31 January 2022

ATRIUM EVOLUTION SERIES - DIVERSIFIED FUND AEF 9

INVESTMENT OBJECTIVE

To maximise returns within the constraint of ensuring that portfolio risk, or volatility, does not exceed 9% 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 9	8.2%	8.6%	6.7%	7.5%	9.0%	9.4%	-2.1%	-3.5%	5.9%	7.1%	1.1
RBA Cash Plus 4.5%	6.3%	6.2%	5.7%	5.4%							

KEY HIGHLIGHTS

2022 started with equity markets under pressure as concerns around inflation and rising interest rates created a spike in volatility.

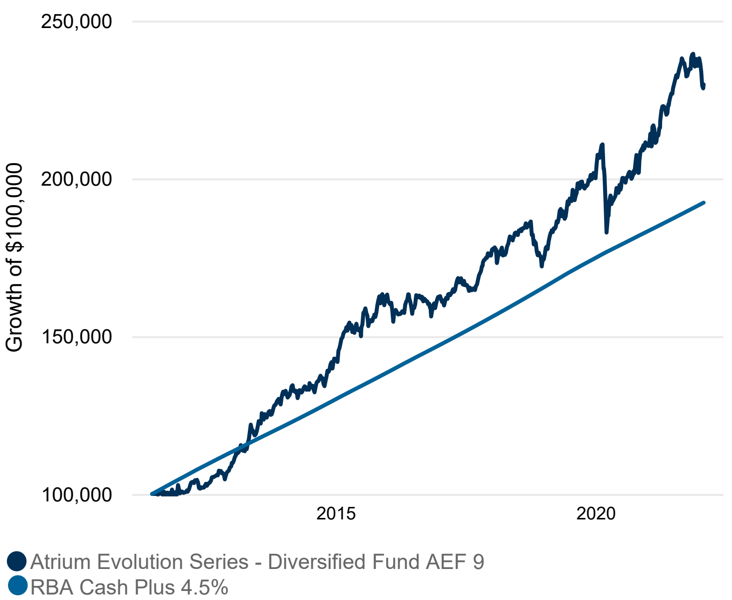
While our portfolios have been positioned with a higher level of cash and portfolio protection through derivatives, some of our equity managers were not immune to this market volatility.

Our value orientated manager Antipodes was a strong positive contributor to performance over the month as energy and financial companies performed strongly. Offsetting this was some of our growth and quality style strategies, which have underperformed more recently following the exceptionally high returns over the last twelve months.

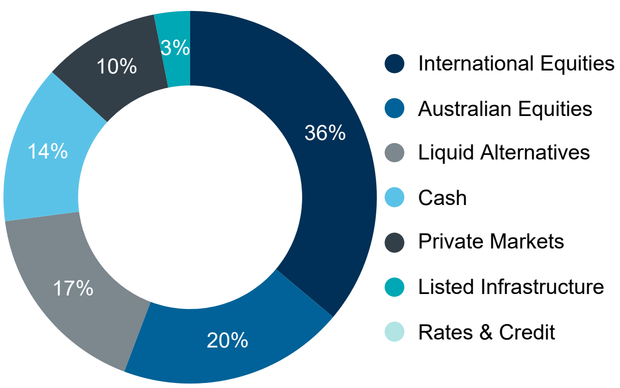
Our low exposure to interest rate rises and our preference for true diversifiers has proved to be the correct strategy over the past year as traditional bond indices struggle in a rising interest rate environment.

We have positioned the portfolios to ensure a wide range of strategies that can contribute to returns as the spectre of inflation, higher interest rates and geopolitical tensions lead to this period of heightened uncertainty.

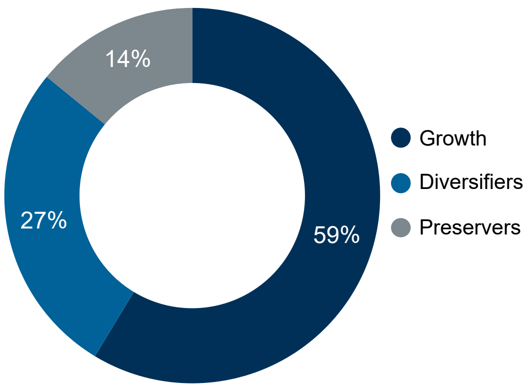
PERFORMANCE (SINCE INCEPTION)



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 above 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

After commencing 2022 at around record highs, January saw a sharp increase in volatility, and heavy selling of equities, until staging a partial recovery into month end. The US market declined -5.2%, as rising inflationary pressures add to the view that interest rates will need to be hiked over 2022. This saw bond prices fall as yields rose. Gold remained supported and the Australian dollar declined -2.7%.

US equities were very weak during January. The key driver was fear around a hawkish shift (propensity to tighten monetary policy) from the US Federal Reserve (Fed), as inflation continued to shock to the upside. One key tenet for global investors in recent years has been the idea of a "Fed put"; the Fed would step in to support markets in the face of a sharp decline. This tenet is increasingly being questioned as higher inflation may prohibit the Fed from acting in such a manner, and many investors have taken a stance that as liquidity is withdrawn over 2022, this will inevitably see higher market volatility. At the sectoral level, a number of COVID-exposed sectors were hit hard (notably Movies and Entertainment driven by the sharp fall in Netflix on its inability to sustain subscriber growth), as Omicron continued its spread. At the top of the market were a range of Oil and Gas explorers, producers, and refiners as the oil price remained firm. The largest sector, Information Technology, was weak (-6.9%) although had been significantly lower before a recovery into month end; investors have sharply derated companies with longer-dated earnings profiles, and for the IT sector as a whole this is a notable feature. Other international equity markets were generally negative over the month, with the exception of a small number of emerging markets which rallied modestly for a range of idiosyncratic reasons. Europe was noteworthy in performing more strongly than the US in such a period of turmoil, benefitting from a more cyclical / value-exposed market, with a much smaller Information Technology exposure.

Australian equities fell -6.4% over the month, with small caps falling an even greater -9.0%. At the sector level, Health (-12.1%), Consumer Staples (-9.6%), and Diversified Financials were the laggards. Health was driven by some of the higher risk names and Diversified Financials was paced by sharp declines in a number of large asset managers. Information Technology was also very weak, although a relatively small component in the Australian market, unlike the US. A number of oil companies performed strongly, taking the Energy Sector to a gain of 7.9% for the month, on the back of the 17.9% rise in oil prices. The Banks were slightly lower for the month but held up reasonably well despite the flattening yield curve, as investors prepared for earnings results season in February.

Bond markets were weak (yields rising) with notable moves in the US, where concerns linger around the rate of inflation, as the Federal Reserve may be required to push interest rates higher and sooner than the markets had anticipated. The Fed's January meeting and subsequent press conference made clear that markets need to brace for a tightening in March, and a series of moves over 2022 and beyond. Bond yields rose sharply, more so at the short end which is more reactive to monetary policy moves. US 2-yr bond yields rose 45 basis points (bps), whilst 10-yrs rose 27 bps. Australian 10-yr bond yields rose 23 bps to 1.90%. Credit markets were weak with spreads widening, a move which is consistent with weaker equities and higher market volatility.

The Australian dollar remained under pressure against the US dollar, driven by market volatility, and less aggressive expectations for Australian cash rates relative to other major economies.

PORTFOLIO COMMENTARY

As we entered a new year, concerns around inflation and rising interest rates created a spike in volatility across investment markets – with equities bearing the brunt of the falls. While our portfolios have been positioned with a higher level of cash and portfolio protection through derivatives, some of our equity managers were not immune to the market volatility. The portfolios are predominantly allocated to active strategies across Australian and global equities and we saw mixed results across these sectors.

On the positive side, we saw very strong performance from our value orientated manager Antipodes. As many of our clients are aware, we select managers who can blend well in times of uncertainty. This was certainly the case with Antipodes Global Fund – Long who outperformed the index by close to 4% over the month on the back of strong performance from a number of energy and financial names. Offsetting these gains was the performance of our growth and quality style managed funds including the Fairlight Global Small and Mid Cap Fund and the Hyperion Global Growth Companies Fund. Both have had exceptionally strong returns over the past 2 years, but ultimately a sharp market reversal has had an impact on some of their underlying positions. One of the key drivers for Hyperion was the sell-off in Tesla and Block (which recently acquired Afterpay).

In Australian equities, a similar story was seen with the Atrium Equity Opportunities Fund. This fund has also had a very strong period of performance, however, a rotation in the market in favour of energy and materials companies was only partially buffered against the downturn seen in James Hardie and Macquarie Group.

Our liquid alternative managers provided a ballast to the Fund over January. Portfolios such as the Crown Atrium Segregated Portfolio (which holds one fund managed by Zebedee Capital Partners) and the Crown Diversified Macro Segregated Portfolio saw strong positive returns proving the robustness of these types of assets in generating positive returns without relying on upward markets.

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PORTFOLIO COMMENTARY

As we have continued to highlight to investors, returns in traditional asset classes may come under pressure as we move into an environment of higher interest rates and market volatility. We have positioned the portfolios to ensure there are a range of strategies that can contribute to returns in a period of heightened uncertainty. As always, our positioning will reflect our confidence in markets, and we have the ability to adjust the portfolio to ensure we are maximising opportunities at all times while protecting portfolios against any significant market drawdown.