31 December 2020

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 Inception p.a.	7 Yrs p.a.	5 Yrs p.a.	3 Yrs p.a.	1 Yr	6 Mths	3 Mths	1 Mth	Vol Since Inception p.a.	3 Yr Volatility	Sharpe Ratio
Atrium Evolution Series - Diversified Fund AEF 5	5.1%	4.2%	2.9%	3.8%	3.4%	3.9%	2.5%	0.8%	3.1%	3.3%	1.0
RBA Cash Plus 2.5%	4.5%	4.0%	3.7%	3.5%	2.8%						

KEY HIGHLIGHTS

The Fund navigated a tumultuous 2020 to outperform its cash plus objectives over the calendar year and over the longer term. In a period of significant volatility, we were pleased to deliver a smoother return profile to investors through active management and dynamic asset allocation.

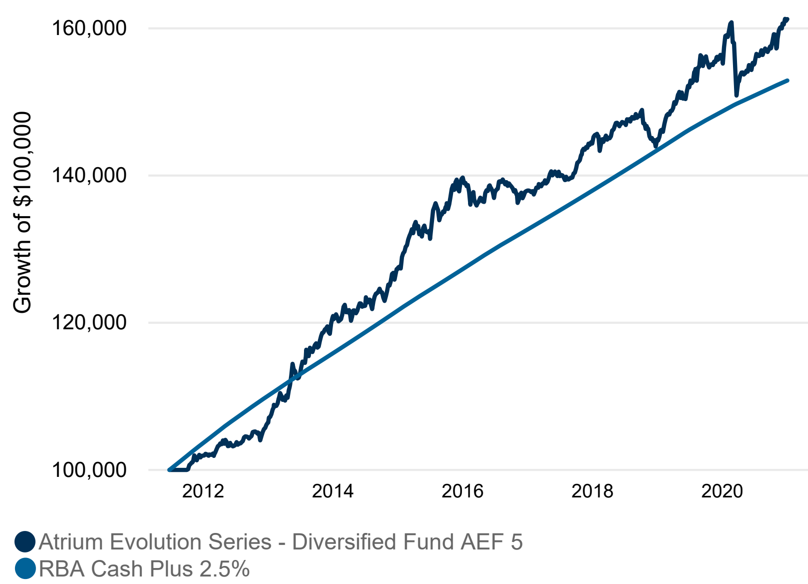
The final quarter of 2020 finished strongly, driven by performance in equity markets and liquid alternatives.

Domestic equity managers added considerable value over the quarter, with the Atrium Australian Equity Opportunities Fund delivering strong outperformance relative to the S&P/ASX 200 Accumulation Index over the year.

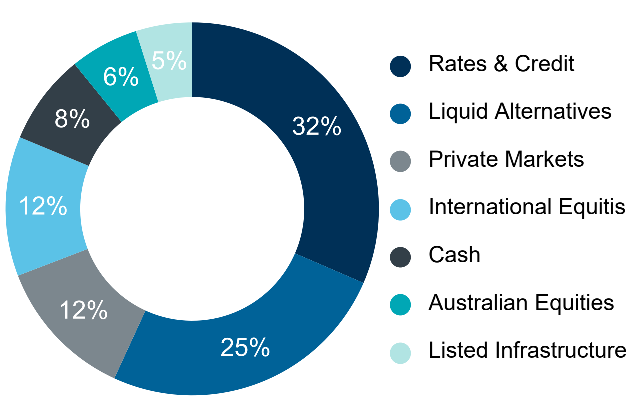
Our diversifier strategies contributed strongly to performance over the quarter, particularly across discretionary and systematic global macro strategies.

In this post-pandemic period of significant flux in global markets, we believe that active management remains a crucial portfolio building block alongside a more dynamic approach to asset allocation in delivering to objectives.

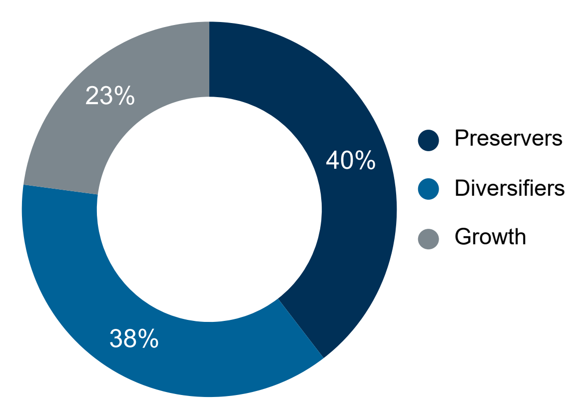
PERFORMANCE (SINCE INCEPTION)



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 very strong period for global equities and other higher risk markets. The US equity market returned 12.1% for the quarter, slightly behind the 13.7% generated by the Australian market. Credit markets were strong, bond yields tended to drift higher, and the Australian dollar continued its sharp recovery. Measures of volatility fell, further supporting credit markets and the Australian dollar. The US dollar was weak ahead of, and following, the election of Joe Biden as US President in early November.

US equities represented by the S&P 500 had a very strong quarter returning 12.1% and continuing the strong rebound from the pandemic-induced lows seen in March. The November US Presidential election didn't provide the market volatility that was expected, although there was uncertainty around the result for a short period. This reinforced the view that the US equity market is being driven by an improvement in the US economy, but more importantly that policy stimulus is most likely to continue for an extended period. What stood out in the quarter was a shift to strategies dominated by a valuation approach, amidst what some market participants see as a reflationary phase of the economy driven by this stimulus. In this environment, Energy (+27.8% for the quarter), Financials (+23.2%) and Materials (+14.5%) outperformed the general market. Information Technology, the largest sector of the US market and biggest driver of recent moves, returned 11.8%, and the more defensive sectors (Healthcare and Utilities) lagged. Obviously, there were election impacts at the sectoral level, with Financials, Energy and Healthcare being the most exposed to the election outcome. Small capitalisation stocks outperformed the overall market. Elsewhere, Europe is often seen as a more value-oriented market, and outperformed in this environment, returning 10.8% for the quarter despite the German DAX lagging with a 7.5% quarter. The peripheral markets outperformed within Europe, notably Italy (+17.0%), Spain (+22.4%) and Portugal (+20.9%) as they are expected to benefit from ongoing European Central Bank policy support. The United Kingdom lagged, as the deadline for Brexit-related trade negotiations approached, and also given the significant exposure to US dollar earnings relative to other regional markets. Emerging Markets were very strong, also partly reflecting this US dollar weakness and low bond yields.

The Australian equity market was dominated by the Banks, which returned an incredible 28.0% for the quarter, partly reflecting a view that on valuation grounds, the banks were attractively priced. The fact that COVID-19 wasn't inflicting as much damage on their financial health (in terms of bad and doubtful debts) as had been expected, helped. Energy was also very strong with a 26.3% quarter. As was the case in the US, more defensive sectors lagged sharply (Health -1.1% and Utilities -5.4%).

Bond markets were weaker as longer dated yields tended to rise, reflecting expectations for slightly higher inflation due to the stimulus, and removing some of the economic downside, as COVID-19 vaccine rollout timetables were set across some major economies. US 10-year yields rose 23 basis points (bps), with Australian 10-year yields up 18 bps. Shorter-dated yields in Australia fell, reflecting the November rate cut by the Reserve Bank of Australia, taking the cash rate to yet new record lows. Consistent with the move in equities, credit markets were very strong over the quarter, with lower quality (i.e., weaker rated) credit performing the best.

The Australian dollar continued to rise on the back of general US dollar weakness, but also clearly supported by the ongoing rise in iron ore prices (+9.2% for the quarter) and other commodity prices. The oil price rose 19.0% for the quarter. The significant decline in equity market volatility provided further support to the Australian dollar.

PORTFOLIO COMMENTARY

The Atrium Evolution Series - Diversified Fund AEF 5 Units ended a tumultuous 2020 with another quarter of strong performance, outperforming its cash plus objective over the last 12 months and over the longer term. While markets have been volatile over the last year, we have been proud to be able to deliver investors a much smoother return profile through both active management and dynamic asset allocation, while continuing to meet our risk and return objectives since inception.

Equities were the main driver of performance for the quarter, with Australian shares in particular the standout. Liquid alternatives were also a major contributor to performance alongside both private markets and rates & credit. However, the strongly rising Australian dollar did dampen returns over the quarter, as the local currency rose sharply against the US dollar.

Preservers

Our preserver allocations generated positive returns in the quarter. The Atrium Enhanced Fixed Income Fund (AEFI) returned 1.1%, driven by a continued strong rebound in global credit markets. The RBA lowered the cash rate target to 0.1% in November providing added impetus for domestic credit markets.

During the quarter, key contributors to performance included Kapstream Absolute Return Income Fund (Kapstream), Daintree Core Income Fund, and JP Morgan Global Strategic Bond Fund which all returned over 1% for the quarter. The CQS Credit Multi Asset Fund continued to perform well returning 5.3% over the quarter, as it was able to take advantage of buoyant non-investment grade credit markets.

AEFI reduced its exposure to Kapstream, increased exposure to the Ardea Real Outcome Fund and made a new allocation to the Smarter Money Higher Income Fund (managed by Coolabah Capital Investments), which can allocate to bank hybrids along with other bank credit securities to take advantage of more opportunities across the credit risk spectrum.

ATRIUM EVOLUTION SERIES - DIVERSIFIED FUND AEF 5

PORTFOLIO COMMENTARY

Diversifiers

Our diversifier strategies contributed strongly to performance over the quarter, particularly during November and December.

Our allocations to discretionary manager Zebedee Capital Partners (Zebedee) and the Regal Tactical Opportunities Fund navigated the quarter particularly well and returned 18.6% and 28.6% respectively. The agility and deep fundamental research focus of Zebedee placed the manager in good stead to take full advantage of the market volatility and add considerable value by investing in undervalued European banks and resource companies.

While the allocation to our more quantitative orientated strategies has proven more challenging over the COVID period, this contrasts with our allocation to systematic macro strategies as elevated volatility provided ample opportunities across a wide array of markets including currency, commodity, and bond markets. Externally managed funds such as Crown Diversified Macro Segregated Portfolio, One River Systematic Trend and the GMO Global Systematic Macro Fund have all contributed to performance over this period.

Overall, it was pleasing to see our liquid alternatives exposure perform true to label and deliver uncorrelated positive returns over for the quarter.

Our private market transactions continue to perform well across different market environments, with two deals harvested at highly attractive returns for investors. These include a residential unit development in Sydney and a townhouse development in the ACT. These funds were redeployed to a loan facility secured by a portfolio of houses, units, and townhouses in the ACT's relatively strong residential market with the lowest vacancy rates in Australia and strong demand for housing.

Growth Drivers

Our domestic equity managers added considerable value over the quarter with the Atrium Australian Equity Opportunities Fund returning 13.2%, while also outperforming over the 12 months to December.

The fund exited Sydney Airports during the quarter on a combination of a slower return to travel and the potential impact of rising yields on infrastructure stocks. The key contributors to performance included Lovisa and City Chic, both of which announced accretive acquisitions during the quarter, benefitting from highly skilled and experienced management teams.

Within our global equity allocation, our pragmatic value manager Antipodes guided the Antipodes Global Fund - Long to an outperformance of its index by almost 5% for the quarter, led by cyclical names such as GE and Samsung while French energy utility EDF was the best performer.

The Hyperion Global Growth Companies Fund, one of our recently added global equity allocations, continued its outperformance over the quarter, led by Tesla (which was added to the S&P 500 index) and payment platform Square.

Outlook

During the quarter we modestly increased our equity allocations, funded primarily from liquid alternatives as downside risks dissipate, and equities remain attractive in an environment of extremely supportive monetary conditions. Nevertheless, we maintain our unwavering focus on managing risk to limit drawdowns, and on delivering more consistent returns for investors over the long-term.

In this post-pandemic period of significant flux in global markets, we believe that active management remains a crucial portfolio building block alongside a more dynamic approach to asset allocation in delivering to objectives.