30 June 2021

ATRIUM INVESTMENT MANAGEMENT

ATRIUM SMA AUSTRALIAN EQUITIES PORTFOLIO

INVESTMENT OBJECTIVE

To provide superior risk adjusted returns relative to the S&P/ASX 200 Accumulation Index over the medium to long term.

PERFORMANCE RETURNS

Asset Class	Since Inception	3 Yrs p.a.	2 Yrs p.a.	1 Yr	6 Mths	3 Mths	1 Mth	3 Yr Volatility
Atrium SMA Direct Australian Equities Portfolio	12.9%	10.8%	11.9%	28.2%	13.9%	8.0%	3.7%	17.4%
S&P/ASX 200 Accumulation Index	10.7%	9.6%	8.6%	27.8%	12.9%	8.3%	2.3%	17.6%

KEY HIGHLIGHTS

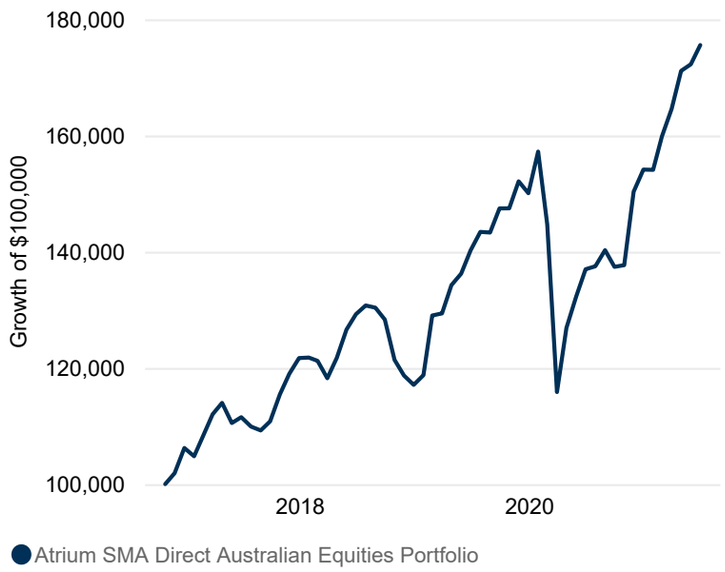
The Atrium SMA Australian Equities Portfolio underperformed the index for the quarter after a previous strong quarter.

The domestic economy is very strong with employment back to pre-pandemic levels, housing booming, and business confidence at the highest level since the 1980's. Australian equities rose 8.3% in the June quarter, while falling bond yields over the quarter resulted in some unwinding of the recent outperformance of 'value' versus 'growth' stocks.

During the quarter, the Portfolio increased its banking sector exposure ahead of the August reporting season on expectations of increased dividends and the possibility of positive capital management initiatives. The Portfolio participated in the IPO of 29Metals and exited the small position in Nuix post a review of the business.

Looking ahead towards the August reporting season, the focus remains on well-funded companies in attractive industries that will emerge in a stronger competitive position after the pandemic.

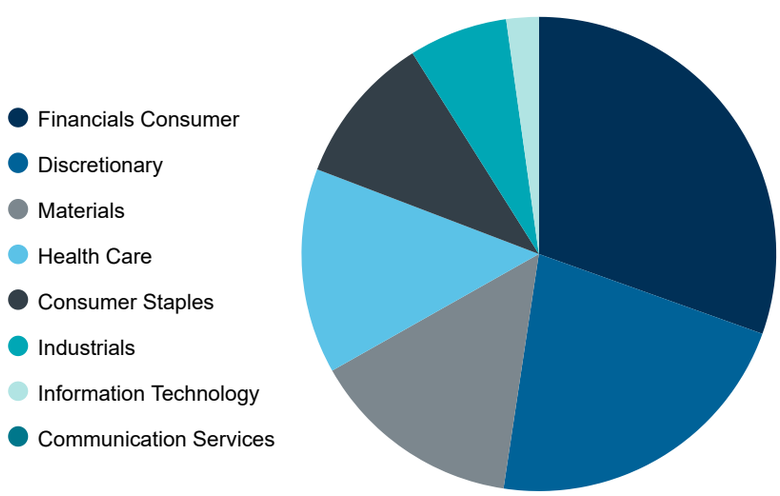
PERFORMANCE (SINCE INCEPTION)



TOP 10 HOLDINGS

SECURITY	WEIGHT
BHP Billiton Limited	9.2%
Australia and New Zealand Banking Group Ltd	7.3%
Woolworths Ltd	6.6%
Westpac	6.6%
Commonwealth Bank of Australia	6.4%
Wesfarmers Limited	6.0%
Macquarie Group Ltd	5.7%
Domino's Pizza Enterprises Ltd	4.6%
James Hardie Industries	4.4%
CSL Limited	4.4%

INDUSTRY EXPOSURE



Source: Atrium, Iress. Allocations as at the date of this report.

Source: Atrium, Iress. Performance as at the date of this report. Inception date is 9 November 2016. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. Performance figures relate to the model portfolios managed by Atrium. Individual investor portfolio performance may be different from the results above and will differ among clients depending on the timing of their investment and the level of variation from the models. Performance is after fees and costs, assumes re-investment of all distributions, is calculated using the highest annual fee tier, and does not take into account some or all of the rebates you may receive.

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MARKET COMMENTARY

The June quarter saw a continued rise in equity markets, with a number of markets, notably the US and Australia, making a series of record highs. In part, particularly late in the quarter, there was a move to re-think the reflationary theme which had driven markets over the prior 6 months. The growing impact of the delta variant of COVID-19, along with signals from some central banks that rate hikes may be closer than previously indicated, saw longer dated bond yields decline given what rate hikes mean for activity and inflation further out. The quarter saw the Australian dollar decline, against a broadly-unchanged (trade-weighted) US dollar.

US equities saw another very positive quarter, generating a return of 8.5%. Consumer Financials were conspicuous with a 19.8% return, led by sharp moves in Discover Financial Services (+24.5%), and Capital One. Steel was strong (+19.5%) as Nucor rose, and the Oil and Gas Exploration sector also generated strong gains (+15.6%) as the oil price continued to rise. To the downside, it was mainly COVID-sensitive sectors which lagged, with Airlines (-11.4%), Hotels (-4.0%), Casinos (-2.3%) and Movies (-2.2%) standing out against the gains in the overall market. Europe generated a +4.9% gain, with France being a standout outperformer (+9.1%, as LVMH gained sharply), Germany standing out as a weaker market (+3.5%). Emerging Markets were mixed for the quarter, with Russia benefitting from the strong move in oil prices, returning +10.7%. Brazil was firm (+8.7%) despite tightening policy numerous times in the first half, and key tech markets, South Korea and Taiwan were also firm (+5.9 and 8.4% respectively). China rounded out its first half underperformance, one factor being increased regulatory pressure being applied to companies affiliated with a number of well-known local entrepreneurs.

The Australian equity market saw further substantial gains, returning 8.3%. Although small by comparison to other major markets, the Information Technology sector led the S&P/ASX 200 index, rising 12.1% for the quarter. IT was led in particular by Megaport (+66.2% on a strong quarterly update) and Iress (+40.6% on M&A activity). Consumer Discretionary also performed well (+11.2%), while Utilities (-4.5%) and Energy (-2.8%) lagged. It was of some interest that 2 sectors, Real Estate and Financials, were slightly below the overall market. Real Estate has performed well, despite an ongoing COVID hit to CBD properties, as residential property prices remained extremely strong due in part to limited supply. Financials were paced by HUB (+37.3%) and Netwealth (+27.2%) as these platforms continue to add significant user numbers, although it was CBA which was a key driver, rising 16% and reaching a price of $100 for the first time late in the quarter.

Bond markets recovered sharply, clawing back a part of the prior quarter's losses, and markets started to rethink the inflation and longer term growth outlook for major economies. Importantly, the US Federal Reserve highlighted that the timeframe over which rates will remain at close to zero has shortened, reflecting an improved economic outlook, and inflation readings above 2% over the horizon. Short-dated US treasury yields rose slightly, however 10-year treasury yields fell 27 basis points (bps) as typically occurs when a central bank indicates a shift – no matter how far off – towards a tightening of policy. In Australia, all eyes were on the Reserve Bank of Australia's meeting just beyond quarter end, to ascertain updated guidance on the RBA's thoughts as to extending quantitative easing, particularly given some very strong data on the labour market. 10-year Australian Government bond yields fell -26bps to 1.53%. In addition, a very sharp underperformance was seen in semi-government debt, following the COVID-induced lockdown in New South Wales late in the quarter. Broader credit markets remain firm in general.

The Australian dollar saw its second consecutive quarterly decline, falling 1.3% to 0.75 US dollars, reflecting a recovery in the US dollar later in the quarter. Gold rose over the quarter reflecting the decline in real yields. Elsewhere, Bitcoin crumbled by almost 50% from its 2021 highs, amidst heightened volatility.

PORTFOLIO COMMENTARY

The Atrium SMA Australian Equities Portfolio marginally underperformed the index for the quarter, after a strong previous quarter.

On the economic front, whilst global growth is strong there was some evidence that growth in the two largest economies may have peaked. Despite this slowing, it does appear that economic growth will be robust into year-end and into 2022 as Europe finally kicks into gear following a very extended lockdown period. Domestically the economy is very strong with employment back to pre-pandemic levels, housing booming, and business confidence at the highest level since the 1980's. Assuming that recent COVID-19 concerns are contained quickly the economy is expected to continue on its strong growth trajectory. Against this backdrop, Australian equities rose 8.3% in the June Quarter, while falling bond yields over the quarter resulted in some unwinding of the recent outperformance of 'value' versus 'growth' stocks.

The key contributors to performance for the quarter included retailer City Chic, James Hardie, ResMed, and Dominos. The only major detractor was EML Payments after the Central Bank of Ireland raised significant regulatory concerns. EML are working with the regulator to resolve these issues and the exposure has been maintained in the Fund. Ramsay Healthcare was also a detractor after announcing a large-scale acquisition in the U.K. The company is initially using debt to fund the deal ahead of a likely capital raising later this year, negatively impacting market performance.

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PORTFOLIO COMMENTARY

During the quarter, the Portfolio increased its banking sector exposure ahead of the August reporting season on expectations of increased dividends and the possibility of positive capital management initiatives. The Portfolio divested its holding in Endeavour Group following its demerger from Woolworths and reinvested the proceeds back into Woolworths. Other notable changes over the quarter included a reduction in BHP and CSL, and an increase in Wesfarmers. The Portfolio also participated in the IPO of 29Metals (which has performed particularly well since listing) and exited the small position in Nuix post a review of the business.

Looking ahead towards the August reporting season, the focus remains on well-funded companies in attractive industries that will emerge in a stronger competitive position after the pandemic.