Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report September 2024

Performance[1]	1 month	3 month	1 year	2 year	3 year	5 year	10 year	Inception
Fund	0.28	0.21	-1.05	1.41	1.26	1.92	3.10	3.29
Benchmark (CPI)[2]	0.13	0.67	3.27	4.31	5.29	3.90	2.76	2.72
Excess Return v CPI	0.15	-0.46	-4.32	-2.90	-4.03	-1.97	0.34	0.56
Excess Return v Cash[3]	-0.08	-0.91	-5.46	-2.57	-1.55	0.12	1.19	1.20

[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, 30 September 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	$3.6bn
Management Fee	0.50% p.a.
Buy/Sell Spread	+0.05% / -0.05%
Distribution Frequency	Quarterly

Sector Exposure	
Government – National	63%
Government – State	37%
Total	100%

Rating Exposure	
AAA	48%
AA	52%
A+	0%
Total	100%

Risk Contribution by Currency	
AUD	43%
CAD	4%
EUR	13%
JPY	2%
NZD	5%
GBP	11%
USD	23%
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 a return of +0.28% for the month of September and +0.21% for the quarter.

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

Curve RV strategies added to performance for the quarter (+1.3%). RV trades with a net steepening bias in 2y relative to 4y points on the USD curve outperformed. Steepening positions in the 7-10y vs 12-15y tenors of the AUD market also added value. The portfolio has a mixture of long and short positions across curves targeting mis-pricings, while avoiding excessive directional macro bias.

Bond vs Derivative RV strategies (-1.3%) detracted from performance in Q3. While AUD curve exposures in the 10y and longer maturity sector added value, these were offset by underperformance in long term bonds relative to swaps. The market played some catchup with similar maturity bonds in larger offshore markets, which had already cheapened amid surging supply. While the supply outlook is benign in Australia, this part of the AUD curve is particularly sensitive to global demand and the levels of cross market spreads.

Option (-0.5%) exposures made a small negative contribution to performance for the quarter, mostly reflecting falling swaption volatility in the EUR market.

Inflation Beta (-0.1%) made a small negative contribution to performance 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.

Bond Carry (+1.11%) contributed positively to performance for the quarter.

Explanatory Notes

- The normal range of expected performance variability is defined relative to the portfolio's volatility / TE target (2.0% p.a.). Based on this, quarterly excess returns should mostly be within a range of -0.5% / +1.5% (1 std dev band, 68% of sample) and sometimes outside this range, but no wider than -1.5% / +2.5% (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 beta exposure stems from the portfolio's structural exposure to market-based inflation pricing through holdings of inflation-linked bonds and inflation swaps
- Bond Carry refers to the return earned from duration hedged exposure to government bonds, which results from the portfolio's Bond vs Derivative RV strategies. This return is approximately equal to the cash rate. (labelled "Cash Benchmark Return" in the performance attribution table)

Understanding Performance

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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Bronze

Analyst-Driven % 100

Data Coverage % 100

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

Highly Recommended Lonsec Research

Zenith RECOMMENDED