

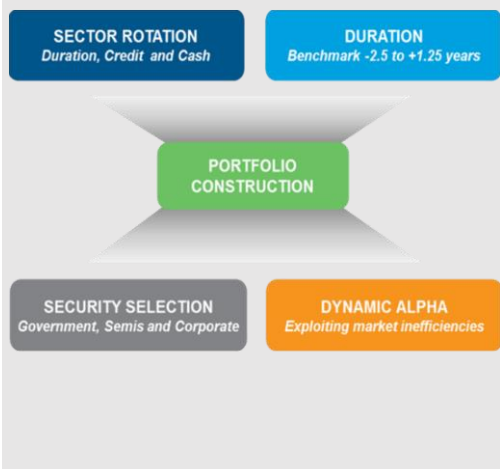
### Investment objective

Aims to outperform the Bloomberg AusBond Composite 0+ Yr Index over the medium term (before fees) by using an active investment strategy. It aims to provide regular income and a moderate level of growth.

### Key information

Fund details	
APIR code	MAQ0061AU
Inception date	15 May 1995
Fund size	\$277.0m
Distribution frequency	Quarterly
Management fee*	0.390% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	<a href="http://macquarie.com.au/unit_prices">macquarie.com.au/unit_prices</a>

\*Read the Product Disclosure Statement for more details on fees and costs.



### Fund performance to 30 September 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
<b>1 month (%)</b>	-1.38	-1.42	-1.52	0.10
<b>3 months (%)</b>	0.53	0.43	0.31	0.12
<b>1 year (%)</b>	-0.93	-1.33	-1.54	0.21
<b>2 years (% pa)</b>	1.56	1.11	0.81	0.30
<b>3 years (% pa)</b>	4.83	4.35	4.13	0.22
<b>5 years (% pa)</b>	3.67	3.18	3.06	0.12

#### Past performance is not a reliable indicator of future performance.

Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions.

Total net Fund returns are quoted after the deduction of fees and expenses. Due to individual circumstances, your net returns may differ from the net returns quoted above.

The management fee was reduced to 0.390% pa from 8 January 2021.

Benchmark is Bloomberg AusBond Bank Bill Index

### Asset allocation

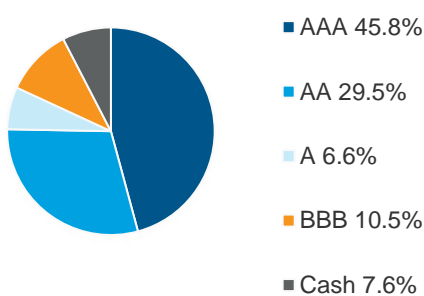
(based on physical exposure)

	Fund (%)
Government	32.0
Credit	31.6
Semi-Government	28.8
Cash and Equivalents	7.6

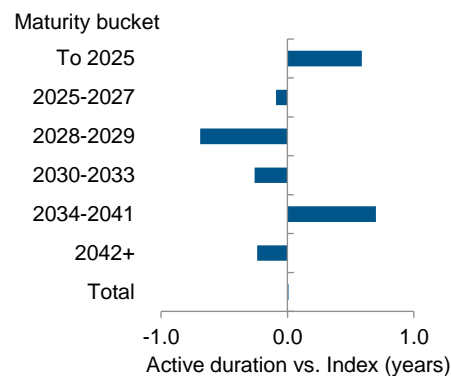
### Fund statistics

Credit spread duration	1.0 years
Interest rate duration	5.9 years
Yield to maturity (% pa)	1.42%

### Credit profile breakdown



### Curve positioning breakdown



# Macquarie Australian Fixed Interest Fund

Monthly report – 30 September 2021

## Fund highlights

The Fund outperformed the benchmark this month, with all three alpha sources contributing to performance.

### Duration and curve

The Fund's duration positioning is optically neutral though still short US versus Australia. Yields rose this month, reversing most of the rally from earlier in the quarter, so we took off the duration short following the move by adding in the front-end of the swap curve. The carry and roll are attractive particularly in comparison to the benchmark Australian Commonwealth Government Bond (ACGB) in the same part of the curve, and this exposure should trade lower beta to the rest of the curve. We remain short US versus Australian duration given our view that the RBA lags its counterparts in withdrawing policy accommodation, and the terminal rate here is likely to be lower given high household debt and the proportion of it, which is held in floating-rate mortgages which makes serviceability a risk.

### Sector rotation

The Fund's sector positioning has evolved this month as we have added semi-government sector exposure. We saw a swathe of state government issuance, and in new primary deals we added semi-government exposure to the Fund at attractive levels. The deals were sizable which should mean a small breather from issuance, and the end of the Committed Liquidity Facility (CLF) should provide a tailwind for semi-government bonds. It is noted that the implementation of the Prudential Standard APS 117 changes relating to interest rate risk in balance sheets have been pushed out to 2024, and that means that balance sheets of Authorised Deposit-taking Institutions may be less incentivised to shift into longer-dated semi-government tenors. Semi curves can remain steeper as the state governments continue to term out their issuance to take advantage of lower outright yields.

The Fund's credit positioning contributed positively to the outperformance relative to the benchmark in September despite the underperformance in Australian credit. The outperformance in the belly of the credit curve also helped drive the outperformance over the month.

### Security selection

The Fund's security selection has been overweight to the ultra-long ACGBs given their steepness relative to global curves. Our semi-government exposure increased via primary deals, which tended to come with a new issue concession. We participated in both the Treasury Corporation of Victoria 2035 Sustainability Bond and the Queensland Treasury Corporation 2032 Green Bond. Most of these deals were slightly longer-dated, which meant the composition of the semi-government holdings has shifted longer in tenor, where spread curves are also steeper. NSW outperformed following the sale of WestConnex and we took the opportunity to switch some NSW paper into the other states given NSW still has a lot to issue, and while WestConnex slightly reduced their funding task they will need to make offsetting upward revisions due to the extended lockdown.

The Fund's credit security selection contributed to the outperformance over the month as the Fund continued to benefit from the higher than benchmark carry. Over the month, the Fund participated in primary transactions from issuers such as Qantas, Waypoint REIT, PROSPARous 2021-1 and ZIP 2021-2.

## Market review

With vaccination rates pushing higher and recovery (albeit stuttering) underway, it is not a surprise to hear from policy makers that they are considering withdrawing the huge stimulus support injected into the economy. Worker assistance schemes in many countries have either ended or been nearing an end, so fiscal support is already turning into fiscal drag. In September, the US Federal Reserve (Fed) and Bank of England sent signals that they are ready to taper their quantitative support. With rising asset prices the clear winner of global policy maker efforts, the prospect of this being reduced is causing some concern. On top of this, commodity prices (oil and natural gas prices in particular) are launching higher. This is fuelling inflation fears.

Bond yields have continued to trek higher, with the more hawkish-than-expected Fed meeting igniting an acceleration. Yield curves are steepening, with short rates protected by the prospect of target rates remaining on hold while longer rates embracing increased concerns that inflation will run 'hotter' for longer.

Risk markets have baulked but this came of tight levels, and credit spreads in fact ended the month unchanged or tighter. Emerging markets debt underperformed, with a stronger dollar and negative headlines coming from China the key drivers.

### Australian bond market

Yields rose in September in line with the global moves after months of decline, as central banks made a hawkish tilt and restrictions eased with strong vaccination rates. Australian gross domestic product growth surprised to the upside and business and consumer confidence improved as the reflation trade took hold. The need to raise the US debt ceiling to prevent an economic and financial crisis created noise, as did the evolving situation in China with another COVID-19 outbreak and the tightening in regulatory controls. The Reserve Bank of Australia (RBA) held firm on their tapering plans, reducing the weekly purchases from \$5bn to \$4bn, but extended the next review of their purchasing program to February next year. The Australian Office of Financial Management kept to their \$2bn per week of tenders, and semi-government bonds performed strongly on the news that the Committed Liquidity Facility (CLF) would be phased out over 2022 and the NSW government announcement that the \$11bn sale of WestConnex would be used to retire debt. There was strong ESG issuance during the month, with the Queensland Treasury Corporation bringing a March 2032 green bond and the Treasury Corporation of Victoria bringing a September 2035 sustainability bond to market.

### Global credit market

US credit markets outperformed other risk assets in September and were marginally stronger, mostly reflecting a rebound from some earlier weakness. High yield (HY) credit finished unchanged on the month, influenced by heavy issuance into month end and more directly affected by the late equity market weakness; while investment grade (IG) credit finished 3 bps tighter. Leveraged loans (which has similar credit quality to high yield but much lower duration) finished the month stronger. Oil and gas related issuers performed strongly (both producers

# Macquarie Australian Fixed Interest Fund

Monthly report – 30 September 2021

and pipelines), reflecting strong oil markets, as well as airlines, with progress on opening transatlantic passenger routes positive for a number of the major airlines. Weakness in the market was mostly confined to idiosyncratic moves, with spreads of the lodging sector dragged wider by tightening regulations in Macau, and metals and mining impacted by weakness in iron ore.

In US IG, a total of \$US165bn was issued, above expectations in what is typically a heavy supply month post the US summer. HY issuance was even stronger (on a relative basis) with \$US44bn of new deals priced. Support for new issuance remains strong for both, with inflows continuing into the sectors.

European IG spreads closed the month unchanged at 84bps with spread volatility in IG remaining benign. Transportation was the main outperformer within IG, led by EasyJet (BBB-) and Ryanair (BBB) as European travel continues to rebound. European HY underperformed, mainly related to the equity weakness into month end.

## Australian credit market

Australian credit underperformed global credit, with spreads around 4bps wider over the month. The Australian Prudential Regulation Authority (APRA) announced that the Committed Liquidity Facility (CLF), a key feature provided by the RBA for authorised deposit-taking institutions (ADIs) to meet the Liquidity Coverage Ratio, is set to phase out by the end of 2022. This impacted CLF-eligible securities such as senior bank paper and AAA RMBS. Consequently, major bank senior paper with the 3 to 5 year part of the curve moved out 7-8bps wider in spreads during the month. Other senior financial paper and RMBS also widened in sympathy. Most notably, the Westpac Securitisation Trust printed the first major bank RMBS deal since early 2020, with spreads 6-7bps wider than where it was prior to the CLF announcement. Liquidity thinned as 3 out of the 4 major banks approached their financial year end. In the primary market, there was over \$6bn of IG issuance, evenly split between corporate and senior financial paper, which also weighed on spreads.

## Outlook

Financial markets have entered the fourth quarter with a plethora of uncertainties, yet risk assets remain near historically tight valuations. Though bond yields are edging upwards and the highs posted earlier in the year are not far away. From a macro perspective, the outlook remains uncertain largely because the pandemic continues, albeit differently in respective countries. The pandemic continues to exert its significant economic influence around the globe via compromised supply chains. These supply chain problems can only be fixed once the pandemic has passed. We are all experiencing the impact of the supply chain problems with inflation rates elevated and shortages of many goods. There are fierce debates about whether financial markets should believe that these problems are transitory or more persistent, characterised by higher inflation.

We observed that our inflation scorecards are signalling that the current inflation pulse is indeed being driven by cyclical factors while structural drivers remain benign. We remind ourselves that our research has shown persistent inflation is driven by demand, while the current inflation is largely driven by supply factors. Looking back to the 1970s (a common reference for supply-driven inflation), the problem with oil supply was a deliberate and persistent act of restraint by OPEC, but in contrast the current problem is a result of the pandemic and there is a global will to fix the problem. Another important contrast with the 1970s is that wages rose persistently due to high unionisation, which is quite different to today, with wage rises being delivered to targeted areas of labour shortages. However, stagflation was a big problem in the 1970s and there are worrying signs that this environment is emerging today, where rising inflation dampens growth. This is a challenging time for central banks and investors as risks for a misstep are high, but we remain true to our investment philosophy and processes to navigate this challenging path.

**For more information speak to your financial adviser, call us on 1800 814 523, email [mim.clientservice@macquarie.com](mailto:mim.clientservice@macquarie.com) or visit [macquarie.com](http://macquarie.com)**

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