Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report February 2024

Performance[1]	1 month	3 month	1 year	2 year	3 year	5 year	10 year	Inception
Fund	0.69	-1.26	3.81	2.82	1.17	3.29	3.46	3.49
Benchmark (CPI)[2]	0.40	1.13	4.07	5.66	5.30	3.78	2.70	2.71
Excess Return v CPI	0.29	-2.39	-0.27	-2.84	-4.13	-0.49	0.75	0.78
Excess Return v Cash[3]	0.35	-2.34	-0.30	-0.10	-0.79	1.82	1.65	1.52

[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.
[3] The Bloomberg Ausbond Bank Bill Index
Inception: 20 July 2012
Source: Fidante Partners Limited, 29 February 2024.

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	$5.6bn
Management Fee	0.50% p.a.
Buy/Sell Spread	+0.05% / -0.05%
Distribution Frequency	Quarterly

Sector Exposure	
Government – National	64%
Government – State	36%
Total	100%

Rating Exposure	
AAA	70%
AA	30%
A	1%
Total	100%

Risk Contribution by Currency	
AUD	37%
CAD	5%
EUR	19%
JPY	2%
NZD	1%
GBP	6%
USD	30%
Total	100%

numbers may not add due to rounding

Source: Ardea Investment Management, S&P Ratings

Market Commentary

Please see the Ardea website for our latest thoughts on markets and investment themes.

Portfolio Commentary

The portfolio delivered an excess return of 0.3% relative to the benchmark index for the month of February.

Risk assets had a strong month and various major equity indices reached new all-time highs. Amid enthusiasm for the Magnificent 7 and AI, broad risk appetite was little impacted by ongoing concerns about commercial real estate, US regional banks and the pushing out of Fed rate cut expectations.

The rates repricing followed surprisingly strong US inflation and jobs data and contributed to global fixed income underperformance. For example, the US Treasury index (-1.4%) posted its worst monthly return since September. While most investors don't expect inflation to re-accelerate further from here, recent data challenges crowded consensus trades of long duration and curve steepening (long 2y vs short 10y). European government bonds (-1.2%) were also weak, while Australian fixed income (-0.3%) outperformed global peers notably as this market had less policy easing priced in to start the month and was confronted with some weaker local data points (retail sales, employment).

Against this backdrop, the Fund's interest rate Relative Value (RV) performance was positive overall. For example, numerous AUD yield curve RV positions gained modestly, although there was no single dominant theme. These positions are spread across the whole curve out to 30 years and are constructed to be uncorrelated to broader macro-style curve shifts.

The basis between bonds and interest rate derivatives also supported performance. For example, the Fund's positions in AUD and EUR long dated bonds outperformed offsetting swap hedges. Demand/supply themes vary considerably between issuers and sectors of the curve. In general, this opportunity set is growing as global developed markets are facing ongoing high levels of bond issuance at a time of decreased central bank demand.

Option-based strategies were a slight detractor, mostly reflecting USD positions in shorter maturities. In the context of a market already priced significant Fed easing, stronger economic data was seen to constrain the range of outcomes for interest rates over the near term. The Fund is structurally long options to provide risk balance to the portfolio and to target RV in option markets.

The AUD inflation beta was a slight detractor in a month of limited volatility. A slight moderation in inflation pricing reflected momentum from the below consensus Q4 CPI print (released in late January) and the less important monthly CPI figure.

There was a stark contrast over the month between the sharp rise in US inflation pricing and limited moves in Australian pricing. AUD inflation-linked bonds are priced for average an inflation rate of 2.5% over 10y – the middle of the RBA's target band and just 15bp above US pricing (where the Fed targets 2.0%).

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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Analyst-Driven %
100
Data Coverage %
100

The Morningstar Medalist Rating™ for the Ardea Real Outcome Fund is 'Bronze' as of 28/09/2023