

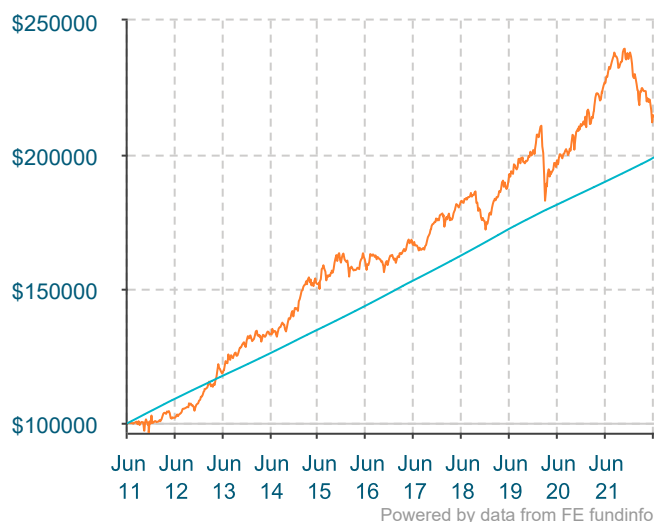
# Atrium Evolution Series – Diversified Fund

## AEF 9



30 June 2022

### Growth of \$100,000 since inception



● Portfolio ● RBA Cash + 4.5%

### Performance

	Portfolio	Objective
Since inception	7.17%	6.28%
10 Years (%p.a.)	7.64%	6.04%
7 Years (%p.a.)	5.23%	5.56%
5 Years (%p.a.)	5.22%	5.29%
3 Years (%p.a.)	3.76%	
1 Year	-6.23%	
6 Months	-9.99%	
3 Months	-4.62%	
1 Month	-2.74%	

Source: Atrium Investment Management. 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.

### Ratings & awards



A rating is only one factor to be taken into account when deciding whether to invest.

### Investment objective

To maximise returns while ensuring that portfolio risk, or volatility, does not exceed 9% over the investment time horizon.

### Investment strategy

The Fund has a Risk Targeted, multi asset investment strategy. Atrium uses a dynamic, unconstrained approach to asset allocation providing flexibility to take full advantage of opportunities in the market and to mitigate downside risk. The Fund may be invested in a broad universe of assets across multiple asset classes.

Atrium may also use derivatives to gain exposure to assets or asset classes more efficiently, for currency management, and to mitigate downside risk.

### Key facts

Inception date	24 June 2011
Product code	COL0031AU
Investment strategy	Diversified - Risk Targeted
Volatility limit (p.a.)	9.00%
Objective	RBA Cash + 4.5%
Investment horizon	5-7 years
Pricing	Weekly
Platform availability	Various

### Volatility & Sharpe Ratio

	10 Years	7 Years	5 Years	3 Years	1 Year
Volatility (% p.a.)	6.20	6.62	6.55	7.28	6.62
Sharpe ratio	0.98	0.63	0.68	0.47	

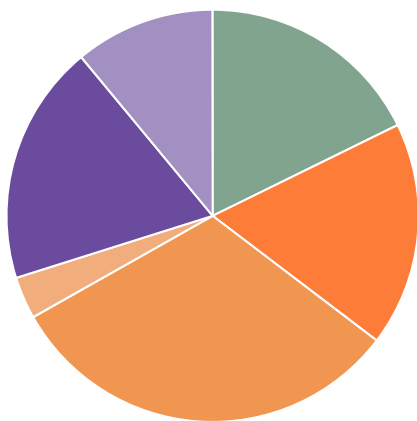
### What is volatility?

Volatility measures the fluctuations, or changes, in the price of an asset or market index. Assets with higher volatility generally have greater price changes, both positive and negative, and so higher volatility is generally an indication of higher risk.

### What is the Sharpe Ratio?

The Sharpe Ratio measures returns relative to the volatility, or risk, that was taken to achieve that return. The higher the ratio, the better the risk-adjusted performance has been - in other words, the investment risks taken have delivered better returns to the portfolio.

## Asset allocation



● Cash	17.75%
● Australian equities	17.59%
● International equities	31.49%
● Listed infrastructure	3.30%
● Liquid alternatives	18.86%
● Private markets	11.01%

Source: Atrium Investment Management. Asset allocations may change at any time. May not include all open futures or derivatives positions. Cash may include allocations to shorter term rates and credit investments that may at times be subject to capital volatility.

Atrium aims to achieve its investment objectives by investing across a range of asset classes on a global basis that provide exposure to different risk factors.

Each asset is included in the Portfolio for its ability to contribute to returns on a stand alone basis.

The investment universe comprises of 3 broad categories - Preservers, Growth Drivers and Diversifiers.

### Preservers

Assets that protect the portfolio during periods of heightened equity market volatility and preserve capital, such as cash, government bonds and high quality investment grade bonds.

### Growth Drivers

Assets that are expected to deliver higher rates of return over time with higher levels of associated volatility (risk). This predominantly comprises equities but also includes other assets that are highly correlated to equities such as listed property and infrastructure.

### Diversifiers

Assets that generate additional real returns, with performance that is typically uncorrelated to the growth drivers and preservers within the portfolio.

Importantly, they are a source of portfolio diversification away from equity market and interest rate risks.

## Top holdings

Holding	Weight	Asset Class
AUD CASH POSITION	14.15%	Cash
ATRIUM EQUITY OPPORTUNITIES FUND	12.72%	Equities
ANTIPODES GLOBAL FUND LONG UCITS CLASS S	8.50%	Equities
ATRIUM GLOBAL EQUITIES MANDATE NO.1 (MANAGED BY MAGELLAN)	6.90%	Equities
SGH ICE PROFESSIONAL INVESTOR FUND	4.66%	Equities
NORTHCAPE CAPITAL GLOBAL EQUITIES FUND	4.13%	Equities
CROWN DIVERSIFIED MACRO SEGREGATED PORTFOLIO	3.94%	Liquid alternatives
FAIRLIGHT GLOBAL SMALL & MID CAP (SMID) FUND	3.93%	Equities
CROWN ATRIUM SEGREGATED PORTFOLIO SERIES 1 USD	3.93%	Liquid alternatives
MAN ALTERNATIVE RISK PREMIA - CLASS A SHARES (AUD)	3.45%	Liquid alternatives

Source: Atrium Investment Management. Asset allocations may change at any time. May not include all open futures or derivatives positions. Cash may include allocations to shorter term rates and credit investments that may at times be subject to capital volatility.

## Market update

2022 has seen a dramatic increase in volatility in financial markets, especially in the June quarter. Various intertwined factors are behind this, notably central bank rate rises and liquidity withdrawal in the face of elevated inflation, and the situation in Ukraine. The US equity market fell -16.1% for the quarter, Australian equities were broadly in line at -11.9%. Bond yields continued to rise very sharply, leading to losses on traditional bond portfolios, and credit markets were weak. Oil rose 10.3% and the Australian dollar declined -7.7%.

The US market as represented by the S&P 500 index, saw a second consecutive quarterly decline, falling -16.1%. A substantial portion of the fall occurred in the month of June, as investors grappled with another shocking inflation print. This left a strong impression that the US Federal Reserve will need to continue to hike rates more aggressively, and quickly withdraw liquidity

(via quantitative tightening), significantly increasing the risk of a recession either later this year, or in 2023. Price falls early in the quarter were driven by markets lowering forward valuations of stocks, while later in the quarter prices continued to decline as earnings will also likely suffer in a recession. European markets declined -9.0%. Perhaps the most notable market was Italy, where sovereign pressures are again starting to build and the equity market lost -12.5%. Emerging markets were a negative for the quarter, but continue to outperform the US (-13.3% YTD) despite the sharp rise in the US dollar and rising US bond yields, which is often a toxic mix for these economies. Below the surface in Emerging Markets however, much of the outperformance was driven by China (+9.9% for the quarter), with a number of other large markets such as Brazil, sharply negative.

The Australian equity market had outperformed in the March quarter, although returns were sharply negative in the June quarter, at -11.9%. On the positive side, Energy and Utilities eked out very minor gains, however beyond those 2 sectors, all sectors were in negative territory for the quarter.

Bond markets were again the key focus for the quarter, as bond yields rose dramatically (a rise in bond yields implies a fall in prices). US Bond market returns have been negative for 5 of the 6 months of the year, as investors price in the sharp increase in inflation and the reaction of central banks to raise rates and withdraw liquidity in order to partially counter this inflation (despite much of the impetus coming from the supply side of the economy). Bond market returns in Australia have been negative for each of the first six months of the year, leaving an investor in the broad market (typically benchmarked against the Composite Index), with a -9.5% year-to-date return. In the month of June alone, Australian 10-year bond yields rose in excess of 30 basis points, to close at 3.66%, a closing level not seen since 2014. US 10-year treasuries closed at 3.01%, and market participants are taking note of the fact the yield curve has inverted at certain points, typically indicating an upcoming US recession. Credit markets were weak during the quarter, consistent with the higher market volatility and lower equities.

The Australian dollar declined -7.7% against the US dollar, driven more by general US dollar strength, although higher volatility in markets is often a negative factor for the Australian unit. Coal has been extremely strong, +61.7% driven in part by what is occurring in Ukraine, but also rising energy demand as economies recover from the pandemic recovery. Oil, +10.3% for the quarter, has also been elevated by the restrictions on Russian exports.

## Performance

The Fund's Risk Targeted approach delivered a smoother return profile in an environment where both equity and bond markets endured heavy falls and many peers had large drawdowns. Pleasingly, our longer-term track record continues to track in excess of our objectives while managing fund volatility within limits and delivering clients a smoother and more consistent return profile.

The Fund's exposure to liquid alternatives, private markets and the US dollar all delivered positive returns over the quarter, while our low exposure to interest rates and our focus on higher quality investment grade credit protected the Fund against the brunt of the rise in global government bond yields and corporate credit spreads.

The standout performers over the quarter included our liquid alternatives allocations, which in aggregate were able to take advantage of volatility across global markets and deliver solid positive returns. The P/E Global FX Alpha Fund delivered over 18% for the quarter on the back of a long position in the US dollar and corresponding short positions in the Euro and Yen, while our trend following exposures have continued to provide a positive tailwind to the portfolio on the back of long exposure to rapidly rising energy markets and short positions in rapidly declining bond markets.

Across our private markets allocation, the last quarter saw us harvest further private debt investments in the property and asset finance space. Whilst volatility persists in equities and fixed income markets, the defensive nature of private debt investments continues to deliver expected returns. The pipeline of deals continues to be strong, however whilst markets adjust we have held off deploying fresh capital into new deals this quarter.

The performance of our equity allocations has been disappointing in aggregate over the past six months, as the market has favoured commodity and energy related strategies which have been large beneficiaries of the global disruption in supply chains as well as the war in Ukraine. Our domestic equity managers tend to be orientated towards companies with high quality attributes, which haven't necessarily been rewarded in the short term.

Amongst our global equity managers, Antipodes Global Fund – Long returned solid returns due to positions in energy producers and a rebound in a number of Chinese positions, while Northcape Capital Global Equities and the Global Equity mandate (managed by Magellan), performed relatively well despite having no energy or commodity exposure. After a strong 2021, the Hyperion Global Growth Companies Fund has struggled in the current rotation away from high growth companies. Towards the end of the quarter and into July we have seen the early signs of pivot back towards quality companies as fears of a growth slowdown increase and the impact of rising costs becomes a greater focus for investors.

Our investment in the Global Listed Infrastructure mandate (managed by Magellan) has continued to perform well and outperformed the broader equity indices as investors have come to value the inflation indexed cashflows and relative stability of utilities and infrastructure in a period of heightened uncertainty.

## Portfolio changes

Within our domestic equity allocation through the Atrium Equity Opportunities Fund, we have repositioned the portfolio more recently towards defensive, rather than cyclical names. We have reduced overall exposure to the banking sector, given the

slowing Australian property market, and have also reduced exposure to those stocks sensitive to consumer spending, such as James Hardie Industries, Lovisa and Treasury Wine Estates.

Overall, the Fund is positioned defensively relative to history, with higher cash allocations and have reduced our allocation to equities towards the lower end of our historical range. Our focus on capital preservation and a smoother return profile means that risk management takes front and centre across our funds in the current market environment.

## Outlook

The dual risks of rising interest rates (including the reversal of quantitative easing) and entrenched inflation is a significant headwind facing equity and bond markets which is showing no signs of abating. The upcoming company earnings reporting season will also be crucial in understanding whether the risks of a recession are increasing. Nevertheless, we believe we are well positioned through our allocation to high quality companies, the skill of our investment managers as well as our asset allocation which remains active in the current environment.

We believe that the current macroeconomic backdrop offers an extremely fertile opportunity set for the majority of our liquid alternative managers. These strategies are key in providing genuine diversification within the Fund, and we expect them to continue to perform well and provide a ballast against both equity and bond market volatility.

It is our current view that markets will remain volatile for some time as markets digest both inflation data and the likelihood that interest rates continue to track higher. Central banks must navigate a tight path between staving off inflation expectations becoming embedded in the economy, while not tipping economies into a recession.

## For more information

If you have any questions, please contact your Financial Adviser or [www.atriuminvest.com.au](http://www.atriuminvest.com.au)

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