31 December 2021

MAPS Fixed Income Portfolio

INVESTMENT OBJECTIVE

To outperform the RBA Cash Rate by 2% (net of fees) over a rolling 3 year period.

PERFORMANCE	Since Inception p.a.	2 Yrs p.a.	1 Yr	6 Mths	3 Mths	1 Mth	Vol S.I. p.a.	Sharpe Ratio
MAPS Fixed Income Portfolio	2.1%	1.1%	0.2%	-0.2%	-0.2%	0.2%	1.4%	1.1
RBA Cash Rate	0.5%							

KEY HIGHLIGHTS

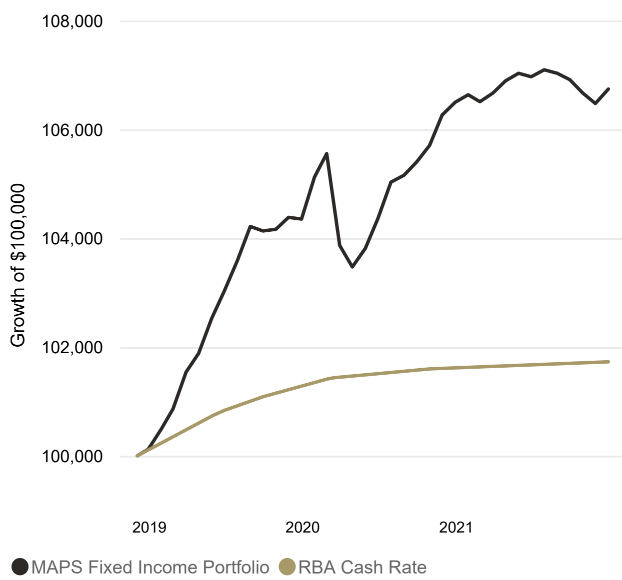
The MAPS Fixed Income Portfolio saw a negative quarter, returning -0.2% as bond yields rose, and credit markets were increasingly volatile. The Portfolio continues to display relatively low volatility compared to peers in this environment, and importantly does not take material exposure to the direction of interest rates.

Across the manager set, the CQS Multi Asset Credit Fund delivered a positive return for the quarter with a focus on the High Yield and Loan markets. The MCP Wholesale Investments Trust also finished the quarter positive as its portfolio of Australian income-generating loans remained very stable.

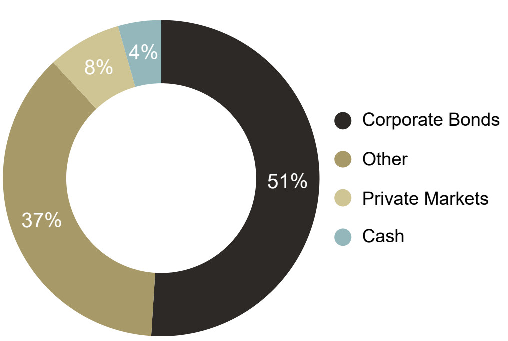
The Kapstream Absolute Return Income Fund fell slightly for the quarter, but a stronger December month reflected the manager's move to reduce risk and reflected the higher quality aspects of the fund's holdings.

The Smarter Money Higher Income Fund was also a detractor from performance as the fund's exposure to Australian semi-government debt was impacted by concerns over deteriorating state finances, a direct impact from the pandemic.

PERFORMANCE (SINCE INCEPTION)



ASSET CLASS EXPOSURE



TOP 5 EXPOSURES

SECURITY NAME
Kapstream Absolute Return Income Fund
Daintree Core Income Trust
Ardea Real Outcome Fund
Smarter Money Higher Income Fund
JP Morgan Global Strategic Bond Fund

Source: Atrium, Iress. Allocations as at the date of this report.

Source: Atrium, Iress. Performance shown as at the date of this report. Inception date is 1 September 2015. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. Performance is after fees and costs and assumes re-investment of all distributions.

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MARKET COMMENTARY

The December quarter saw a further rise in equities, dominated by a strong performance in the US (+11.0%) as the market closed the quarter by hitting a record high. The Australian S&P/ASX 200 index generated +2.1% for the quarter. Bond yields rose in general, the US dollar firmed as did the Australian dollar, and market volatility (as represented by the VIX) declined, despite seeing a sharp bounce in November.

While the US market saw a further strong positive quarter and finished on a series of record highs, this was on weaker trading volumes. Beneath the surface, the recent rise in bond yields has caused an important change; Information Technology, the largest sector in the US market, is no longer leading the gains. The Nasdaq index, which has a greater exposure to technology, generated a return of 8.4% reflecting this change of leadership. One "new economy" stock which did perform very well again, was electric vehicle manufacturer Tesla (+36.3%), despite unusual statements from the founder around reducing his holding in the stock. Automobile manufacturing was the second strongest sub-sector of the market led by Tesla – second only to Real Estate Investment Trusts, but perhaps more impressively, Ford which gained 47.0%. Banks lagged the market, as the flattening yield curve has the potential to negatively impact earnings, and COVID-sensitive sectors such as Airlines and Casinos, were amongst the worst performers as the Omicron strain hit markets.

European markets underperformed slightly over the quarter, returning 7.7%. Emerging markets were negative for the quarter (-0.9% in local currency terms), perhaps the most notable was Turkey where the market generated 32.1% in local currency terms but fell -11.2% when measured in US dollar terms due to the collapse of the currency, as the central bank took a highly unusual approach to dealing with inflation. Brazil was also sharply negative as the local central bank continues to hike rates aggressively, and Russia was weak. The Hong Kong market fell -4.7%, as Chinese tech continues to be hit by policy pronouncements in China.

The Australian equity market saw further quarterly gains, generating 2.1%. The banks were a key focus, particularly Westpac (-17.9%), as earnings were weaker than expected, and investors focused on the implications of the flattening yield curve on net interest margins, and inevitable lingering concerns around the sustainability of house prices. At the lead was Consumer Services, led by perennial underperformer Telstra, which returned 6.4%, partly on policy driven support for its Asian network. Financials declined -3.7%for the quarter, although there was substantial dispersion within this. Macquarie Group continued its rise, +12.9%, while Magellan Financial Group struggled into year-end, -40.0% for the quarter.

Bond markets remain a key focus for global markets, given the sharp increase in recorded inflation over the latter part of 2021. The increase had been put down to temporary factors – by both the market, and by central banks – although this has been increasingly questioned. Headline inflation printed at 6.8% for November (with the more important core measure at 4.9%, a number not seen since the early 1990s), and the US Federal Reserve seemed somewhat panicked, indicating in December that the tapering of its bond purchases would proceed at a quicker pace, and that rate rises should be expected over 2022. The pressure was understandably felt more at the short end (2 yr US bond yields rose 46 basis points (bps) over the quarter), and the long end was relatively stable (+2.3bps to 1.51%). Australian bond yields were under greater pressure, rising 18 bps to 1.67%, with most of the damage done in October when the Reserve Bank of Australia was seen as making a clumsy exit from its previous policy of supporting short-dated bond yields. Credit markets were slightly weaker over the quarter.

The Australian dollar reversed a run of three consecutive declines, rising 0.9% to 0.728 against the US dollar, although it remains near the lower end of the recent trading band. The US dollar rose on a trade-weighted basis, often seen as a positive for global risk markets. Despite the rise in the US dollar, gold generated +6.1% for the quarter (as real – inflation adjusted - bond yields declined quite sharply), and oil clocked up its seventh consecutive quarterly rise.

PORTFOLIO COMMENTARY

The MAPS Fixed Income Portfolio saw a negative quarter, returning -0.2% as government bond yields rose and credit markets were increasingly volatile. The Portfolio continues to display relatively low volatility in this volatile rates and credit environment. Importantly, we have attempted to position the Portfolio to be shielded from excess volatility as we do not take material exposure to the direction of interest rate markets, instead continuing to focus on strategies in high quality corporate bonds and other forms of credit.

The Reserve Bank of Australia (RBA) maintained its record low policy rate of 0.10% for the period, however at the end of October caused a series of sharp moves in the local government bond market as it was forced to abandon a previous commitment under its quantitative easing program. The policy rate is expected to remain at extremely low levels, although markets are now assuming the RBA will hike rates a number of times over 2022.

Looking at the individual managers in the Portfolio, the CQS Multi Asset Credit Fund was one of only two portfolios with a positive return for the quarter, highlighting the difficulties many managers had in navigating the volatile rates and credit markets. Lower rated credit markets on some measures outperformed higher quality credit, and as the CQS strategy is focussed mainly on High Yield and Loan markets, allocating capital between these market segments. This led a strong quarterly outcome of +0.9%. The MCP Wholesale Investments Trust (managed by Metrics Credit Partners) continued to provide a higher yield and finished the quarter with a positive +1.2%, as this portfolio of Australian income-generating loans remained very stable.

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PORTFOLIO COMMENTARY

On a negative side, the Kapstream Absolute Return Income Fund fell -0.2% for the quarter, although the fund was one of the more stable (lower volatility) for the period, as the manager has reduced the risk level of the portfolio. The portfolio started the quarter with a spread duration of 2.8 years, an average credit rating of A- (that is, investment grade), and an interest rate duration of a very low 0.4 years. These numbers reflect the higher quality aspects of this fund's holdings in the current environment. The Kapstream holding generated positive performance in December after a slower start to the quarter.

The Smarter Money Higher Income Fund suffered during the quarter following on a difficult September quarter. Much of the negative impact was felt through semi-government debt, where the manager holds exposure, as this market has been impacted by concerns over deteriorating state finances, a direct impact from the pandemic.

The Daintree Core Income Trust was also negative for the quarter, positioned with a spread duration of 3.86 years and an average rating of A. The Ardea Real Outcome Fund was slightly negative for the quarter (-0.2%), being heavily impacted by the significant volatility seen in global bond markets in late October, particularly in Australia. This negative impact was not driven by one or two positions, rather the overall portfolio saw an increase in position correlations over that period. However the fund recovered into quarter end, supported by a number of US relative value positions, along with a rise in market expectations for inflation. The JP Morgan Global Strategic Bond Fund declined 1.2% over the quarter.