30 September 2021

ATRIUM INVESTMENT MANAGEMENT

CFS MANAGED ACCOUNT AUSTRALIAN EQUITIES

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
CFS Managed Account Australian Equities	13.3%	12.8%	11.7%	33.9%	13.2%	4.8%	-1.5%	17.5%
S&P/ASX 200 Accumulation Index	10.5%	9.7%	8.3%	30.6%	10.1%	1.7%	-1.9%	17.6%

KEY HIGHLIGHTS

The Australian Equities Portfolio delivered another relatively strong quarter with the Portfolio outperforming its benchmark and continuing its strong run of performance over the past 12 months – exceeding its benchmark by 2%.

The pleasing aspect of the Portfolio's performance during the quarter was the number of stocks that contributed to the overall outperformance. Lifestyle Communities, Dominos, Lovisa, City Chic, Macquarie Group and ResMed all delivered double digit share price returns with either strong earnings, very solid capital and balance sheet positioning or better than forecast guidance coming out of COVID garnering enthusiasm from the investing community.

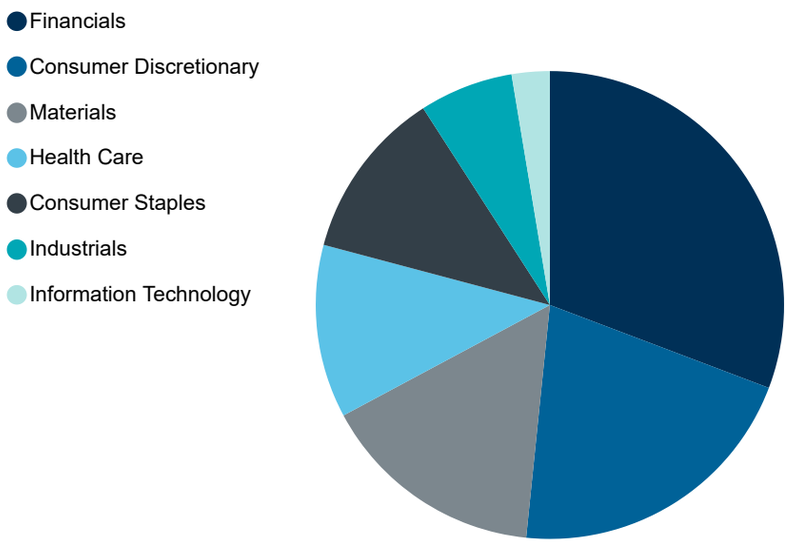
Looking ahead after a successful reporting season, the focus remains on identifying well-funded companies in attractive industries that will emerge in a stronger competitive position after the pandemic, while maintaining a strong focus on risk management.

PERFORMANCE (SINCE INCEPTION)

TOP 10 HOLDINGS

SECURITY	WEIGHT
Australia and New Zealand Banking Group Ltd	6.8%
Macquarie Group Ltd	6.6%
Woolworths Ltd	6.4%
BHP Billiton Limited	6.4%
Commonwealth Bank of Australia	6.2%
Westpac	6.2%
CSL Limited	5.7%
James Hardie Industries	5.4%
Wesfarmers Limited	5.3%
Treasury Wines	4.3%

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 September quarter was a generally firm period for risk assets, with equities making gains (and in many instances record highs), although the gloss was taken off in September as markets pulled back on a range of concerns (slower growth, higher inflation, Chinese property developers, the US debt ceiling, and withdrawal of central bank liquidity). Bond yields remained in recent ranges, and the Australian dollar fell, and markets focussed on a series of significant moves across commodity markets.

US equities saw a positive quarter, generating 0.6%, although the month of September saw losses across all major sectors with the exception of Energy which bounced 9.4% for the month. Over the quarter, Financials was the strongest segment of the market, returning 2.7% and it was the more defensive sectors which outperformed. Utilities ground out a 1.8% return, followed by Telecommunications and Healthcare. Losses were seen in Materials (-3.5%) and Industrials (-4.2%) reflecting the ongoing uncertainty around economic growth, inflation and commodity prices. Large caps outperformed small caps. The European market performance (+0.7%) was in line with that of the US, although there was more interest in developments in Emerging Markets. The EM complex as a whole returned -6.7% in local currency terms, however there was significant dispersion within this. Russia performed strongly (+9.2%) as the oil price continued its rise. At the other end, Brazil was a standout (-12.5%) as the local central bank continued to tighten policy, as were a number of markets linked to China, which in turn declined 10.4% following the sharp June quarter decline. Local regulators continue to crack down on a number of sectors, and perhaps more importantly deal with the fallout from the hugely-indebted local property developer Evergrande which is teetering on default.

The Australian equity market saw further quarterly gains, returning 1.7%, despite the 1.9% decline in September. Unusually, both the leading and the lagging sectors were both part of the resources segment of the market. Energy was very strong, reflecting the substantial ongoing rise in oil prices (West Texas Intermediate oil rose 3.1% for the quarter, and is up 86.0% over 12 months), whilst the Materials index fell -9.9%, with the slide in iron ore prices being a major contributor leaving Fortescue and BHP materially lower over the period. As noted previously, the cessation of the dual listed structure for BHP also contributed to its substantial fall on the local market. Away from resources, the Financials were a standout, led by significant ongoing gains in Pinnacle (+31.3%) and Macquarie Group (+16.3%), and the 4 major banks were generally stronger. Small caps outperformed again, generating 3.4% for the quarter, although over 12 months large and small cap returns are broadly in line.

Bond markets stabilised as investors continued to take a stance that inflationary pressures are transitory, and thus likely to reverse or stabilise. Markets also watched closely for signals from the US Federal Reserve on the direction for policy, given how important quantitative easing has been in keeping bond yields low. The Fed is approaching a tapering of its monthly buying into year end, however the policy rate is unlikely to move in the next 12 months or more, limiting any rise in yields. Having said this yields reversed course in early August, rising into quarter end, and leaving the market broadly unchanged for the period as a whole. US 10-yr treasury yields were fractionally higher at 1.48%. Australian bond yields fell slightly over the quarter (-4 bps to 1.49%), as the Reserve Bank of Australia remains very cautious on its view for its policy rate which is expected to remain unchanged until at least 2024, and downplayed its role in managing the obvious implications for the local housing market.

The Australian dollar saw its third consecutive quarterly decline, falling 3.6% to 0.721 US dollars, despite the significant move higher in the coal price (+69.0%). Iron ore (-35.3%) on the other hand, fell very sharply on concerns about demand from China.

PORTFOLIO COMMENTARY

The Australian Equities Portfolio delivered another relatively strong quarter with the Portfolio outperforming its benchmark and continuing its strong run of performance over the past 12 months – exceeding its benchmark by 2%.

Volatility returned to the equity markets in recent months as investors were faced with a number of challenging narratives, not limited to the ever-present COVID-19 delta strain. While many market participants continue to look beyond the short-term effects of COVID, heightened growth concerns, especially in China, the possibility of a US government shutdown due to the debt ceiling and persistent inflationary concerns along with rising bond yields has led to investors to adopt a more defensive approach to equities especially in the back end of the quarter.

The pleasing aspect of the Portfolio's performance during the quarter was the number of stocks that contributed to the overall outperformance. Lifestyle Communities, Dominos, Lovisa, City Chic, Macquarie Group and ResMed all delivered double digit share price returns with either strong earnings, very solid capital and balance sheet positioning or better than forecast guidance coming out of COVID garnering enthusiasm from the investing community. A common feature of all these companies was their ability to produce strong levels of free cash flow.

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PORTFOLIO COMMENTARY

Detractors were limited over the quarter, but they included BHP, which despite delivering a solid result including an above market forecast dividend, underperformed as the iron ore price abruptly fell c. 40% in a short period of time as Chinese authorities put measures in place to substantially curb steel production. Magellan Financial Group also underperformed as their investment funds incurred fund outflows after a period of poor investment performance. Both outcomes have resulted in further analysis of the earnings drivers of each company.

During the quarter, we increased our weights in 29 Metals, CSL, EML Payments, James Hardie, Macquarie Bank, and ResMed, while totally existed our position in Ramsay Healthcare after the failed acquisition by Spire and an indication that management would pursue larger acquisitions which we believe would have increased the riskiness of the company.

Looking ahead after a successful reporting season, the focus remains on identifying well-funded companies in attractive industries that will emerge in a stronger competitive position after the pandemic, while maintaining a strong focus on risk management.