Atchison Active Long Duration Portfolio

The Atchison Active Long Duration Portfolio offers a bespoke solution as part of your defensive bond asset allocation. Investing across a broad spectrum of bonds and structures, the portfolio combines of fixed income assets with duration exceeding three years to deliver a diversified fixed income solution.

What is the Atchison Active Long Duration Portfolio?

The Portfolio is a diversified separately managed account (SMA) that invests into a curated selection of actively managed funds and specific index-tracking exchange traded funds (ETFs) across the fixed income sector.

The Portfolio has been constructed to provide an exposure to both global and domestic fixed income markets, including government, semi-government and corporate bonds, credit and related instruments with a duration exceeding three years.

Duration refers to the sensitivity of a fixed income asset price to changes in interest rates. Generally speaking, an investor will demand a higher premium for taking on a longer-term investment. A simple banking example, investors seek higher rate of return on a term deposit than on an at-call account.

Fixed income managers and investors similarly have a choice about how much additional return they want to generate by increasing the average time to maturity for bonds held in their fund. This is referred to the ‘duration’ of the portfolio, and broadly is the time (in years) it takes to be repaid through coupon income for the initial outlay of the bond. However, the additional return on offer comes with a catch. The longer the duration, the greater the sensitivity of the value of the bond or portfolio to movements in interest rates.

For an asset where duration is three years, a one per cent increase in bond yields is expected to produce a three per cent fall in the value of the investment.

The decision-making framework is guided by Atchison’s firm philosophy and investment approach.

The Portfolio is actively managed, from an asset allocation and investment selection perspective. It carries the ‘Active’ name due to the selection of both actively managed funds that seek to outperform their benchmark and specific index-tracking investments.

The Portfolio aims to generate returns from active asset allocation and investment selection decisions, that take into consideration the expected impact of, for example, inflation, the direction of interest rates, duration position, credit and sector risk. The Portfolio is diversified across countries, sectors, issuers, credit ratings, fund managers, and is continuously reviewed and adjusted by Atchison to ensure the Portfolio remains appropriately positioned to deal with evolving investment and economic conditions.

Given the nature of investments in fixed income markets, the minimum suggested timeframe for investors in this portfolio is 3 to 5 years.

The Portfolio can hold up to 10 investments, with a minimum of two, with the average being six to seven underlying funds. An example of the underlying holdings and funds within the portfolio includes:

Asset Allocation:

The Portfolio must invest according to the asset allocation range in the table below. The Portfolio is intended to be always invested, with the exposure range for cash included to allow for portfolio changes to be implemented over a reasonable period. Atchison will not use the cash weighting to express views on macroeconomic or valuation conditions.

	Range
Australian Diversified Fixed Interest	0 – 99%
Global Diversified Fixed Interest	0 – 99%
Cash	1 – 15%

What is the objective of the Portfolio?

Provide returns above fixed interest markets over rolling 5-year periods, benchmarked against the FE AMI Fixed Int - Global Bond peer index. The Portfolio is suited for investors seeking to generate income but is subject to the risk of market conditions. Long duration assets have historically performed strongly during periods of economic uncertainty and recession, benefitting from both a rush to safe-haven assets and the resultant cuts in interest rates.

A Portfolio solely invested in fixed income is deemed to have lower returns and lower risk than shares. When combined with complimentary Atchison asset class portfolios enables the financial adviser to create efficiently tailored and customisable diversified multi asset class, multi-manager solutions.

Fund facts

- Minimum Suggested Investment Timeframe: 5 Years
- Investment Objective: Provide returns above fixed interest markets over rolling 5-year periods. As measured against 50% IAF (Aus Bond Composite ETF) and 50% IHCB (Global Aggregate Corporate Bond AUD Hedged ETF). These investible ETF's track flagship globally recognised benchmarks for government bonds and corporate credit bonds across Australia and global markets.
- Benchmark: FE AMI Fixed Int - Global Bond peer index
- Investment Universe: Managed Funds, ETFs, cash
- Number of Holdings: 2 - 10
- Standard Risk Measure: Low
- Managed Account Fee: 0.401% p.a.
- Minimum Investment Amount: $5,000

How does Atchison invest?

- **It starts and ends with risk:** The basis of all investment decisions is a focus on identifying and managing risk and nowhere is this more important than in alternative asset classes. Atchison's are advocates of the diversification and return benefits of material allocation to the asset class.
- **Asset allocation is the primary driver of returns:** Research consistently shows that asset allocation decisions drive as much as 90 per cent of returns. Atchison believes in the value of a more granular approach to asset allocation and the role of long duration assets in a portfolio.
- **Liquidity is your friend:** Illiquidity is too commonly seen as resulting in less risk associated with an investor but requires investors to give up on flexibility and optionality. We believe liquidity is paramount within the core of portfolios and thus is the focus of this sleeve.
- **Costs matter:** While we believe that investment fees should be kept to a minimum, our own research has shown that certain asset classes offer the potential for significant outperformance. Our focus remains on paying higher fees only where the investment offers something truly different.
- **Active management can smooth returns:** The fast-evolving nature of investment markets warrants a greater focus on the smoothing of volatility. This is best achieved by blending active managers and passive funds but ensuring any cancellation effects are minimised.

Why trust Atchison?

- **Active management:** Atchison are proponents of active management, at both the asset allocation and investment selection level. Atchison blends both low cost, index-tracking investments with actively managed funds and ETFs to seek the best outcome for investors.
- **Investment expertise:** You can be at peace knowing this portfolio is being constantly monitored and managed by our specialised and experienced investment team, with over 20 years of history supporting institutional investors and financial advisers.

- **Institutional history:** With our groundings in risk analysis, approved product list (APL) and independent research projects, we bring a truly institutional mindset to the management of all portfolios.
- **Communication:** We believe in absolute transparency, highlighting what worked, what didn’t work, and how we are fixing it. We provide monthly market updates reviewing the Portfolio including attributions and contributions / graphs and charts / detractors and contributors.
- **True diversification**: We view diversification through multiple lenses, not only the selection of fund managers. This extends into company, sector, style, currency, and revenue factors among others, aiming to reduce the exposure to any single source of risk.

Key Risks:

Investing in Atchison Active Long Duration Portfolio can offer diversification and a well-rounded approach to managing your long duration bond investments. However, like all investment opportunities it carries certain risks, including, market risk, asset allocation risk, manager risk, liquidity risk, interest rate risk, credit risk, inflation risk, tax implications, diversification risk, duration risk and compliance risk.

Ensure before proceeding, you are receiving professional advice from a qualified and registered financial planner before considering this product, or any investment product.

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- When investing in long-duration assets, it is essential to be aware that exposure to foreign currency fluctuations naturally occurs. In cases where this exposure is not hedged, it is important to recognise that changes in foreign exchange markets can significantly affect the overall return on an investment. These effects can be both positive and negative and are independent of the performance of the underlying assets.
- While diversification is a valuable strategy, it's important to acknowledge that it may not fully mitigate systematic risk, such as the risk associated with an economic crisis, which could impact all long duration holdings.
- In the short term, long-duration bonds can exhibit substantial volatility, meaning that the value of your investment will fluctuate. Consequently, investing in long-duration bonds should be approached as a long-term strategy, with a minimum investment horizon of 5 years.

Warnings: Past performance should not be relied upon as a dependable indicator of future performance. Before making any investment decisions, it is essential for the reader to consider whether it aligns with their personal financial circumstances or seek independent financial advice regarding its suitability. If the financial advice pertains to acquiring or potentially acquiring a particular financial product, it is advisable for the reader to obtain and review the Investment Statement or Product Disclosure Statement for each financial product before making any decisions regarding its acquisition.

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