ActiveX Ardea Real Outcome Bond Fund (Managed Fund) (ASX:XARO)

ARSN 629 403 925

Fund Facts – 31 March 2022

ASX Ticker	XARO		
Fund Inception Date	10 December 2018	**Fund Size**	$908.2 million
Underlying Fund Inception Date	20 July 2012	**Underlying Fund Size**	$11 billion
Distribution Frequency	Quarterly	**Unit Registry**	Link Market Services
Management Fee	0.50% p.a.	**Fund Issuer**	Fidante Partners Limited

Fund Overview

The ActiveX Ardea Real Outcome Bond Fund (Managed Fund) is a defensive fixed income solution that targets stable returns exceeding the cash rate and inflation, with a quarterly income distribution and daily liquidity.

The Fund does this by employing Ardea's 'relative value' investment approach, which combines the safety of high quality government bonds with proven risk management strategies to deliver low volatility returns, while protecting capital from interest rate fluctuations and general market volatility. (Note: neither the Fund nor the Underlying Fund are guaranteed).

Suits Investors Seeking

- a higher expected return than cash[1]
- an alternative source of income, with low volatility
- a defensive fixed income anchor to diversify portfolio risk away from equities, property and credit investments
- investors who accept some risk and that their investment will include exposure to derivative strategies

1 Neither fund performance nor capital is guaranteed.

Monthly Performance Report – 31 March 2022

Fund Performance[2, 3]	1 month	3 months	1 Year	2 years	3 years	5 years	Since inception[4]
Fund	0.46%	-0.76%	-1.98%	1.52%	3.15%	-	3.87%
Australian Consumer Price Index	0.57%	1.24%	4.16%	2.63%	2.48%	-	2.29%
Excess Return	-0.11%	-1.99%	-6.14%	-1.11%	0.67%	-	1.59%

2 Performance figures are based on the Fund's net asset value, 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 likely future performance. All periods longer than 1 year are annualised.
3 The performance of the Fund will not exactly replicate that of the Underlying Fund, for example, where cash is held by the Fund.

4 The Fund's inception date is 10 December 2018.

Source: Fidante Partners Limited, 31 March 2022.

Underlying Fund

The Fund invests in Ardea Real Outcome Fund (Underlying Fund). In this report, where we refer to the Fund's investments we generally do so on a 'look-through' basis; that is, we are referring to the underlying assets that the Fund is exposed to through its investment in the Underlying Fund.

Underlying Fund Performance[5]	1 month	3 months	1 Year	2 years	3 years	5 years	Since inception[6]
Underlying Fund	0.46%	-0.76%	-1.98%	1.54%	3.19%	3.78%	3.65%
Australian Consumer Price Index	0.57%	1.24%	4.16%	2.63%	2.48%	2.13%	2.07%
Excess Return	-0.11%	-1.99%	-6.14%	-1.09%	0.71%	1.65%	1.58%

5 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 likely future performance. All periods longer than 1 year are annualised.
6 The Underlying Fund's inception date is 20 July 2012.
Source: Fidante Partners Limited, 31 March 2022.

Underlying Fund Exposure

Sector Exposure	
Government – National	74%
Government - State	26%
Total	100%

Rating Exposure	
AAA	54%
AA	34%
A	13%
Total	100%

Region Exposure*	
Australasia	-7%
Europe	36%
North America	71%
Total	100%

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

* Australasia = Australia, New Zealand, Japan; Europe = France, Germany, UK; N. America = USA, Canada

Sources: Ardea Investment Management, S&P Ratings. Noting investors accept some risk and that their investment will include exposure to derivative strategies.

Fund Benefits

Higher expected returns than cash[1]
The Fund has a track record of delivering returns exceeding cash and inflation since inception[2]. As these returns are independent of market direction, Ardea expects to maintain a level of outperformance in rising and falling markets irrespective of the level of the cash rate.

An easier way to access your investment
The Fund offers daily trading on the ASX, without break costs that can apply to certain cash products.

Lower risk than many income seeking investments[3]
The Fund invests in high-quality government bonds and cash securities, which have lower credit risk, unlike bank hybrids and corporate bonds, while also using sophisticated risk management strategies to help volatility compared to dividend paying stocks.

Defensive fixed income anchor that helps diversify investment portfolio risk
The Fund targets positive returns that are independent of interest rate fluctuations and general market volatility. Combining this with proven risk management strategies allows the Fund to help diversify your portfolio risk away from equities, property and credit investments.

Protect the purchasing power of your investment
In addition to outperforming[4] cash, the Fund targets returns exceeding inflation, which helps protect the long term purchasing power of your investment.

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 Risks

The Fund is exposed to a number of risks including interest rate risk, market risk, and collateral risk. Please refer to the Product Disclosure Statement for more information.

1 Past performance is not an indicator of future performance. Neither fund performance nor capital is guaranteed.
2 Inception date is 20 July 2012
3 When compared to Equities (S&P/ASX200 Accumulation), REITs (S&P/ASX200 A-REIT), Ausbond Composite (Australian govt and non-government bonds) and Ausbond Govt (Australian govt bonds).
4 Refers to the Fund's historical track record since inception

Monthly Commentary

Portfolio Commentary

Performance for the month of March was +0.46% (after fees).

The backdrop is one of severe pressure in global bond markets, as central banks react to the relentless rise in inflation. Significant uncertainty persists over the path for interest rates, underpinning continued elevated volatility in bonds, even as equities staged a turnaround in the month. Many conventional bond indices finished March with monthly losses of 3-4% and quarterly losses of 5-6%, which for some benchmarks is the worst quarterly performance in decades.

This turbulence in global bond markets benefited the Underlying Fund's positions in interest rate options (+0.5%) and associated hedging activity to manage the duration impact of options on the portfolio, reflected in the RV rates (+0.3%) attribution category. These positions are implemented to capture relative value opportunities within segments of global interest rate option markets (such as targeting comparable implied vs realised volatility differences) and to support portfolio risk balance. Contributions from options were spread across a few markets - as the increase in global rates volatility was broadly based – notably in USD (+0.2%), EUR (+0.2%) and AUD (+0.1%). Within most markets, shorter-term rates volatility increased relative to longer-term volatility, reflecting the large repricing of policy rate expectations.

Option positions help offset risk from other parts of the portfolio, which can sometimes detract from returns in high volatility periods. Throughout March, ongoing macro shocks continued to drive large changes in the shape of global yield curves. This environment is having a spill-over effect on some of the Fund's more micro-focused RV curve (-0.8%) positions, which detracted from returns. Within the RV curve component, CAD (-0.6%) and GBP (-0.2%) exposures had the largest impact, mostly reflecting changes in the shape of curves in the short end. The underlying positions have multiple long and short legs. For example, long in one cheap maturity (as identified by RV analysis) with offsetting short positions in nearby surrounding maturities. Elsewhere, this type of RV curve exposure produced narrowly mixed results, with small positives offsetting small negatives.

Bond vs derivative (+0.4%) positions added to returns in March and have recently seen considerably less volatility than movements in yield curve and outright yield levels. Over last month, the gains reflected favourable basis movements between bonds and swap or futures hedges, mostly in the AUD and USD markets.

The Underlying Fund maintains a structural beta exposure to inflation and these positions were flat in March after providing a significant uplift over the preceding year. Inflation beta exposures are implemented through AUD inflation-linked bonds and swaps (with the interest rate risk hedged). Throughout March, market focus on rising commodity prices and global supply constraints pushed AUD inflation expectations higher over the first half of the month, before moderating over the second half following the rise in policy rate expectations (which markets anticipate will somewhat offset inflation pressure down the track). While correlated with global developments, AUD term inflation pricing remains under realised inflation levels and a long way under the historically extreme inflation levels seen in European and US consumer price reports (which is contributing to broader bond market pressure).

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 Underlying 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 Underlying 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 Underlying 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 Underlying 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 Underlying 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 Underlying 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 Underlying 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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Underlying Fund Ratings

Zenith RECOMMENDED

5 Highly Recommended Lonsec Research

MORNINGSTAR Bronze™

Ardea Real Outcome Fund received a Morningstar Analyst Rating™ of 'Bronze' on 17 July 2021

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