

# 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.	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	5.0%	3.4%	3.5%	2.1%	-0.5%	1.4%	0.2%	3.1%	3.3%	0.9
RBA Cash Plus 2.5%	4.7%	3.9%	3.7%							

## KEY HIGHLIGHTS

The Atrium Evolution Series 5 Fund returned 1.4% in the June quarter to finish the financial year up 2.1%. The Fund continues to outperform its return objective since inception.

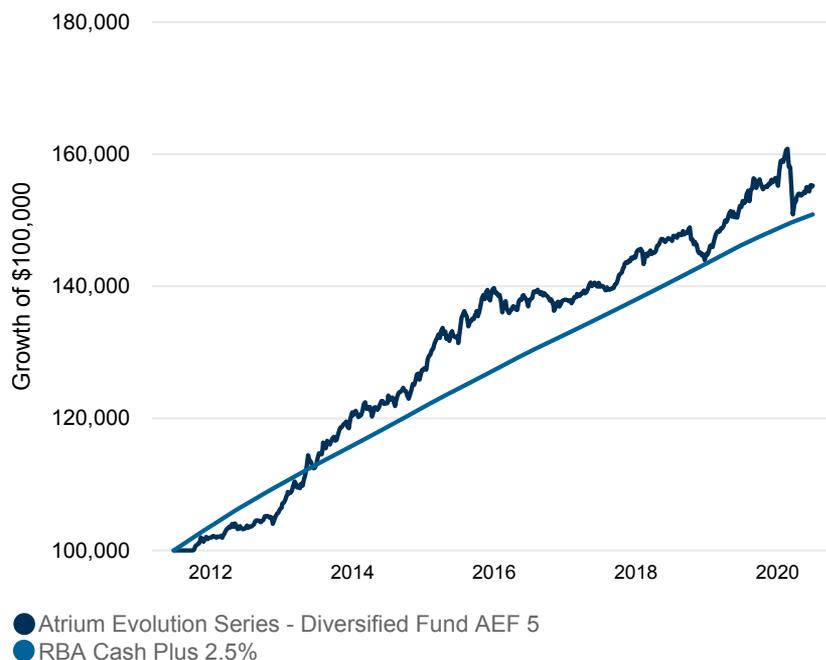
Our diversifying and capital preservation strategies helped the Fund navigate a year characterised by extreme market volatility, remaining true to our philosophy of focusing first on risk.

Over the quarter, our Australian share managers continued to outperform their respective benchmarks.

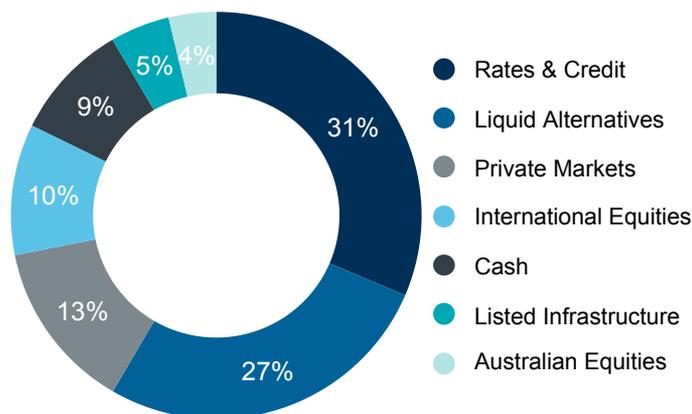
The Fund's allocation to diversifying assets also contributed positively to returns over the period, providing exposure to a range of managers and strategies that are uncorrelated to traditional stock and bond markets.

Our view is that markets have been too optimistic in pricing a "V-shaped" recovery, and that challenges remain for the global economy. We remain well diversified and active across the portfolio.

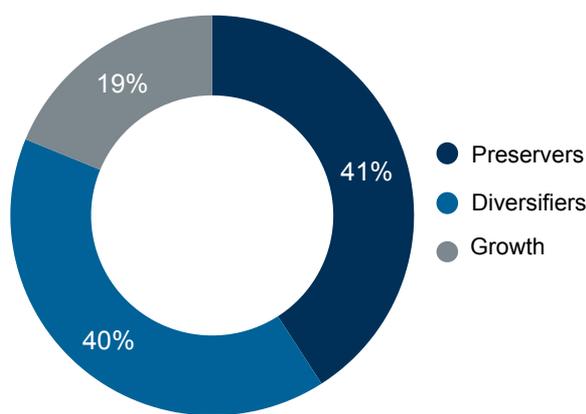
## PERFORMANCE (SINCE INCEPTION)



## 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

Markets recovered sharply over the June quarter from the extreme volatility of the March quarter on government fiscal stimulus and massive liquidity provision from central banks. Optimism grew that the economic fallout from the global pandemic would be limited in length and depth relative to what had previously been expected. US equities had their best quarterly return in over 20 years, and Australian equities were also very strong. US bond yields fell over the quarter as markets looked to significant central bank support, and gold rose 12.9%, as more risk averse investors eyed the build-up of longer term risks. Market expectations for volatility fell sharply from elevated levels.

US equities recovered sharply over the quarter, the S&P 500 providing a return of 20.5%. As has been a feature over recent quarters Information Technology, the largest sector exposure for the index, was very strong returning 30.5%. However the market also saw a sharp recovery in cyclical stocks reflecting the view that economic pessimism had been too great and lower quality components of the market rallied on the US Federal Reserve's (Fed's) strong support for credit markets emboldened investors' risk appetite. Energy (+30.5%) and Materials (+26%) both rose strongly in part reflecting these themes. Consumer Staples lagged substantially returning only 8.1% for the quarter. Despite the recovery, the strong contribution from a small number of high growth names highlighted how narrow the market performance has become. European equities lagged the US, returning 12.6%, although the German market was a standout with the DAX returning +23.9%, led by Infineon (a micro-controller / semi-conductor manufacturer, +55.4%) and Deutsche Bank (+41.8% for the quarter, but still 90% below its per-GFC levels). Wirecard fell 94.5% as investors increasingly suspected a material fraud within the company. Emerging markets lagged the US slightly, generating a 16.7% return in local currency terms, and would have done better in US dollar terms were it not for the weakness in the Brazilian Real and Turkish Lira in particular.

Australian equities recovered sharply over the quarter generating 16.5%. As with the US market, it was technology and higher growth stocks that led with the Information Technology sector returning 48.7%. The Energy and Materials sectors also performed strongly. At the stock level, incredible moves were seen in stocks such as Afterpay (+224%) and Nearnmap (+99.1%), although more cyclical stocks (AP Eagers and Boral) were also strong. Financials returned 12.9%, led by Macquarie Group (+40.8%) and AMP (+39.0%). Asset managers generally recovered with the better market sentiment (Magellan Financial Group rose 33.3%), and the major banks rose between 8.8% (Westpac) and 12.3% (Commonwealth Bank).

Bond markets remained firm during the June quarter which to some extent contradicted the strong sentiment towards equities. However, support was provided through the strong commitment to maintain a much larger balance sheet on the part of major central banks, notably the US Fed. US 10-year treasury yields fell 1 basis point (bp) to 0.66% over the quarter. Australian government bond yields rose by 10.8 bps over the quarter to close at 0.87%, partly as RBA Governor Dr Phil Lowe indicated that the bank (and market forecasters) had probably been too pessimistic in their near-term forecasts for the local economy. Credit markets were strong as the US Fed has indicated a willingness to buy both high and low quality corporate bonds, and to consider doing so via Exchange Traded Funds, to ensure credit markets remain open to borrowers.

Consistent with the risk-on stance taken in markets over the quarter and the rise in bond yields in Australia relative to the US, the Australian dollar rose 12.6% against the US dollar from the lows seen in late March. The US dollar fell, and this tended to support global markets. Gold also benefitted from the volatility and negative real bond yields, rising to levels not seen since 2012.

### PORTFOLIO COMMENTARY

The Atrium Evolution Series 5 Fund had a solid quarter returning 1.4% and building on the strong relative performance over the prior quarter. The Fund has performed true to label, navigating a challenging twelve-month period with its embedded capital preservation qualities helping to ride out market volatility. Since inception the strategy has outperformed its return objective while providing investors a smoother return profile, benefiting from active management and a dynamic approach to asset allocation.

All asset classes contributed positively to returns over the quarter, with equities the main driver of performance.

#### Preservers

Our preserver allocations generated positive returns in the quarter. The Atrium Enhanced Fixed Income Fund (AEFI) returned 0.5%, driven by a strong rebound in global credit markets. The Kapstream Absolute Return Income Fund and the Daintree Core Income Trust were positive over the quarter, while the JP Morgan Global Strategic Bond Fund was the standout, returning 4.2% over the same period. JP Morgan was able to take advantage of the significant fall in credit spreads over the quarter, which was aided in no small part by the US Federal Reserve decision to purchase corporate credit.

Amongst other holdings, the Metrics Credit Partners Wholesale Investments Trust was positive over the quarter, while AEFI continues to maintain exposure to Australian government bonds as we expect bond yields to remain low and interest rate exposure to provide diversification benefits.

#### Diversifiers

Our diversifier allocations overall contributed positively to returns over the quarter. The two standout managers over the quarter were Regal Funds Management (managing the Regal Tasman Market Neutral Fund) and Zebedee Capital Partners. Regal recovered from a difficult March quarter to post a return of (25.9%). This was driven by their participation in several of the large capital raisings that were a feature of the June quarter. They also enjoyed strong contributions from investments in the payments sector and from retaining their key high conviction stock picks that were marked down heavily in the first quarter.

Zebedee continued to demonstrate their stock selection process by following up a positive March quarter with a 2.4% return in the June quarter. This manager remains a core allocation within the alternatives sleeve.

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## PORTFOLIO COMMENTARY

Our trend following and risk premia strategies had a more difficult quarter to finish weaker in aggregate. This follows a period of relative outperformance in the March quarter where these strategies protected investor capital during the period of market volatility.

The prospective opportunity set for alternative strategies appears rich as an unprecedented amount of fiscal and central bank stimulus meets the considerable economic uncertainty of a global pandemic. Our diversified exposure to a range of managers and strategies that are uncorrelated to the traditional stock and bond markets can assist in meeting the Fund's long-term objectives while delivering a smoother return profile in periods of uncertainty.

Our private market transactions continue to perform to expectations with no material valuation adjustments. This segment of the portfolio has provided strong risk-adjusted returns and we continue to monitor the market for opportunities.

### Growth Drivers

Our domestic equity managers all outperformed their respective benchmarks over the quarter. The Atrium Equity Opportunities Fund returned 16.8% led by takeover target Infigen Energy which more than doubled over the quarter. Further strong contributions came from both James Hardie and Macquarie Group. During the quarter, Challenger was removed due to concerns relating to its product suite in an extended low interest rate environment. New investments were made in City Chic, a specialty woman's apparel with a strong online platform and Lifestyle Communities, a provider of affordable housing in Victoria.

The SG Hiscock ICE Fund was a standout performer returning 27.7% for the quarter. The key contributor to performance was online furniture and homewares retailer Temple & Webster which exceeded 100% revenue growth over the prior months, as online retailers capitalised on the lockdowns with consumers moving away from bricks and mortar retailers.

Within our global equity allocation, both the mandate managed by Magellan and the Antipodes Global Fund were higher over the quarter, while the Northcape Global Emerging Markets Fund outperformed its benchmark returning 18.6% on the back of a stellar performance from Malaysian rubber glove manufacturer, Top Glove.

At the end of the quarter we made new investments into both the Hyperion Global Growth Companies Fund and the Northcape Capital Global Equities Fund, two high quality equity managers which reinforces the quality characteristics of the global equity allocation. These investments were funded by reducing our existing international manager weightings and redeeming from the Bennelong ex-20 Australian Equities Fund after a lengthy due diligence review process.

### Outlook

The key for investors remains in assessing the depth and duration of the economic downturn and possible paths to recovery, including the possibility of a second wave of infections that have the potential to derail the recovery. Our view is that markets have been too optimistic in pricing a "V-shaped" recovery, and that challenges remain for the global economy, notwithstanding the large stimulus measures and positive economic surprises of the last few months.

Our focus across the portfolio remains on uncovering the potential winners while avoiding the losers, especially given the acceleration of secular trends due to the pandemic. In this environment we believe active management and a dynamic approach are more important than ever. We remain focused on managing risk to limit drawdowns, and on delivering more consistent returns for investors over the long-term.