February 2019

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 Inception	5 Yrs p.a.	3 Yrs p.a.	1 Yr	6 Mths	1 Mth	Vol Since Inception p.a.	Sharpe Ratio
Atrium Evolution Series - Diversified Fund AEF 9	8.2 %	6.4 %	4.9 %	3.5 %	-1.5 %	3.0 %	5.8 %	1.0

KEY HIGHLIGHTS

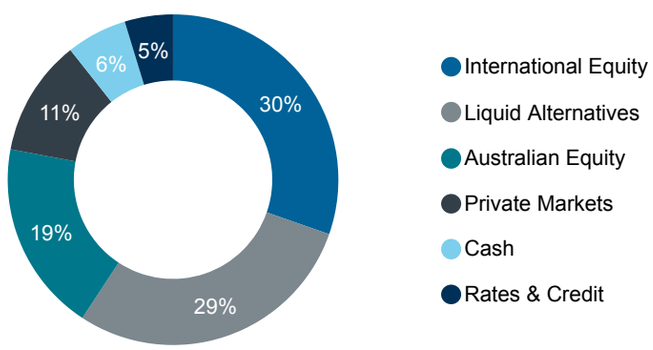
Global equity markets rallied in February as global Central Banks (particularly the U.S Federal Reserve) took a more dovish stance on any further rate hikes. Australian equities were the standout performer during the month.

The portfolio returned 3.0% during the month, with strong returns from equities and alternatives exposures driving performance.

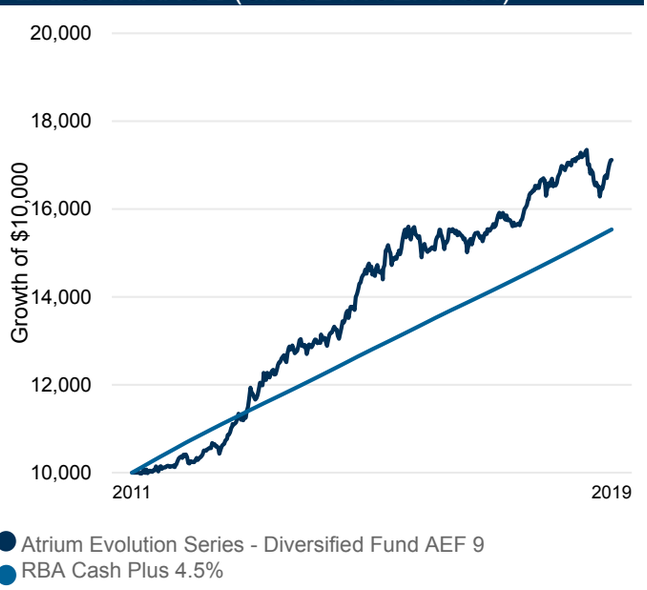
The portfolios are positioned across a spread of preserving, diversifying and growth assets, with a greater allocation to diversifying and growth assets.

We maintain the view that we are towards the latter end of the economic cycle as we closely monitor the broader macro environment. A key focus is on risk management and downside protection over this investment cycle.

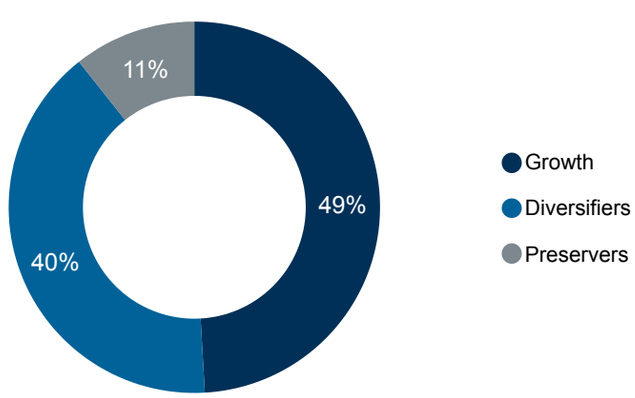
ASSET CLASS EXPOSURE



PERFORMANCE (SINCE INCEPTION)



RISK EXPOSURE



Source: Atrium, Iress. Allocations shown in the Asset Class Exposure and Risk Exposure Charts as at 28 February 2019. Due to rounding, percentages presented in this report may not precisely reflect absolute figures.

Source: Atrium, Iress. Performance shown above as at 28 February 2019. 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.

ATRIUM
INVESTMENT MANAGEMENT

MARKET COMMENTARY

Equities rallied strongly during February, partly reflecting the supportive stance of a range of Central Banks, particularly the U.S Federal Reserve since the start of 2019. U.S equities returned 3.2% in February following a very strong January. Information Technology, the largest sector in the S&P 500 returned 6.9% over the month, (although remains lower over the 6-month period), reflecting the significant rotation away from I.T. since the December quarter. Industrials were also very strong returning 6.4% for the month, on the back of increasing signs that China and the U.S are on the cusp of resolving the trade and tariff tensions.

European markets rose 4.2% in February, with the German bourse rising 3.1% despite the continuance of overall weak economic data. Emerging Market (EM) equities lagged during the month, the MSCI Emerging Markets Index returning 1.1% (local terms), although a very strong recovery in the Chinese equity market boosted the EM index from recording a small loss.

Australian equities were the standout performers in February, the S&P/ASX 200 Accumulation Index returning 6.0%, led by a very strong banking sector. Financials rose 9.1% with the key contributor being a significant move higher by the banks following the release of the Royal Commission report. The initial view was that the report did not require a structural change around the advice businesses, which removed some downside pressures on earnings. Resources were also very strong, returning 6.9% for the month as Iron Ore and Coal prices continued to remain robust, a trend that continued in February. Listed property markets lagged partly reflecting the weak outlook for domestic property markets.

International bond markets were mixed in February, with U.S treasuries rising slightly in yield (prices fell), as 10-year yields rose 9 basis points (bps) to 2.72%. German bund yields rose slightly by 3 bps, although remain historically low at 0.18%. Australian bonds bucked this trend with yields falling a sharp 14bps to 2.10%, reflecting weaker domestic data, and associated expectations that the Reserve Bank (RBA) may be forced to cut rates from already record-low levels.

Credit markets performed very well in February (spreads against Government bonds tightened). U.S Investment Grade credit spreads were 9 bps tighter for the month, following on from a strong January and Australian Investment Grade credit also performed strongly, tightening 6 bps. The Australian Dollar fell further in February, down 2.4% to U.S 0.71 cents, as consumer and business confidence continued to slip. Weakening house prices, softer growth out of China coupled with weaker domestic growth have increased the likelihood that the next move by the RBA could be a cut to rates, weakening the outlook for Australian cash rates.

PORTFOLIO COMMENTARY

The Portfolio returned 3.0% as strong performances from our equity exposures continued to drive performance in 2019 while our Liquid Alternatives exposure also notably contributed positively to performance in February. All other asset classes also contributed positively to performance, including our foreign held assets which benefited from the fall in the Australian dollar in February.

Our Australian equity managers posted solid returns in February as earnings season came to a close, albeit companies on average reported tough trading conditions with only half able to lift profits. The Atrium Equity Opportunities Fund returned a solid 8.9%, benefiting from very strong returns from a number of positions including Lovisa, Speedcast and Magellan. Within our domestic equity managers, the SGH ICE Fund returned 3.3%, while Bennelong returned 3.9%, as larger portfolio positions including Fisher & Paykel and the Goodman Group drove performance. Against a backdrop where growth is harder to find, our overall exposure in domestic equities remains orientated towards quality companies that exhibit sustainable and growing earnings.

February was another positive month for our global equity managers. The Magellan Global Equities mandate returned 3.7%, led by positions in Visa, Microsoft and Lowe's, while Kraft was a meaningful detractor after posting a large loss. The Antipodes Global Fund - Long Only returned 2.8%, led by its Financial and Technology sector exposures. Our allocation to global emerging markets manager Northcape also delivered positively (3.1%), as it continued to benefit from the global equity rebound. Our positioning in this segment of the portfolio remains towards quality global companies at reasonable valuations.

Our Alternative managers added on to January's positive performance and delivered very strong returns in February. Long short equity managers, particularly Regal Tasman, enjoyed a stellar February, the manager rewarded for sticking to its investment thesis which had suffered over the December quarter. Currency manager P/E Global FX Alpha, continued to track well as a negative outlook on the Australian dollar and the Euro benefited the Fund, while our systematic macro managers benefited from owning Asian equity markets. During the month we completed due diligence on the Two Sigma Alternative Risk Premia Strategy, as a complement to our existing exposures and expect to make an investment at the beginning of March.

Within our Rates and Credits holdings, Kapstream performed strongly during the month due to a strong credit market rally. The JP Morgan Global Strategic Bond Fund also performed well, benefiting from the strong move in U.S High Yield and Investment Grade Credit. The Daintree Core Income Trust returned 0.3% as domestic credit continued its strong recovery. We began reducing the positions in lower yielding listed fixed income instruments during the month, which will be replaced by a selection of existing managers we have completed due diligence on.

We continue to position the portfolios across a spread of diversifying, preserving and growth assets. Given our view that we are towards the latter end of the economic/market cycle our equity weights remain towards the middle of their range. We continue to maintain our key focus on risk management and downside protection over the investment cycle and are closely monitoring the broader macro environment.