30 June 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 Since Inception p.a.	Sharpe Ratio
MAPS Fixed Income Portfolio	2.7%	1.9%	2.5%	0.4%	0.3%	-0.1%	1.5%	1.3
RBA Cash Rate	0.6%							

KEY HIGHLIGHTS

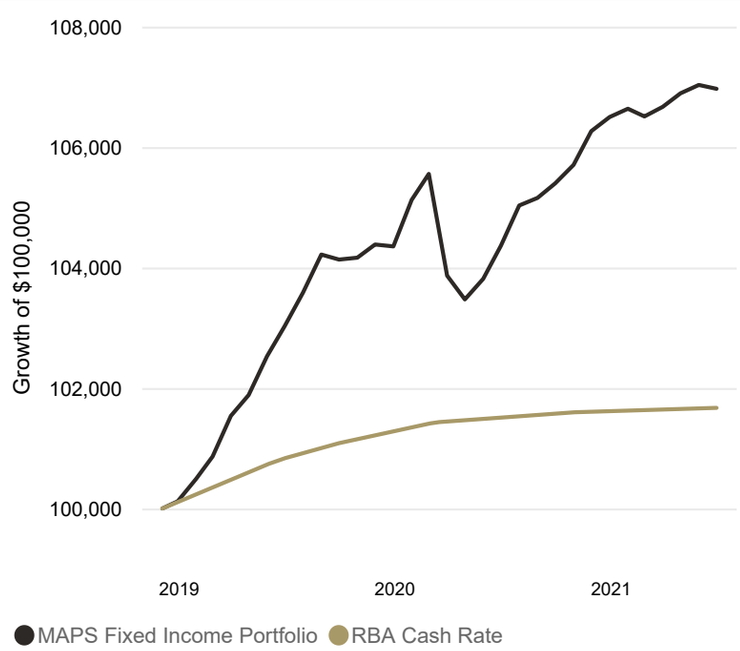
The MAPS Fixed Income Portfolio saw positive performance in the second quarter of 2021, returning 0.3% over the quarter.

The major realignment of the Portfolio in late 2020 has impacted positively on portfolio returns. The aim of these moves was to further diversify the exposures across managers and types of strategies within the Portfolio, and this is likely to continue into the new financial year.

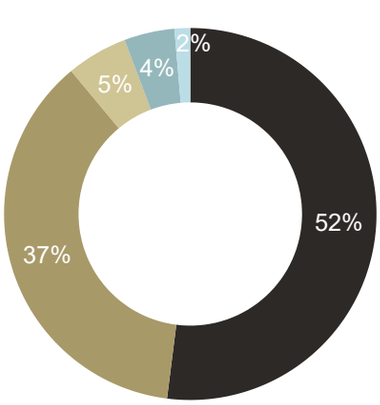
Across our longer-standing investments, the Daintree Core Income Trust returned 0.8% for the quarter and a strong 3.7% over 12 months. The loan exposures in the Metrics Credit Wholesale Income Trust continued to provide a higher yield and finished the quarter with 1.1%, with very little month to month volatility.

A number of private credit exposures matured or were bought back in the first half of 2021, having provided substantially higher returns on a small part of the portfolio over the period for which they were held.

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 6 December 2018. 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.

30 June 2021

INTEGRATED MAPS

MAPS Fixed Income Portfolio

MARKET COMMENTARY

The June quarter saw a continued rise in equity markets, with a number of markets, notably the US and Australia, making a series of record highs. In part, particularly late in the quarter, there was a move to re-think the reflationary theme which had driven markets over the prior 6 months. The growing impact of the delta variant of COVID-19, along with signals from some central banks that rate hikes may be closer than previously indicated, saw longer dated bond yields decline given what rate hikes mean for activity and inflation further out. The quarter saw the Australian dollar decline, against a broadly-unchanged (trade-weighted) US dollar.

US equities saw another very positive quarter, generating a return of 8.5%. Consumer Financials were conspicuous with a 19.8% return, led by sharp moves in Discover Financial Services (+24.5%), and Capital One. Steel was strong (+19.5%) as Nucor rose, and the Oil and Gas Exploration sector also generated strong gains (+15.6%) as the oil price continued to rise. To the downside, it was mainly COVID-sensitive sectors which lagged, with Airlines (-11.4%), Hotels (-4.0%), Casinos (-2.3%) and Movies (-2.2%) standing out against the gains in the overall market. Europe generated a +4.9% gain, with France being a standout outperformer (+9.1%, as LVMH gained sharply), Germany standing out as a weaker market (+3.5%). Emerging Markets were mixed for the quarter, with Russia benefitting from the strong move in oil prices, returning +10.7%. Brazil was firm (+8.7%) despite tightening policy numerous times in the first half, and key tech markets, South Korea and Taiwan were also firm (+5.9 and 8.4% respectively). China rounded out its first half underperformance, one factor being increased regulatory pressure being applied to companies affiliated with a number of well-known local entrepreneurs.

The Australian equity market saw further substantial gains, returning 8.3%. Although small by comparison to other major markets, the Information Technology sector led the S&P/ASX 200 index, rising 12.1% for the quarter. IT was led in particular by Megaport (+66.2% on a strong quarterly update) and Iress (+40.6% on M&A activity). Consumer Discretionary also performed well (+11.2%), while Utilities (-4.5%) and Energy (-2.8%) lagged. It was of some interest that 2 sectors, Real Estate and Financials, were slightly below the overall market. Real Estate has performed well, despite an ongoing COVID hit to CBD properties, as residential property prices remained extremely strong due in part to limited supply. Financials were paced by HUB (+37.3%) and Netwealth (+27.2%) as these platforms continue to add significant user numbers, although it was CBA which was a key driver, rising 16% and reaching a price of $100 for the first time late in the quarter.

Bond markets recovered sharply, clawing back a part of the prior quarter's losses, and markets started to rethink the inflation and longer term growth outlook for major economies. Importantly, the US Federal Reserve highlighted that the timeframe over which rates will remain at close to zero has shortened, reflecting an improved economic outlook, and inflation readings above 2% over the horizon. Short-dated US treasury yields rose slightly, however 10-year treasury yields fell 27 basis points (bps) as typically occurs when a central bank indicates a shift – no matter how far off – towards a tightening of policy. In Australia, all eyes were on the Reserve Bank of Australia's meeting just beyond quarter end, to ascertain updated guidance on the RBA's thoughts as to extending quantitative easing, particularly given some very strong data on the labour market. 10-year Australian Government bond yields fell -26bps to 1.53%. In addition, a very sharp underperformance was seen in semi-government debt, following the COVID-induced lockdown in New South Wales late in the quarter. Broader credit markets remain firm in general.

The Australian dollar saw its second consecutive quarterly decline, falling 1.3% to 0.75 US dollars, reflecting a recovery in the US dollar later in the quarter. Gold rose over the quarter reflecting the decline in real yields. Elsewhere, Bitcoin crumbled by almost 50% from its 2021 highs, amidst heightened volatility.

PORTFOLIO COMMENTARY

The MAPS Fixed Income Portfolio saw positive performance in the second quarter of 2021, returning 0.3% as credit remained firm and bond yields declined, reversing a sharp rise earlier in the year. The Portfolio continues to display low volatility attributes in an environment where interest rate markets have seen a material swings over the past six months. Importantly, we have positioned the Fund to be shielded from much of this volatility as we have oriented away from interest rate markets, rather selecting strategies in the Corporate Bond sector.

Over the quarter, the Reserve Bank of Australia maintained its record low policy rate of 0.10%, and importantly gave strong indications that it is unlikely to move interest rates higher in the next few years.
The major realignment of the Portfolio in late 2020 has impacted positively on portfolio returns. The aim of these moves was to further diversify the exposures across managers and types of strategies within the Portfolio, and this is likely to continue into the new financial year.

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The Kapstream Absolute Return Income Fund returned 0.2% for the quarter. The weighting of the exposure in the Portfolio has come down materially over recent quarters, as previously highlighted. The fund's returns were lower this quarter due to lower-risk (and therefore lower yielding) credit, and a number of alpha trades which went against the manager in the rates exposure, notably an 8 basis point loss on Canadian sovereign bonds in June. The manager still forms a key part of the MAPS Fixed Income Portfolio exposure, managing a short-dated high-quality corporate bond portfolio.

MAPS Fixed Income Portfolio

PORTFOLIO COMMENTARY

The Portfolio's exposure to the CQS Credit Multi-Asset Fund performed strongly, delivering 2.0% for the quarter benefiting from the high yield available in its core markets (European and US high yield bonds, loans, and asset backed securities).

The Ardea Real Outcome Fund (AROF) had a difficult June quarter, mainly as a result of sharp bond market reversals in the month of June. The fund has an 'inflation plus' objective, and as such holds structural exposure to the inflation linked markets. In June, as markets moved away from the reflationary theme, these inflation hedges suffered. The strategy seeks to capture pricing anomalies in global interest rate markets. AROF ended the quarter in negative territory, returning -0.27%, however over 12 months the strategy has returned +3.03%, well in excess of EFIF's target over a year.

The Smarter Money Higher Income Fund (SMHI) was the second major new exposure added to the Portfolio in the second half of 2020. SMHI returned -0.10% for the quarter, after having tracked well for April and May, before being lower into June year end. Performance came off late in the quarter as the COVID-induced lockdown in New South Wales coincided with the release a worse-than-expected budget. As a result, semi-government debt, which comprised 52.6% of the portfolio at June end, struggled, although the manager is confident that these short term losses will be recovered in coming months, based on its extensive research into state government finances.

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