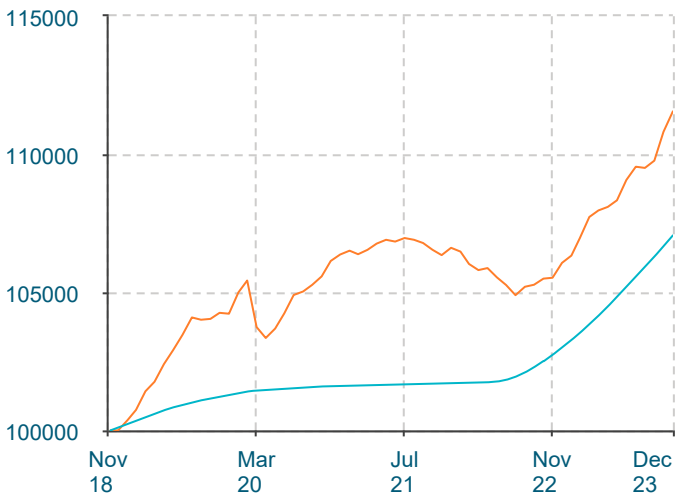
MAPS Fixed Income Portfolio

ATRIUM
Risk Targeted Investing

31 December 2023

Growth of $100,000 since inception



Portfolio RBA Cash Rate

Performance

	Portfolio	Benchmark
Since inception (% p.a.)	2.18%	1.36%
10 Years (% p.a.)		
7 Years (% p.a.)		
5 Years (% p.a.)	2.21%	1.35%
3 Years (% p.a.)	1.60%	1.76%
1 Year	5.17%	
6 Months	2.97%	
3 Months	1.87%	
1 Month	0.67%	

Source: Atrium Investment Management, HUB24. Performance as at the date of this report. The RBA cash rate is only for illustrative purposes and the investment in the fund is of higher risk/return profile and of different asset class, investment objective and fees. Inception date is 6 December 2018. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. Performance figures relate to the model portfolios managed by Atrium. Individual investor portfolio performance may be different from the results above and will differ among clients depending on the timing of their investment and the level of variation from the models. Performance is net of investment management fees, does not take into account platform administration fees that may apply and may not take into account some or all of the rebates you may receive.

Investment objective

To provide investors with access to a diverse portfolio of Australian and global fixed income investment opportunities including fixed and floating rate securities.

Atrium seeks to manage the portfolio with the intention of enhancing the returns derived by cash or cash-like investments over a rolling 3-year period.

Investment strategy

The Investment Portfolio invests directly into Atrium Enhanced Fixed Income Fund providing investors diversified exposure to rates and credit markets.

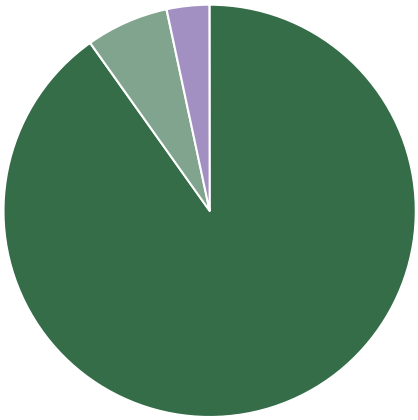
There are several advantages in relation to flexibility for the investor:

- The potential to enhance returns over cash, albeit with incrementally higher risk.
- Low structural sensitivity to interest rate changes, thus mitigating the likelihood of capital losses during periods of rising interest rates.
- Ability to take exposure to a wide range of assets thus broadening the diversification and potential return.
- Being able to invest directly in assets or via external investment managers.
- The ability to take exposure to foreign currency assets and hedge these back to AUD.

Key facts

Inception date	06 December 2018
Product code	AIM105
Investment strategy	Rates & Credit - Active
Benchmark	RBA Cash Rate
Investment horizon	3 years
Liquidity	Daily
Platform availability	HUB24

Asset allocation



●	Rates & credit	90.17%
●	Cash	6.49%
●	Private markets	3.35%

Source: Atrium Investment Management. Asset allocations may change at any time. May not include all open futures or derivatives positions. Cash may include allocations to shorter term rates and credit investments that may at times be subject to capital volatility.

Atrium aims to achieve its investment objectives by investing across a range of asset classes on a global basis that provide exposure to different risk factors.

Each asset is included in the Portfolio for its ability to contribute to returns on a stand alone basis.

The investment universe comprises of 3 broad categories - Preservers, Growth Drivers and Diversifiers.

Preservers

Assets that protect the portfolio during periods of heightened equity market volatility and preserve capital, such as cash, government bonds and high quality investment grade bonds.

Growth Drivers

Assets that are expected to deliver higher rates of return over time with higher levels of associated volatility (risk).
This predominantly comprises equities but also includes other assets that are highly correlated to equities such as listed property and infrastructure.

Diversifiers

Assets that generate additional real returns, with performance that is typically uncorrelated to the growth drivers and preservers within the portfolio.
Importantly, they are a source of portfolio diversification away from equity market and interest rate risks, such as liquid alternatives and private markets.

Top holdings

Holding	Weight	Sector
KAPSTREAM ABSOLUTE RETURN INCOME FUND CLASS I	28.51%	Rates & credit
ARDEA REAL OUTCOME FUND CLASS A	18.11%	Rates & credit
DAINTREE CORE INCOME TRUST	15.96%	Rates & credit
SMARTER MONEY HIGHER INCOME FUND - ASSISTED INVESTOR	13.17%	Rates & credit
JPMORGAN GLOBAL STRATEGIC BOND FUND	8.23%	Rates & credit
CASH POSITION	6.49%	Cash
ROC PRIVATE CREDIT FUND	3.35%	Private credit
KKR GLOBAL CREDIT OPPORTUNITIES FUND (AUD) CLASS A	2.62%	Traded loans and high yield
CQS CREDIT MULTI ASSET FUND CLASS I4 AUD	2.14%	Traded loans and high yield
CQS CREDIT MULTI ASSET FUND CLASS I2 AUD	1.42%	Traded loans and high yield

Source: Atrium Investment Management. Asset allocations may change at any time. May not include all open futures or derivatives positions. Cash may include allocations to shorter term rates and credit investments that may at times be subject to capital volatility.

Market update

The quarter ended 31 December saw a strong recovery in equity and bond markets, due in the main to an increasingly confident view that central banks have tightened policy sufficiently, and that the next move in rates may be lower. The US equity market gained 11.7% for the quarter, the Australian market generated +8.4%. 10-year bond yields fell sharply. Consistent with these moves, the Australian dollar gained strongly, +5.9%, further supported by falling market volatility. Such an environment was also very supportive for credit markets. Commodity prices were generally firm, with the notable exception of oil which fell -20.5% on the quarter.

The US equity market closed out 2023 in very strong fashion, with a substantial 11.7% return for the quarter, and a full year return of +26.3%. What was apparent in the fourth quarter was a broadening out of the positive returns. The earlier part of 2023

had been heavily reliant on around 10 tech / tech-linked names which had driven all of the return, leaving the rest of the market flat. This was somewhat reversed in the fourth quarter, as sectors such as Homebuilders (+34.0%) and Consumer Finance (+29.0%) rose strongly. Information Technology names also did well, but the market was less reliant on these names. To the downside, Oil and Gas-linked sectors fell sharply as the oil price fell, however the key thematic was lower bond yields, and a shorter path to easier financial conditions. Europe gained +6.4% for the quarter, although the key German DAX did significantly better (+8.9%). Emerging Markets lagged, gaining 5.6% in local currency terms despite materially lower US bond yields and a lower US dollar, a combination typically very supportive for Emerging Markets. Looking below the headline number however, it was again China and Hong Kong which weighed on Emerging Markets, highlighting again the importance of considering the large exposure to China in an equity allocation.

The Australian market was also strong, gaining 8.4% for the quarter, and up +12.4% for the full year. The Real Estate sector performed very strongly, reflecting a more optimistic / less pessimistic outlook on the part of investors. The sector was led by major REITs which were trading directly in reaction to the recovery in bond prices, improving the financing outlook. The issues of the Office sector have not gone away, with likely oversupply as office arrangements have changed for most companies, leading to structurally less demand, but this had already been factored in by investors. The Banks gained 9.8% for the quarter. BHP, now well in excess of 10% of the local market, drove the Materials sector higher, supported by rising commodity prices. Healthcare also did well, as CSL and ResMed saw a reversal of prior falls which had been partly linked to the growth in appetite-suppression drugs in Europe and the US. To the downside, Energy was the weakest sector, reflecting the sharp decline in oil prices for the quarter.

Bond markets were again volatile, although from late October yields moved lower into year end, finishing off the year on a very positive note (bond prices move inverse to bond yields). The bulk of the move was caused by lowering inflation prints, and a growing view that central banks may have done enough to temper inflation, and that the next move may be lower to support growth. US 10-year yields fell 69 basis points (bps) for the quarter to close at 3.88%, Australian bond yields fell 53 bps to 3.96%. The Reserve Bank of Australia again hiked the cash rate at the start of November, to sit at 4.35%. Major credit markets delivered substantially positive excess returns for the quarter.

The Australian dollar reversed much of the previous quarter's falls, gaining 5.9% against the US dollar, influenced in the most part by falling bond yields (and associated decline in the US dollar), rising commodity prices, and declining market volatility. Gold prices approached record levels, gaining a very impressive 11.6% for the quarter, also reflecting the fall in interest rates and the US dollar.

Performance

In the December quarter, the Atrium Enhanced Fixed Income Fund delivered a strong return of 1.9%. As credit markets improved significantly and government bond yields declined, the portfolio performed well whilst maintaining a low level of volatility. The returns were primarily driven by strategies centred around corporate bonds and other forms of credit, aimed at providing consistent income while safeguarding capital from short-term market fluctuations.

The Reserve Bank of Australia (RBA) again raised its policy rate in early November to 4.35%. This rise in cash rates will prove advantageous for investors in the fund, enhancing the overall yield.

The Kapstream Absolute Return Income Fund returned 2.1% for the quarter, benefiting from favourable conditions in credit markets. Beginning the quarter with a slightly longer duration than where it has been, and thus benefitted from the decline in bond yields. Duration is a measure of a portfolio's sensitivity to changes in bond yields with a higher duration benefiting more from falling yields but negatively impacted by rising yields. Spread duration (a measure of credit exposure) remained relatively short at 1.5 years, so there was a positive impact from the contraction in spreads. The running yield started the quarter at a very attractive 5.2%, although this has come down slightly over the quarter. The manager remained actively engaged in global rates and credit markets during the quarter, and the portfolio's holding of 78 distinct issuers underscores the level of diversification.

The Daintree Core Income Trust performed well in the December quarter, generating a return of 1.8%. The Daintree portfolio entered the quarter with very low (effectively no) interest rate duration and a longer spread duration of 2.5 years. The running yield at the start of the quarter was 5.9%. The JPMorgan Global Strategic Bond Fund returned 3.3% for the quarter as global bond yields fell, and credit spreads contracted.

The Ardea Real Outcome Fund reversed its prior quarter's strength, returning -1.3%. Consistent with their investment style, the strategy prioritized relative value investments as portfolio hedges and aimed to avoid taking directional positions on interest rates.

Once again, this quarter showcased higher yielding strategies as top performers, with the high yield market and the floating rate loan books delivering positive risk-adjusted results. The manager returns were enhanced by a long position in government bond futures, which reversed prior losses, gaining as bond yields fell sharply.

Portfolio changes

In the past quarter, there were no additions or removals. The fund maintains tactical exposure to a decline in interest rates via a mix of Australian and US Government bond futures. Although this modification had a negative impact on performance during the quarter, we believe it holds the potential to enhance portfolio returns should yields continue to decline.

Outlook

The Portfolio is strategically positioned with a conservative approach, designed to navigate the prevailing volatility and uncertainty in rates and credit markets. Given the ambiguous economic outlook and heightened market instability, we have incorporated duration exposure, in anticipation of potential benefits in the event of further yield declines.

We maintain flexibility to augment our exposure to high yield bonds and bank loans should opportunities arise. Managing credit portfolios during such conditions hinges on our commitment to maintaining high liquidity and substantial diversification. Consequently, we currently hold illiquid investments at less than 5% of the portfolio, emphasizing a preference for more liquid, highly rated debt that can be readily sold should better opportunities emerge.

Although our underlying managers are influenced by the day-to-day price fluctuations in credit markets, the current running yields are in our view attractive.

For more information

If you have any questions, please contact your Financial Adviser or www.atriuminvest.com.au