30 September 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	3 Mths	1 Mth	Vol Since Inception p.a.	Sharpe Ratio
Atrium Evolution Series - Diversified Fund AEF 9	8.7 %	7.8 %	7.3 %	7.0 %	7.8 %	3.7 %	0.3 %	5.8 %	1.1
RBA Cash Plus 4.5%	6.8 %	6.2 %							

KEY HIGHLIGHTS

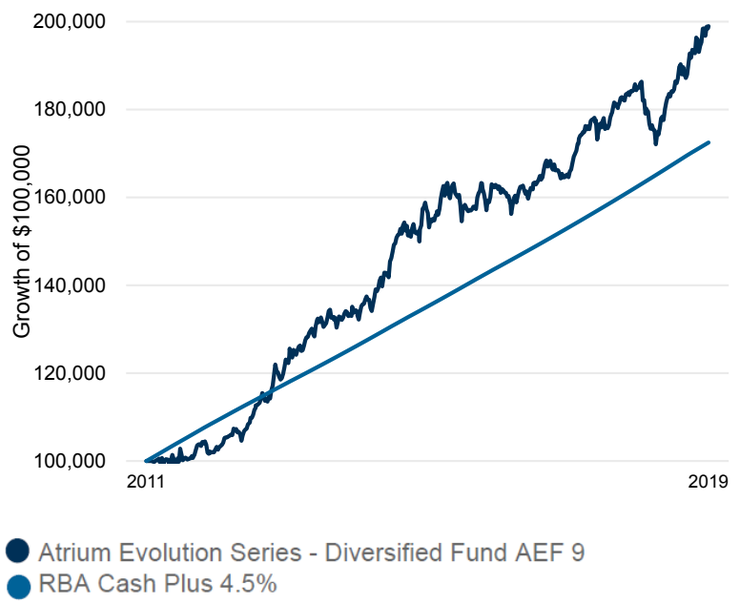
The Atrium Evolution Series 9 Fund posted another strong quarterly return of 3.7% and continues to build on the solid returns achieved in the 2019 calendar year.

The Atrium Equity Opportunities Fund has delivered a 15.5% return over the last 12 months, which places it in the top quartile of domestic equity managers.

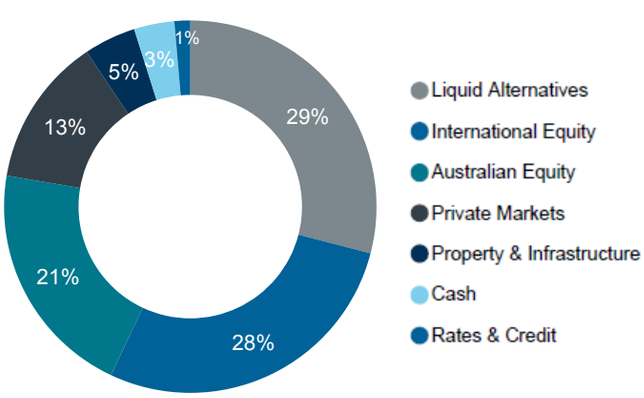
The Alternatives portfolio allocation traversed volatile equity and bond markets and delivered a strong return for the September quarter.

An allocation to Global Listed Infrastructure was added to the Fund to add diversification, while still participating in rising equity markets. This is particularly important in an environment where we may be coming to an end of the equity market growth cycle.

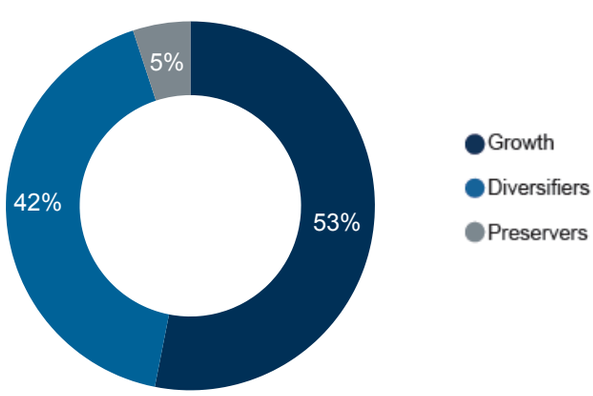
PERFORMANCE (SINCE INCEPTION)



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.

30 September 2019

ATRIUM INVESTMENT MANAGEMENT

ATRIUM EVOLUTION SERIES - DIVERSIFIED FUND AEF 9

MARKET COMMENTARY

Equity markets recovered most of their August losses, leaving them slightly higher over the September quarter. Sentiment was assisted by a slight lessening in trade tensions and ongoing global monetary policy stimulus. Bond markets were volatile, with yields falling dramatically lower in August, then rebounding sharply higher in September. Oil initially spiked following attacks on Saudi Arabian oil fields, but later weakened, leaving oil more than 7% lower over the quarter. The Australian dollar continued its weakness.

Despite the volatility, US equities (S&P 500) returned 1.7% for the quarter, and are now 4.3% higher over 12 months. Semi-conductors rose +20% , offsetting previous losses; this was important as this sector is close to the core of the trade dispute between the US and China. Homebuilders returned +19% and are a key focus in assessing the health of the housing market in the US, which in turn provides a strong lead on economic growth. The banks were volatile, falling sharply in August as bonds rallied, although most of these losses were recouped by quarter end. Oil and gas drillers fell almost 20% as oil prices fell sharply and investors fretted about their ongoing access to credit markets.

European stocks returned 2.6% on further easing by the European Central Bank (ECB), with France slightly ahead at 2.7%, and Germany lagging at +0.2% as it flirts with recessionary conditions. The UK faces huge uncertainty ahead of the 31 October deadline for Brexit, although it eeked out a 1% gain for the quarter. Emerging markets lagged developed markets overall, returning -2.1%, with several Asian markets underperforming and reflecting the potential for contagion from trade.

Australian equities (+2.4%) were volatile with a weak August (-2.4%) bookended by firm gains in July and September. Financials were strong, with the banks generally higher as they took advantage of consecutive cuts in June and July by the Reserve Bank of Australia (RBA) to support their margins. Consumer staples and consumer discretionary were the leading sectors for the quarter, with Bellamy's (+56.7%) and Treasury Wine Estates (+25.8%) being strong gainers, and food and retail companies assisting the discretionary sector (JB Hi-Fi + 33.6%, Dominos +24.9% and Harvey Norman +14.1%). The materials sector was weak (-3.7%) although the sector is positive year-to-date. Communications stocks were weaker, and Telstra fell sharply over the quarter (-6.9%).

The US Federal Reserve (Fed) cut rates in July, as expected by markets. However, a deterioration in macroeconomic data, and an increase in rhetoric (and signalled actions) on trade resulted in an aggressive move lower in bond yields in August. US treasury 10-year yields moved from 2.01% to 1.66% over the quarter, despite a significant rise in yields in the month of September. The RBA cut rates by 0.25% in July, and with the market expecting more, the curve continued to flatten with 10-year yields falling to new record lows (1.02% at quarter end), having traded below 0.9%. German bunds remained at negative yields across the curve, and the ECB took its policy rate even further negative. Credit markets remained in a tight range, moving with equity volatility, and being well supported by the ongoing central bank easing programs.

The Australian dollar fell from 0.702 to 0.675 against the US dollar over the quarter. Australia's negative interest rate differential with the US is renewing downward pressure on the currency despite a strong rally in iron ore prices and hence the terms of trade.

PORTFOLIO COMMENTARY

The Atrium Evolution Series 9 Fund posted another strong quarterly return of 3.7% and continues to build on the solid returns achieved in the 2019 calendar year. The Fund's return drivers were broad based with our equities and alternatives strategies contributing positively as equity and bond markets moved higher as global central bank easing provided support to growth assets.

During the quarter we added a 5% allocation to a global listed infrastructure mandate managed by Magellan, with the aim of adding diversification while still participating in rising equity markets – a desirable quality late in the market cycle. This exposure was equally funded from international equities and alternatives. In addition, we directly implemented option strategies in equity and interest rate markets to hedge volatility and lock in some profits in the portfolio.

The Fund has continued to outperform its cash plus return objective over the past five years while maintaining volatility within its 9% upper risk limit, limiting the overall impact of market drawdowns and delivering a more consistent return for investors.

Growth Drivers

In an example of bad news being good news, Australian equities ended the quarter higher as markets priced in easier monetary conditions from the RBA after a string of weaker economic numbers, including retail sales, employment and housing construction.

The Atrium Equity Opportunities Fund (AEOF) built on the outperformance over the previous period returning 5.5% in the September quarter - outperforming the S&P/ASX 200 by over 3% over this time. AEOF has delivered a return of 15.5% over the last 12 months, a pleasing result that places it in the top quartile of domestic equity managers.

Key contributors to performance included payment provider EML which returned a stellar 44.9% over the quarter on better than expected progress on the rollout of its mobile and virtual payment solutions. James Hardie was another strong contributor as the company is executing well on its revitalised growth and cost strategies under new CEO Jack Truong and as the downward movements in US mortgage rates spurred housing starts. Treasury Wine Estates and ResMed were also strong contributors. Speedcast detracted after reporting weak cashflow while it actively moves to reduce debt levels.

Over the quarter, we exited our position in insurance company QBE following a rally in the share price while we took advantage of market volatility over the quarter to add to a number of existing portfolio positions such as Dominos, BHP and James Hardie.

Amongst our other Australian equity manager allocations, the SG Hiscock ICE Fund returned 4.0% for the quarter led by positions in Bapcor, EML, and IMG, while the detractors included Webjet and AMA. The Bennelong ex-20 Australian Equities Fund returned 6.4% led by its increasing position in payments platform Afterpay, along with positions in BWX and Reliance Worldwide.

ATRIUM INVESTMENT MANAGEMENT

ATRIUM EVOLUTION SERIES - DIVERSIFIED FUND AEF 9

PORTFOLIO COMMENTARY

Our global equity managers similarly all posted positive returns for the quarter, benefiting from monetary policy easing globally and a reduction in trade tensions between the US and China.

The Magellan Global Equities Mandate returned 5.1% for the quarter to be well ahead of its global equity benchmark. The Mandate has delivered an impressive 16.1% return over the last 12 months. Key contributors included tech names such as Apple, Microsoft and Google, while Starbucks was also a strong contributor over the quarter.

The Antipodes Global Fund finished the quarter strongly to return 1.0%. Positive contributors to performance included gold miners such as Newcrest, while Microsoft and Sony also contributed to performance. Detractors included European and emerging market stocks, while look through exposure to the Japanese Yen was a positive contributor in a volatile quarter.

Our quality focused emerging markets manager Northcape returned in-line with the emerging market index over the quarter but has significantly outperformed over the last 12 months.

Diversifiers

The Alternatives allocation traversed volatile equity and bond markets and delivered a strong return for the September quarter. The violent moves both down and up in yields for government bonds globally was a reminder of the dangers of relying solely on those assets for portfolio protection in a traditional equity/bond portfolio. This point in the cycle is when genuine portfolio diversification is most critical, and it was therefore particularly pleasing to see all sub-sectors of the portfolio contribute positively over the quarter. The alternatives allocation has delivered on its objective of providing uncorrelated returns since the onset of asset price volatility in the June and September quarters.

All equity long short managers were positive despite a sharp reversal in growth/momentum versus value factors in September. This reversal of factor returns meant September featured the worst week of performance for long/short strategies in 4 years. Goldman Sachs reports that stocks favoured by hedge funds were doing very well until September when crowded positions were unwound. It's comforting that our long short managers were not caught badly by this reversal. Zebedee (+3.5%) continued to stand out for its lack of correlation with such statistics. Regal Tasman's (+8.4%) contribution is also worth noting for its lack of correlation with the Asian equity markets it trades. The key to this success was returns from the short side of its portfolio, in particular its long-standing Korean healthcare short, Celltrion. Bennelong Long Short returned (+4.7%) for the quarter.

Trend following strategies remain attractive for their systematic capture of momentum in equities, bonds, currencies and commodities and quick exits when the trend ends. This is a valuable late cycle strategy that allows your portfolio to benefit when markets rise or fall. Crown Diversified Macro (+3.3%) and One River Systematic Trend SP (+9.4%) again proved their worth in this environment. Both captured strong positive price trends in government bonds, the US dollar and importantly from a diversifying perspective, gold. The strong US dollar relative to the Euro and the Australian dollar also continued to deliver strong diversifying returns from P/E Investments' Global FX Alpha Fund (+12.2%). The trailing 12 month return for One River and P/E Investments are 18.2% and 21.4% respectively. These returns have been generated with no net contribution from exposure to equity markets, which provides significant diversification compared to our growth drivers and have contributed strongly to the broader Trust year-to-date.

The private markets portfolio of direct property and asset backed investments continued to deliver a stable mix of income and capital growth. During the quarter two assets, the Realside 38 Westgate Direct Property Fund (+28.4%), and Realside Colin Street Property Fund (+28.8%) were revalued higher on independent valuations, while the Fund entered into tranche 3 of 4 of the Atrium Leppington Trust (house & land subdivision) and participated in the URBNSURF rights issue to complete its project in Tullamarine, Victoria.

Outlook

Global trade concerns coupled with a weakening global economy, especially industrial production, are weighing on markets, but interest rate cuts by a number of global central banks should provide support for asset markets in the near term. We maintain ~55% exposure to growth assets (namely equities), coupled with a large exposure to diversifier assets which are not necessarily reliant on equity markets. These diversifiers have assisted in reducing portfolio volatility over the more volatile periods during the quarter.