30 September 2021

MAPS Fixed Income Portfolio

INVESTMENT OBJECTIVE

To deliver positive absolute returns through a diversified portfolio of alternative investment strategies. The Portfolio Manager will seek to deliver these returns in a risk-controlled manner, targeting total expected portfolio risk of 4-6%

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	2.4%	1.3%	1.4%	0.2%	-0.1%	-0.1 %	1.5%	1.2
RBA Cash Rate	0.6%							

KEY HIGHLIGHTS

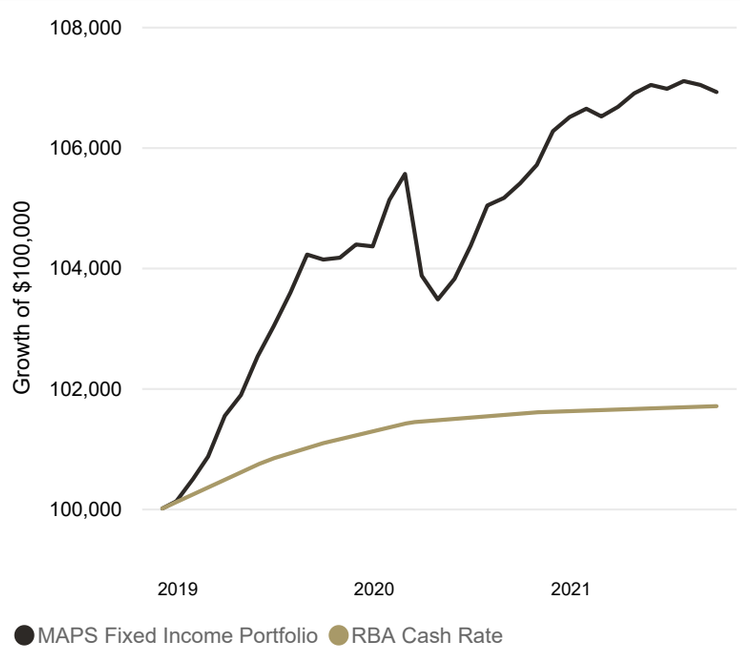
The MAPS Fixed Income Portfolio saw a rare negative quarter, returning -0.04% as bond yields rose, volatility rose, and credit markets were slightly weaker. The Portfolio continues to display low volatility in an environment where both interest rate and credit markets have seen significant swings over recent months.

Across the manager set, Kapstream Absolute Return Income Fund delivered +29 basis points (bps) for the quarter, although the fund was broadly flat in the month of September as credit spreads widened. The main positive contributor to the Kapstream performance over the quarter was positioning in the yield curve, and it is important to note that the overall yield on the portfolio is attractive, ending the quarter at approximately 150bps above the overnight cash rate.

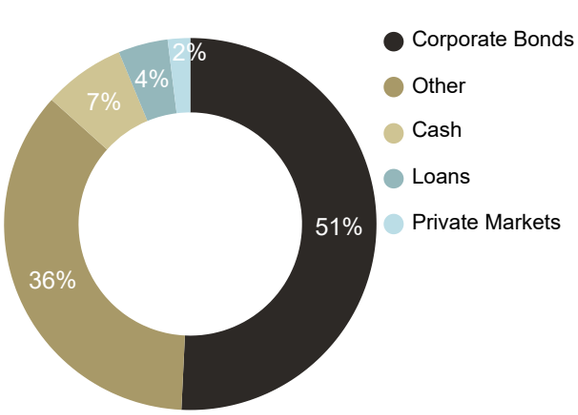
The Smarter Money Higher Income Fund returned -0.14% for the quarter, mainly driven by volatility in July and August in the semi-government bond market.

The very small allocation to private credit exposures continued to provide substantially higher returns over the quarter.

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 September 2021

INTEGRATED MAPS

MAPS Fixed Income Portfolio

MARKET COMMENTARY

The September quarter was a generally firm period for risk assets, with equities making gains (and in many instances record highs), although the gloss was taken off in September as markets pulled back on a range of concerns (slower growth, higher inflation, Chinese property developers, the US debt ceiling, and withdrawal of central bank liquidity). Bond yields remained in recent ranges, and the Australian dollar fell, and markets focussed on a series of significant moves across commodity markets.

US equities saw a positive quarter, generating 0.6%, although the month of September saw losses across all major sectors with the exception of Energy which bounced 9.4% for the month. Over the quarter, Financials was the strongest segment of the market, returning 2.7% and it was the more defensive sectors which outperformed. Utilities ground out a 1.8% return, followed by Telecommunications and Healthcare. Losses were seen in Materials (-3.5%) and Industrials (-4.2%) reflecting the ongoing uncertainty around economic growth, inflation and commodity prices. Large caps outperformed small caps. The European market performance (+0.7%) was in line with that of the US, although there was more interest in developments in Emerging Markets. The EM complex as a whole returned -6.7% in local currency terms, however there was significant dispersion within this. Russia performed strongly (+9.2%) as the oil price continued its rise. At the other end, Brazil was a standout (-12.5%) as the local central bank continued to tighten policy, as were a number of markets linked to China, which in turn declined 10.4% following the sharp June quarter decline. Local regulators continue to crack down on a number of sectors, and perhaps more importantly deal with the fallout from the hugely-indebted local property developer Evergrande which is teetering on default.

The Australian equity market saw further quarterly gains, returning 1.7%, despite the 1.9% decline in September. Unusually, both the leading and the lagging sectors were both part of the resources segment of the market. Energy was very strong, reflecting the substantial ongoing rise in oil prices (West Texas Intermediate oil rose 3.1% for the quarter, and is up 86.0% over 12 months), whilst the Materials index fell -9.9%, with the slide in iron ore prices being a major contributor leaving Fortescue and BHP materially lower over the period. As noted previously, the cessation of the dual listed structure for BHP also contributed to its substantial fall on the local market. Away from resources, the Financials were a standout, led by significant ongoing gains in Pinnacle (+31.3%) and Macquarie Group (+16.3%), and the 4 major banks were generally stronger. Small caps outperformed again, generating 3.4% for the quarter, although over 12 months large and small cap returns are broadly in line.

Bond markets stabilised as investors continued to take a stance that inflationary pressures are transitory, and thus likely to reverse or stabilise. Markets also watched closely for signals from the US Federal Reserve on the direction for policy, given how important quantitative easing has been in keeping bond yields low. The Fed is approaching a tapering of its monthly buying into year end, however the policy rate is unlikely to move in the next 12 months or more, limiting any rise in yields. Having said this yields reversed course in early August, rising into quarter end, and leaving the market broadly unchanged for the period as a whole. US 10-yr treasury yields were fractionally higher at 1.48%. Australian bond yields fell slightly over the quarter (-4 bps to 1.49%), as the Reserve Bank of Australia remains very cautious on its view for its policy rate which is expected to remain unchanged until at least 2024, and downplayed its role in managing the obvious implications for the local housing market.

The Australian dollar saw its third consecutive quarterly decline, falling 3.6% to 0.721 US dollars, despite the significant move higher in the coal price (+69.0%). Iron ore (-35.3%) on the other hand, fell very sharply on concerns about demand from China.

PORTFOLIO COMMENTARY

The MAPS Fixed Income Portfolio saw a rare negative quarter, returning -0.04% as bond yields rose, volatility rose, and credit markets were slightly weaker. The Portfolio continues to display low volatility in an environment where both interest rate and credit markets have seen significant swings over recent months. Importantly, we have attempted to position the Portfolio to be shielded from much of this 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.

The Reserve Bank of Australia maintained its record low policy rate of 0.10% for the period, and importantly continues to indicate that it is unlikely to move interest rates higher until 2024 at the earliest, unless inflation (and particularly wage inflation) picks up on a sustained basis. However, during the quarter the RBA did reduce the amount of monthly government bond purchase under its quantitative easing program.

Across the manager set, Kapstream Absolute Return Income Fund delivered +29 basis points (bps) for the quarter, although the fund was broadly flat in the month of September as credit spreads widened. The main positive contributor to the Kapstream performance over the quarter was positioning in the yield curve, and it is important to note that the overall yield on the portfolio is attractive, ending the quarter at approximately 150bps above the overnight cash rate. The JP Morgan Global Strategic Bond Fund returned 19bps for the quarter, with the level of yield across the portfolio providing some offset against market volatility. The third of the external strategies, and that with the greatest performance for the quarter, was the CQS Multi Asset Credit fund. As noted above, lower rated credit outperformed higher quality credit, allowing the strategy to move between market segments across the high yield and loan markets. The strategy performed strongly, at +1.1% for the quarter. Finally, 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.

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PORTFOLIO COMMENTARY

Offsetting the positives across the portfolio, weakness was seen in three externally managed strategies. While these strategies continue low-volatility returns broadly in line with their return objectives, the Daintree Core Income Trust was lower in September as yields rose and spreads widened. The Ardea Real Outcome Fund also had a difficult quarter on the back of short term moves in the shape of the yield curve (particularly in Australia and the US), although the manager has conviction that these positions reflect attractive pricing. The Smarter Money Higher Income Fund returned -0.14% for the quarter, mainly driven by volatility in July and August in the semi-government bond market. The semi-government bond market is where the states of Australia borrow, typically at a small spread to Commonwealth bonds. This spread moved wider in July and August, partly as a result of market concerns around the finances on New South Wales in particular, although these fears eased into the end of the quarter, allowing the bonds to recover to the benefit of this strategy.

The very small allocation to private credit exposures continued to provide substantially higher returns over the quarter.