

# 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	5.0%	5.1%	3.6%	3.9%	4.2%	4.0%	-1.4%	-0.9%	3.0%	3.4%	1.0
RBA Cash Plus 2.5%	4.3%	4.2%	3.6%	3.4%	3.0%						

## KEY HIGHLIGHTS

With geopolitical risks dominating the headlines in February, volatility has increased across markets.

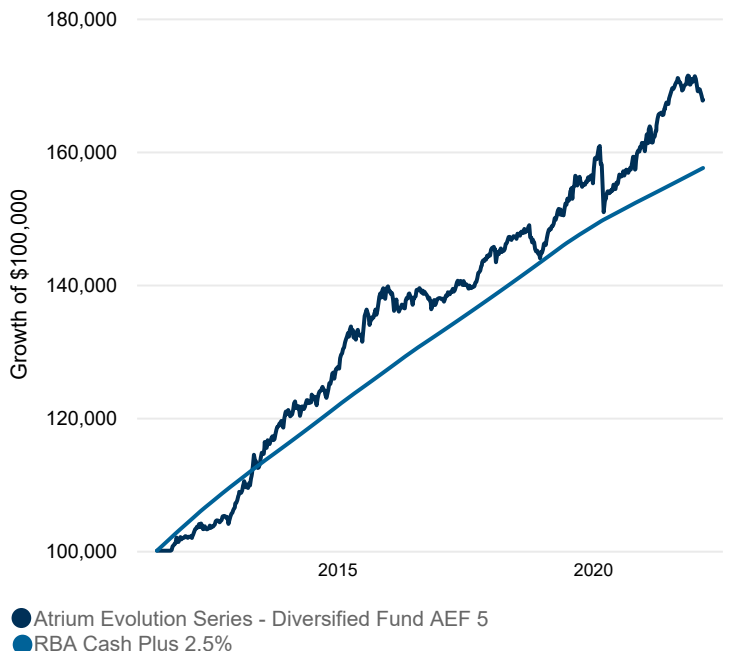
Liquid alternatives were a positive contributor to performance over the month, with a range of strategies able to take advantage of large moves in commodities and interest rates markets.

The Fund has a direct exposure to gold which should benefit from geopolitical uncertainty, and we are also active in markets to protect against further market falls. We also remain positioned for higher interest rates globally, with little exposure to interest rate risk.

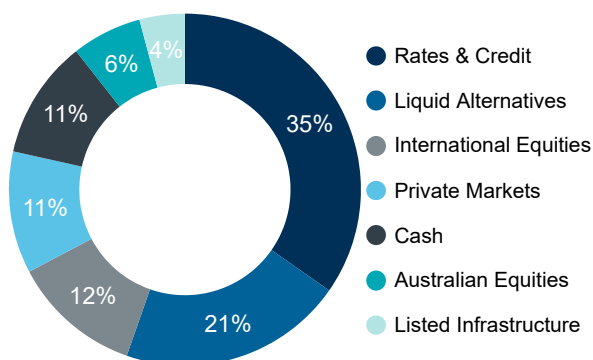
Our global equity managers detracted from performance as higher quality companies underperformed lower quality; on a medium to longer term timeframe however, we expect to see these positions rewarded.

Our view remains unchanged that returns in traditional asset classes may come under pressure in a period of higher volatility, and we hold a diverse array of strategies which could perform well across a number of market environments.

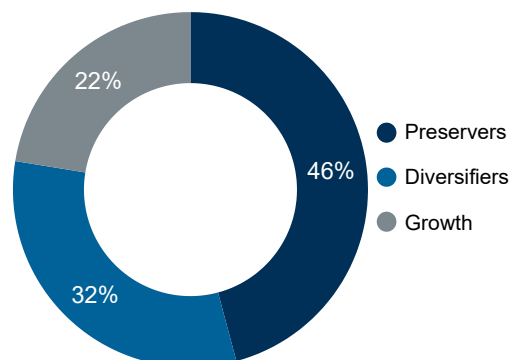
## PERFORMANCE (SINCE INCEPTION)



## 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

February saw continued volatility, driven by the invasion of Ukraine by Russia. The US equity market declined -3.0% following on from the sharp decline in January, leaving it in negative territory on a 3 and 6-month basis. Australian equities actually rose, in the main reflecting large gains in commodity prices, which also supported gains in the Australian dollar. Gold rose displaying its traditional safe-haven role in times of geo-political uncertainty, and importantly oil rose sharply, given Russia's status as a major producer amid economic sanctions on that country.

US equities were again weak in February. On the positive side, Energy was very firm, buoyed by the sharp rise in global oil prices. Elsewhere the market was negative, with the key driver remaining the largest sector, Information Technology. IT fell -4.9%, led by sharp declines in Microsoft and Apple. Google, Amazon and Tesla, although not included in the IT sector, were also very weak, as markets discounted their longer dated earnings profile in line with rising bond yields. Materials, Financials and Utilities all declined, but by less than the market, reflecting support for the ongoing Value / Growth rotation within markets. The lack of breadth in gains continued to highlight the key dependency on a small number of Growth stocks to sustain the market rally. European markets performed worse than the US (a decline of -5.9% for the largest 50 companies) and this was significantly negatively impacted by the banks. Germany's market declined -6.5% reflecting its key position in Europe, and a number of northern European markets were also hit given their proximity. Emerging markets as a whole returned -2.4% in local currency terms, although a number of Asian markets posted gains, the index being dragged down by a significant -36.0% decline in Russia as sanctions hit, and many foreign investors exited the market.

Australian equities actually gained 2.1% over the month, with small caps flat. However here there was also considerable disparity below the surface. Contributing to the strong month was a significant gain in Energy (+8.6%) and Resources (+6.4%). The clear driver of much of this move was the Russian impact on commodity prices, although the earnings season was supportive for a number of larger resource companies. The Banks rose 4.0%, although are still negative on a 6 month view. Consumer Staples were also strong (+5.6%). What each of the aforementioned sectors has in common, which has provided some support in a period of rising bond yields, is that they are seen as Value sectors. Information Technology, a Growth sector, and right at the other end of the Value / Growth spectrum was the weakest sector, at -6.6%, seeing it down by -18.5% on a 12-month view, although the IT sector is not large on the ASX. Consumer Discretionary was weak down -5.0% for the month.

Bond markets were weaker (yields rising) as concerns lingered around the rate of inflation particularly in the US. Higher inflation, which is likely to be exacerbated in the short term by the Russia-Ukraine conflict, is expected to drive the Federal Reserve to push interest rates higher in March, although the conflict has certainly seen expectations for hikes over 2022 soften, given the negative impact on global growth of a sustained period of conflict. The markets still expect a 25 basis point (bps) hike in March, but have stepped back materially from where 50 bps was expected at points in January. US 10-yr bond yields rose 5 bps having risen 27 bps in January. Australian 10-yr bond yields remained under upward pressure, rising 24bps to 2.14%. German bond yields fell at the short end, and 10-yr yields rose by less than other markets, reflecting the proximity of Europe to the conflict, which may lessen the European Central Bank's ability to hike relative to other central banks. Credit markets again weakened with spreads widening, a move which is consistent with weaker equities.

The Australian dollar rose 2.8% against the US dollar, despite the market volatility, as Australia's role as a commodity exporter provided support, given broad sanctions on Russia in a number of commodities where it is a key exporter. Wheat rose sharply, as did oil, and coal gained 29.5% as markets looked at other potential sources of energy.

### PORTFOLIO COMMENTARY

As global markets have focused on rising inflation and interest rates, Russia's invasion of Ukraine late February created a whole new set of risks and market upheaval, particularly in global commodity markets.

As many global markets entered overvalued territory in late 2021, we have been focussing on the quality of our investments and taking the opportunity to build our cash positions and exit investments that would be vulnerable to market volatility. While we can't lay claim to predicting the Russian invasion of Ukraine, our strong focus on quality and consistency means that we have had minimal exposure to either of these countries.

Overall across the portfolio, our global equities managers have not been positioned for the spike in global commodity prices which has impacted returns. However, our experience has shown that quality will generally be rewarded over appropriate time periods. One manager who has been positioned well is our 'Value' orientated manager Antipodes, with its exposure to Energy and Commodity stocks which have benefited from the significant spike in global energy prices with positions in Exxon and Teck Resources. Our 'Growth' and 'Quality' focused managers have lagged in this commodity-led environment with little or no overall commodity market exposure. The Hyperion Global Growth Companies Fund in particular was a detractor as growth stocks such as Tesla and Block have been sold down on fears of higher interest rates. We remain comfortable in the quality of assets across our managers and on a medium to longer term timeframe, we expect to see these positions rewarded.

Our listed infrastructure allocation managed by Magellan continues to preserve capital in these periods of elevated uncertainty as investors pivot towards investments with regulated cash flows.

Within Australian equities, the Atrium Equity Opportunities Fund was marginally lower over the month as Australia outperformed global markets due to its higher allocation to Materials and Energy sectors.

28 February 2022

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### PORTFOLIO COMMENTARY

Liquid Alternatives were a positive contributor to performance over the month, especially our macro and systematic strategies that have been able to take advantage of large moves in commodities and interest rates markets. Periods of elevated volatility can work well for many of our liquid alternatives managers, as the opportunity set increases and markets move from one extreme to the other. The performance of these positions during periods of unrest is one of the reasons why we focus on diversification within the portfolio.

Our rates and credit allocations were modestly lower over the month, as the geopolitical risks led to wider credit spreads across the globe, especially amongst non-investment grade credits. We remain positioned for higher bond yields globally, with little exposure to higher interest rates.

The Fund has a direct exposure to Gold which should benefit from geopolitical uncertainty, and we are also active in markets to protect against market falls, providing the potential to preserve capital and increase exposure at much lower valuations.

Our view remains unchanged that returns in traditional asset classes may come under pressure as we move into an environment of higher volatility driven by either geopolitical risks or inflationary concerns. The Fund holds a diverse array of strategies which could perform well across a number of market environments. We continue to manage the portfolios dynamically to actively manage downside risks as well as position for opportunities that will emerge in this current period of elevated volatility.