Alpha Fund was also a positive contributor over the quarter due to its positioning in the strongly performing US dollar, while the Crown Atrium Segregated Portfolio (which holds one fund managed by Zebedee Capital Partners) was positive despite their low net equity exposure.

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## PORTFOLIO COMMENTARY

Over the quarter we modestly reduced the allocation to liquid alternatives in the Fund (with a corresponding increase in cash exposure) after redeeming entirely from both the Regal Tasman Market Neutral Fund and the GMO Systematic Global Macro Fund. The former, despite its stellar return over the last year was sold down after an extensive review due namely to its poor performance profile during periods of major equity market drawdowns which is not aligned with the objective of the diversifier sleeve in the Fund.

The Fund deployed capital into a range of new opportunities in the private property debt space as we continue to look for assets with strong predictable returns and medium-term durations. We have been recycling capital from subordinated facilities in favour of senior debt, giving additional security and a buffer for future potential volatility in property markets.

The Fund exited a range of property debt transactions including some core exposures in the hotel accommodation space that have performed well through the various stages of lockdowns in NSW and the ACT. Two such assets in the ACT returned 18% IRRs over the course of the last 3-4 years, in line with the original investment forecasts.

Within growth drivers, Global Equities were the key contributor to performance led by the Fairlight Global Small and Mid Cap Fund which outperformed its benchmark by over 3% for the quarter (and more than 7% for the calendar year) on the back of strong performance from Morningstar and Aspen Technology. Both the Northcape Capital Global Equity Fund and our global equity mandate managed by Magellan delivered well over 5% for the quarter, as investors pivoted away from many higher beta growth stocks towards more defensive names. NVIDIA continues to be the standout stock pick for Northcape, while Intercontinental Exchange and PepsiCo drove performance for the latter.

Our allocation to the Antipodes Global Fund – Long Only continues to lag the broader market due primarily to its overweight exposure to emerging markets which have underperformed along with exposure to Trip.com which was impacted by the latest Covid-19 variant, while our investment in the Hyperion Global Growth Companies Fund gave back some outperformance with both Block (formerly Square) and PayPal the key detractors over the quarter.

During the quarter we built up a global equity index allocation by reducing our allocations to both Antipodes and the global equity mandate managed by Magellan while we prepare for the introduction of a new systematic global equity strategy in early 2022.

Our domestic equity exposure was mixed, with the SGH ICE Fund delivering a positive return driven in part by investments in both Australian Clinical Labs (a COVID testing beneficiary) and Janison Education, while our direct Australian equity exposure was mixed over the quarter with strong gains in the commodity stocks, namely 29 Metals and BHP, along with the Macquarie Group being offset by steep falls in Magellan Financial Group, City Chic and Domino's Pizza. The Magellan Financial Group in particular weighed on performance as recent below market returns led to an outflow of funds under management.

Our listed infrastructure exposure managed by Magellan delivered strong performance relative to the benchmark during the quarter (and outperformed for the year), led by US communications infrastructure company Crown Castle International, which increased its dividend over the quarter along with reporting healthy earnings growth.

The Fund currently has some downside protection in the form of a S&P 500 put spread that will benefit in the event of a major pullback in markets.

As we focus on the new year ahead, we remain cognisant of a number of risk factors impacting markets, namely the persistence of global inflation with the US Fed aptly dropping the use of the term "transitory". The stage seems to be set for the Fed (and other major Central Banks including our own RBA) to begin to increase interest rates and remove some of the excess liquidity fuelling markets, while the other major risk factor is the presence of the new Omicron variant which continues to disrupt global supply chains and cause volatility across a number of markets.

Rising global interest rates and continuing COVID-19 disruption could be looked through by equities markets in the near term, however we did take the opportunity in late 2021 to lighten our equity exposure and correspondingly build up our cash reserves as the risks to the downside began to increase and our focus on capital preservation comes to the fore. Our bias towards quality companies should place us in good stead for potential market setbacks, be that higher than expected inflation, continued supply chain shocks or a general repricing of risk assets.