ARDEA Investment Management

Ardea Australian Inflation Linked Bond Fund

ARSN 622 519 117 APIR Code HOW0062AU

Quarterly Performance Report September 2024

Performance (% p.a.)[1]	1 month	3 months	6 months	1 year	3 years	5 years	Since Inception[2]
Portfolio (net)	1.18	3.33	1.54	7.39	2.36	2.08	5.30
Bloomberg AusBond Inflation Government 0+ years Index	0.63	2.96	1.34	7.37	0.47	1.18	4.62
Excess return	**0.56**	**0.37**	**0.20**	**0.02**	**1.89**	**0.89**	**0.69**

[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's inception date is 18/03/2010.
Source: Fidante Partners Limited, 30 September 2024.

Strategy Overview

Ardea's pure relative value (RV) investment specialisation is fundamentally different to conventional fixed income investing and therefore we customise our quarterly portfolio commentaries accordingly.

As our portfolios are inherently high turnover, highly diversified and designed to generate uncorrelated returns from a repeated investment process averaged over time:

- *performance is the cumulative result of interactions between many of modestly sized trades that were entered, exited, and held over the preceding months*
- *performance is generally driven by many small gains / losses, rather than a few key contributors*
- *performance is not driven by broader bond / equity market fluctuations*
- *a single quarter is generally not enough time to draw meaningful conclusions about performance themes*

Therefore, we customise the quarterly portfolio commentary in the following ways:

- *Consider quarterly performance in isolation only when there is outsized performance volatility, unusually concentrated performance drivers and / or noteworthy portfolio changes.*
- *Consider quarterly performance in a longer-term context, with reference to the Fund's investment objectives and the roles it plays in the broader portfolio.*

Investment Objectives

The Fund's investment objectives encompass both the magnitude of returns generated ('size' of return) and the risk characteristics underlying those returns ('style' of return), resulting in a unique combination of risk / return attributes that cannot be obtained from conventional fixed income investments.

These attributes link to the underlying theme of defensive risk diversification.

Portfolio Commentary

The portfolio delivered an excess return of +0.56% relative to the benchmark index for the month of September and an excess return of +0.37% for the quarter (before fees).

Rolling quarterly performance remains within the normal range of expected performance variability, based on the portfolio's volatility target.

As usual, performance drivers for the quarter were diversified across small gains / losses generated by many modestly sized trades, with no unusually concentrated performance drivers.

Curve RV strategies (+0.4%) and Bond vs Derivative RV strategies (+0.2%) contributed positively to performance for the quarter

Option exposures were a small detractor from performance for the quarter (-0.15%).

Inflation exposures were flat for the quarter. Inflation pricing moderated across the curve. The Q2 CPI report (released in July) was close to market and RBA expectations and continues to show moderating headline inflation, partly supported by government policies to keep administered prices down. Short term inflation-linked bonds still benefit from strong realised CPI carry relative to the cash rate, but market expectations for inflation further out the curve have moderated further. Falling oil prices and downgrades to the global growth outlook have weighed on market breakeven inflation levels.

Explanatory Notes

- The normal range of expected performance variability is defined relative to the portfolio's volatility / TE target (1.0% p.a.). Based on this, quarterly excess returns should mostly be within a range of -0.2% / +0.8% (1 std dev band, 68% of sample) and sometimes outside this range, but no wider than -0.7% / +1.2% (2 std dev band, incremental 27% of sample).
- Curve RV strategies seek to profit from RV pricing anomalies in the shapes of interest rate curves.
- Bond vs Derivative RV strategies seek to profit from anomalies in the relative pricing of government bonds vs interest rate derivatives.
- Option exposures stem from RV trades that involve buying interest rate options. These exposures are biased to outperform in periods of market stress and are used to balance risk vs other types of RV trades that may temporarily underperform at such times.
- Inflation exposure stems from RV driven divergences in the portfolio's breakeven inflation exposure relative to the benchmark index.

Contact

For further information, please contact:

Fidante Partners Investor Services
P: 1300 737 760
E: info@fidante.com.au
W: www.fidante.com

For Financial planner enquiries, please contact:

Your local **Business Development Manager** or
E: bdm@fidante.com.au

For institutional enquiries, please contact:

Christopher Bauer
Senior Institutional Business Development Manager
Fidante | Ardea Investment Management
E: Christopher.Bauer@ardea.com.au

www.ardea.com.au