

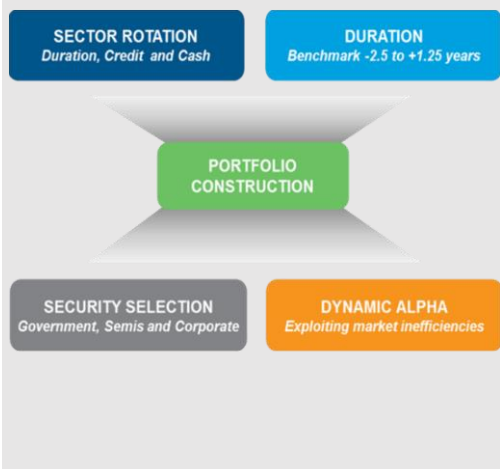
Investment objective

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	\$280.9m
Distribution frequency	Quarterly
Management fee*	0.390% pa
Minimum investment (Direct)	\$20,000
Unit prices and spreads	macquarie.com.au/unit_prices

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



Fund performance to 31 August 2021

	Total Fund return (gross)	Total Fund return (net)	Benchmark return	Total excess return (net)
1 month (%)	0.15	0.11	0.09	0.02
3 months (%)	2.73	2.63	2.55	0.08
1 year (%)	1.67	1.25	1.05	0.20
2 years (% pa)	2.09	1.63	1.33	0.30
3 years (% pa)	5.19	4.70	4.52	0.18
5 years (% pa)	3.92	3.42	3.33	0.09

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

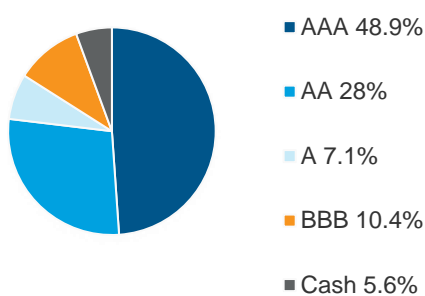
(based on physical exposure)

	Fund (%)
Government	36.1
Credit	30.7
Semi-Government	27.6
Cash and Equivalents	5.6

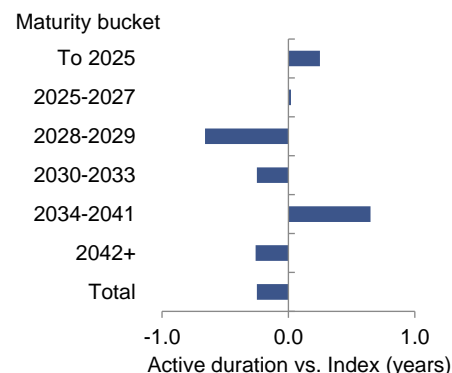
Fund statistics

Credit spread duration	1.0 years
Interest rate duration	5.8 years
Yield to maturity (% pa)	1.12%

Credit profile breakdown



Curve positioning breakdown



Macquarie Australian Fixed Interest Fund

Monthly report – 31 August 2021

Fund highlights

The Fund outperformed the benchmark this month, driven by sector rotation and duration and curve positioning.

Sector rotation

The Portfolio's sector positioning has remained slightly underweight semi-government bonds, though we have covered part of this position during the month. We have been adding in 3 year semi-government bonds, which have traded at an attractive spread over bond given the impact of unconventional Reserve Bank of Australia (RBA) policy on the front end of the Australian Commonwealth Government Bond (ACGB) curve. Spreads have been drifting wider following the announcements of the state governments' bigger-than-expected funding tasks, and we continue to view that spreads can go wider still given the RBA's reduction in weekly semi-government purchases and eventual taper.

The Fund's overweight credit positioning contributed positively to performance relative to the benchmark in August as the slight tightening of the credit spreads helped drive the outperformance. The Fund also continued to benefit from the bull-steepening of the Australian credit curve as the credit positioning continued to be concentrated in the front to mid part of the curve.

Duration and curve

The Fund's duration positioning has remained tactically underweight, with this position still predominantly expressed in the US. Yields have begun to stabilise this month, though the trend was still slightly lower in yield. We have traded the AU-US spread around this month and this added value as Australian rates outperformed. We continue to favour the underweight position in US duration as yields tend to seasonally move higher into year-end as supply picks up in the US.

Security selection

Within ACGBs, the Fund has remained overweight to the ultra-long bonds given the steepness relative to global curves and attractiveness to foreign investors on a hedged yield basis. Within the semi-government holdings, we have favoured the 3-year part of the curve, which traded at an attractive spread over bond due to the impact of the RBA policy on the ACGB curve. We have also been active in swap, implementing box flatteners which we believe have scope to perform due to the roll optics.

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 earned. Shorter-dated corporates were the outperformers, though it was on the back of a broadly based compression in spreads, with some of the lagging lower-beta names also performing well in August. Over the month, the Fund participated in primary transactions from issuers such as Commonwealth Bank of Australia, ING Group, Volkswagen, Victoria Power Networks, NBN Co, General Motors, Harvey 2021-1, Firstmac 2021-4, Mortgage House 2021-2 and Reds EHP 2021-1.

Market review

All eyes were on Jackson Hole Economic Symposium looking for hints from the US Federal Reserve (Fed) Chair Powell on when they may begin the process of tapering the accumulation of assets on their balance sheet, where risk markets were pleased by his message that the Fed is not looking to move early on evolving its policy. Elsewhere, COVID-19 restrictions have been tightened in enough countries to remind consumers that a return to normal remains elusive. Consumers are important to the recovery, though the surge in consumer spending, underpinned by significant government transfers which are now gradually being withdrawn, has slowed. Financial markets now see evidence that the strong GDP growth of the second quarter is likely being followed by a much slower third quarter and increased uncertainty at the strength of recovery thereafter. On top of these themes lies inflation. It may be transitory but for many consumers whose income growth remains modest or is underpinned by government support, the surge in costs is adding to their caution. So we are left in a situation where the real economy is experiencing very uneven growth, supply driven inflation is persisting and consumers who are now more cautious, but asset markets remain firmly underpinned by the flow of liquidity from policy makers.

Australian bond market

There were general flattening of the yield curve over August and only small rallies as bond yields were relatively range-bound given lockdowns continued and the return to normal remains elusive. COVID-19 cases continued to rise in New South Wales and Victoria, with the lockdowns rendering most of the economic data obsolete. Rate hikes and expectations for a turn in policy were upended by the probability of a slower third quarter and uncertainty of the recovery thereafter. The Reserve Bank of Australia (RBA) held firm on their tapering plans in August as they expect a rapid bounce-back in economic activity after the lockdowns. However, they reiterated the flexibility around their path, so it is possible that the tapering will be delayed at RBA's September meeting given the extensions to lockdown since. The Jackson Hole Symposium in the US confirmed that the Fed is not looking to move early on its evolving policy and Chair Powell confirmed that the hurdle for rate hikes remains high.

Global credit market

In August, credit markets traded in a tight range with lower new issuance volumes. Specific sectors within credit, notably high yield and energy sectors, experienced some volatility, but generally market volatility was subdued. This was highlighted by the recent subdued volatility in European investment grade (IG) credit, which had never previously traded tighter than a 3bp intra-month range in the post-financial crisis era – but has now done so in four separate months since December 2020.

Higher beta credit (particularly high yield and energy) did experience slightly higher volatility in August. Investors are increasingly questioning whether the earlier optimistic expectations for economic growth can be sustained, particularly as the path of the coronavirus continues to morph into what appears to be a state of semi-permanent flare-ups. As a result, the lowest rated portion of high yield credit underperformed, with spreads on CCC credit widening by 18bps. Energy credit underperformed mid-month as oil prices fell, though supply disruptions into month end drove the commodity price back up, reversing much of the weakness in oil producers. Issuance volumes fell sharply in the latter half of August, with a total of just over \$US91bn issued in US IG credit, and the year-to-date issuance was running almost 30% behind a record 2020. Issuance have continued to be well supported, with minimal new issue concessions and strong subscription levels.

Macquarie Australian Fixed Interest Fund

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Australian credit market

Australian credit moved marginally tighter in spreads with little volatility. The theme of favouring shorter-dated credit continued. COVID-impacted sectors, such as airlines, airports and retail REITs, marginally retraced some of the underperformance from last month. Similar moves could be observed in the financial subordinated curve. In the primary market, there were over \$8bn of IG issuance with financials making up for most of the issuance, and this also contributed to the stronger demand for shorter-dated bonds. It is worth noting that most of the new issues were concentrated in the 3-5 year maturity bucket. In addition, National Australia Bank printed \$2.75bn of 5 year floating-rate notes in August, which was the first major bank issuance in the senior unsecured format in AUD since January 2020.

Outlook

For financial assets, thriving on the flow of liquidity through the pandemic, the focus in coming months will be acutely on the next steps by policy makers. On one hand, several central banks are signalling that the stimulus to provide liquidity will be gradually reduced. On the other hand, fiscal policy is entering a period of transition, where the dramatic actions by governments should not be underestimated in terms of the flow of liquidity to financial assets in the form of higher private sector savings. During September, several support measures to displaced workers are being withdrawn. Whether workers replace that income by finding work or run down savings will be important for consumption. In Europe, the Recovery Plan spending is now flowing, while in the US we should find clarity on the shape and size of the proposed infrastructure spending. Here, fiscal flows can help offset the potential for central bank tapering, hopefully minimising the risk for asset markets. That said, there are many uncertainties as we navigate this period of transition, which means potential for volatility in asset markets.

For the real economy, which has entered a soft patch, the medium term outlook is less clear than was assumed by many just a few months ago. The approach of the northern winter will be an important test for how vaccination stands up in the face of the evolution of the coronavirus and the increasing realisation that vaccine efficacy fades over time. The real economy continues to battle with ongoing supply chain problems. Labour markets are entering a period of transition where the dilemma of high vacancy rates and large numbers of unemployed should evolve to reveal the extent of scarring from the pandemic, which will be important for the outlook for consumer spending. Meanwhile, geopolitical concerns seem to have worsened over the past year and several significant elections are approaching that have the potential to see shifts in the political balance.

With respect to portfolio positioning, we have gradually moved to a more cautious positioning to reflect the increasing uncertainties being faced. As we enter September, our global team will again convene to reassess the outlook while recognising that investors still face an insatiable need for yield.

For more information speak to your financial adviser, call us on 1800 814 523, email mim.clientservice@macquarie.com or visit macquarie.com

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