

Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report May 2022

Performance ¹	1 month	3 months	1 year	2 year	3 year	5 year	Inception
Fund	-0.25%	1.21%	-1.52%	1.45%	2.93%	3.64%	3.66%
Benchmark ²	0.60%	1.71%	5.61%	4.26%	2.99%	2.50%	2.23%
Excess Return	-0.85%	-0.51%	-7.13%	-2.81%	-0.06%	1.14%	1.43%

¹ Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures. Past performance is not a reliable indicator of future performance.

² The Fund benchmark is the Australian Consumer Price Index.

Source: Fidante Partners Limited, 31 May 2022.

Fund Features

Unique 'relative value' investment strategy: The Fund adopts a relative value investment strategy to access a range of fixed income return sources that are independent of interest rates.

Tight risk control: The Fund specifically targets low volatility returns by using a range of risk management strategies.

Diversification benefits: The Fund offers significant diversification benefits when combined with conventional bond, credit and equity investments in an investment portfolio.

Capital preservation: The Fund prioritises capital preservation by only investing in high quality government bonds, related derivatives and cash like investments. However, the Fund is not guaranteed.

Protect long term purchasing power: The Fund explicitly targets a return exceeding Australian inflation rates to protect long term purchasing power.

Daily liquidity: The Fund only invests in the most liquid segments of global fixed income markets.

Experienced and stable investment team: Ardea's investment team has decades of experience across global fixed income markets. Majority employee ownership of the Ardea business fosters team stability.

Fund Facts

Portfolio Manager	Ardea Investment Management
Investment Objective	The Fund targets low volatility returns exceeding cash rates and inflation, by investing in a global portfolio of high quality government bonds that prioritises capital preservation and liquidity.
Investment Horizon	Recommended min. 2 years
Inception Date	20 July 2012
Fund Size	\$10bn
Management Fee	0.50% p.a.
Buy/Sell Spread	+0.05% / -0.05%
Distribution Frequency	Quarterly

Sector Exposure		Rating Exposure		Risk Contribution by Currency	
Government – National	72%	AAA	53%	AUD	18%
Government - State	28%	AA	41%	CAD	8%
Total	100%	A	6%	EUR	5%
		Total	100%	JPY	0%
				NZD	0%
				GBP	49%
				USD	20%
				Total	100%

Interest Rate Duration (years)	
12 month average	-0.2
Since inception average	0.1

Source: Ardea Investment Management, S&P Ratings

Portfolio Commentary

Performance for the month of May was -0.25% (after fees).

The broader market backdrop remains challenging for most asset classes. After heavy losses in bond benchmarks and risk assets over prior months, there was finally some consolidation in May. US Treasuries made modest gains, but other sovereign bond markets such as Europe and Australia underperformed. Global yield curves generally steepened. However, there were sizable swings in risk sentiment intramonth. Macro uncertainty remains very high amid tension between ongoing inflation pressures, rapid tightening of monetary policy and rising global growth concerns.

The Fund's pure RV strategy continues to navigate this turbulent environment with considerably lower performance volatility than duration-heavy bond indices.

After delivering outsized positive returns over the last few months, options (-0.5%) were the largest detractor from performance in May. The consolidation in broader bond markets, after an historically large sell-off, led to a decline in implied volatility from elevated levels, which adversely impacted options held by the fund over this period. This detraction was spread across USD, EUR and AUD markets.

Bond vs derivative (-0.4%) risk exposures were also a detractor over the month. These positions are diversified across markets with many idiosyncratic factors at play. A common theme in May was underperformance from swap-bond spread exposures. The largest impact reflected positions in the EUR, AUD and USD markets, where the Fund holds long-dated bonds with hedges in swaps. These long-dated bonds underperformed amid a temporary pull-back in demand relative to larger paying flows in swaps.

Inflation beta (-0.2%) exposures were a detraction. Positions are implemented through AUD inflation-linked bonds and swaps. The last month saw a large flattening of the inflation curve. Short-dated inflation expectations continued to rise, as the market prices ongoing supply chain and other temporary price disruptions, alongside tight labour markets (there was no official CPI report in May).

However, these gains were more than offset by a fall in longer dated inflation expectations. Longer term AUD inflation pricing fell following a rise in concerns over the path for global growth and continued central bank policy tightening, consistent with moves in larger global peer markets.

RV curve (+0.7%) exposures added to performance in May. While there are a large number of underlying RV themes with exposure to changes in yield curve shape, over the month there was notable benefits from net steepening in GBP and EUR curves in the 10y to 30y sector. These curve spreads had traded to very low levels over prior months in the wake of structural receiving flows and underperformance of 10y rates as markets priced for higher rates for longer. When balanced against other risk in the portfolio, these positions typically have low correlation to broader macro themes.

Market Commentary

Please see the Ardea website for our thoughts on markets and investment themes. Our latest article is available [here](#).

Understanding Performance

Performance is evaluated over rolling 2 year periods for consistency with the recommended minimum investment horizon of 2 years. Over short-term horizons it is expected that portfolio performance will fluctuate in a range around the expected long-term investment outcome, including periods of negative returns. This is because the Fund's targeted return is not expected to materialise evenly over the investment horizon.

We use the concept of 'expected performance variability' to objectively define a range of short-term performance fluctuation that is consistent with the investment strategy operating as expected. This range is based on the Fund's volatility target of 2% p.a. and translates to an expectation for monthly performance to commonly fluctuate in a range of -0.4% to +0.7%.

The Fund's highly differentiated investment approach generates returns exclusively from capturing RV mispricing opportunities across global interest rate markets. This approach is intentionally independent of the level of bond yields, the direction of interest rates and broader bond market themes.

The Fund's portfolio construction process intentionally diversifies risk across many different types of independent and modestly sized RV trades. Therefore, performance is the cumulative result of interactions between hundreds of trades entered, exited, and held over the preceding months.

For these reasons, the Fund's performance is ordinarily not driven by a few key trades, nor can it be mapped to broader market fluctuations or macro themes. This is intentional, because the Fund aims to deliver volatility controlled returns that exhibit low correlation to the performance of government bond, credit, and equity markets. This is precisely why the Fund can offer compelling diversification benefits when combined with conventional investments.

Please note that monthly performance attribution is heavily influenced by short-term 'noise' and ordinarily offers little genuine information value.

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The Morningstar Analyst Rating™ for
Ardea Real Outcome Fund is
'Bronze' as of 17/07/2021



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