

Ardea Real Outcome Fund

ARSN 158 996 699 APIR Code HOW0098AU

Monthly Performance Report January 2024

Performance ¹	1 month	3 month	1 year	2 year	3 year	5 year	10 year	Inception
Fund	-0.07	-2.03	4.35	1.97	0.98	3.29	3.47	3.45
Benchmark (CPI) ²	0.53	0.93	4.13	5.83	5.23	3.70	2.68	2.69
Excess Return v CPI	-0.60	-2.96	0.22	-3.86	-4.25	-0.41	0.78	0.76
Excess Return v Cash ³	-0.44	-3.13	0.36	-0.78	-0.85	1.85	1.68	1.50

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, 31 January 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	\$5.8bn
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	64%	AAA	69%	AUD	31%
Government – State	36%	AA	31%	CAD	7%
Total	100%	A	0%	EUR	21%
		Total	100%	JPY	2%
				NZD	0%
				GBP	8%
				USD	30%
				Total	100%

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

Fund performance for the month of January was flat at 0% (before fees).

The Fund's relative value (RV) strategies were a net detractor at -0.3% over January in what was a relatively quiet month. Attribution categories of RV curve, Rates and Bond versus derivatives were small net contributors however these gains were offset by declines from options holdings across the various markets as the level of implied volatility fell. The Fund's structural exposure to inflation beta also detracted as inflation pricing declined. Performance drivers were diversified across many gains / losses across RV curve, rates, bond versus derivatives and options categories with no unusually concentrated performance drivers.

Performance attribution summarises returns into key risk factors: RV micro curve, capturing performance related to interest rate curve movements; Bond versus derivative, reflecting risk factors tied to government bond pricing versus interest rate derivatives.

Over the 12-month period RV strategies have contributed +1.1% while the Fund's structural allocations to market-based inflation pricing through holdings of inflation-linked bonds and inflation swaps detracted -0.3%. The Fund's total return over the 12-month period was 4.8% (before fees). The Fund continues to maintain lower performance volatility than the bond markets and provides a defensive diversification role for portfolios.

Markets - In Australia, the CPI release for the December quarter at the end of the month declined and was lower than market consensus as was employment data during the month. However, bond yields (3s and 10s) increased slightly following the strong rally over November and December. In the US, data has reflected solid economic growth, continued labour market resilience and easing inflation. US 4Q GDP and retail sales were both better than expected. The FOMC removed its tightening bias language and was careful to flag no near-term easing's of policy should be expected, the market is pricing a little under 125bps of cuts in 2024.

We remain positive on the opportunities in RV investing as volatility is high enough to create many new RV mispricing from which to profit.

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

Analyst-Driven %
100
Data Coverage %
100



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