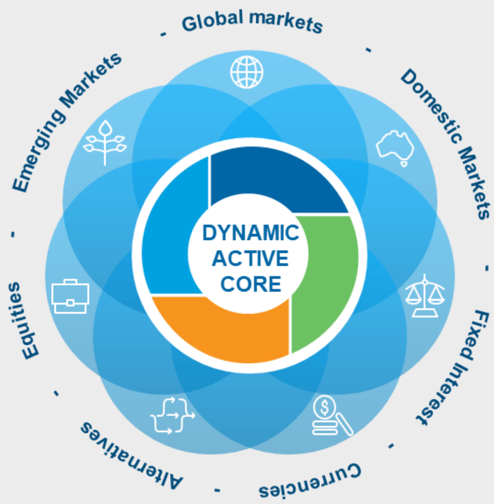
Investment Management

Macquarie Evolve Conservative Multi Asset Portfolio

Monthly Report – October 2020

The performance information and commentary below is based on a Model Portfolio. The information does not take into account differences between the Model Portfolio and the actual portfolio implemented by the operator of your managed account or any fees, expenses or other costs. The performance of your managed account will differ to that of the Model Portfolio (and may differ significantly) due to factors including an incomplete implementation of all trades, the timing of trades, the individual circumstances of an investor as well as the fees, expenses and other costs charged by the operator of your managed account. All references to selling, investing, participating, positioning or similar are references to the Model Portfolio only and may not reflect the holdings in your actual portfolio. Please contact the operator of your managed account for further information.



Model Portfolio performance to 31 October 2020

	Gross returns*1	Net returns2	Investment return objective3	Net excess returns
1 month (%)	0.57	0.53	0.31	0.22
3 months (%)	0.93	0.78	1.03	-0.25
6 months (%)	3.14	2.85	1.55	1.30
Since inception (% nom) **	5.20	4.66	3.36	1.30

* Performance information is based on the performance of a model portfolio. See above for further information that will result in differences between the performance of the model portfolio and your managed account. Performance information excludes fees and other costs that may be charged by the operator of your managed account.

Past performance is not a reliable indicator of future performance.

** Inception date is 25/11/2019

[1] Gross returns are quoted prior to the deduction of all fees and expenses. Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions. Due to individual investor circumstances, the gross returns for an investor may differ from the gross returns quoted above.

[2] Net returns are quoted after the deduction of a management fee of 0.205% (inclusive of GST) which is the highest management fee applicable for an SMA managed in accordance with the Macquarie Evolve Conservative Multi Asset Portfolio. Total returns are calculated based on changes in net asset values and assumes the reinvestment of distributions. Due to individual investor circumstances (including different management fees), the net returns may differ from the net returns quoted above.

[3] The investment return objective is 2.5% pa above Australian inflation over the medium term (before fees). Inflation is defined as the Consumer Price Index (CPI) as measured by the Reserve Bank of Australia Trimmed Mean, as published by the Australian Bureau of Statistics.

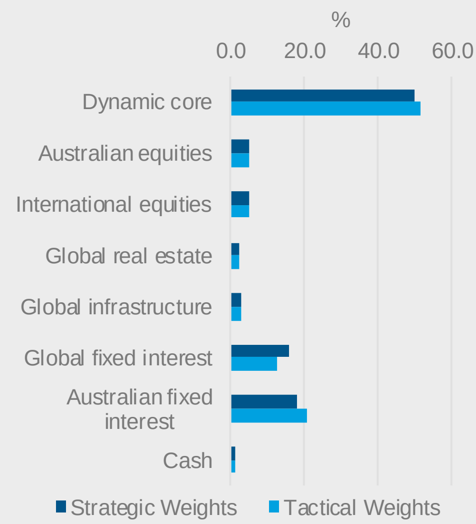
Model Portfolio performance

The Model Portfolio delivered a positive return in the month of October, with the exposure to Australian growth assets contributing to performance. From an asset allocation standpoint, the Model Portfolio has been positioned neutrally in light of a combination of the declining fundamentals and ultra-loss monetary easing.

Asset Allocation

We have continued to position the Model Portfolio with the expectation that asset prices across the risk spectrum could continue to increase should monetary policy remain extremely accommodative. Secondly, in this context, asset price behaviour is likely to continue to deviate from the real economic activity. Thirdly, tail risks in asset prices have increased due to their dislocation from the real economy, where increasing geopolitical tension, social unrest due to inequalities, political uncertainty and sovereign default risks persist. In the real economy, China has continued recovering robustly at all levels, whereas Europe and the US are experiencing a considerably uneven economic ‘stop-start’ recovery as some areas experience a second wave; and an extremely uneven economic recovery at a global level is expected to continue. In Australia, a relatively more robust economic recovery could also be expected as the country’s COVID-19 situation continued to improve, with Victoria easing the lockdown restrictions. Putting these altogether, the Model Portfolio has been neutrally positioned in terms of asset allocation strategy over October. That is, we hold allocations of defensive and riskier assets at our long-run strategic asset allocation level. Furthermore, we continue to look to increase our growth assets allocation should valuations improve further, while utilising cost-efficient, out-of-the-money put options during periods of low volatility to mitigate against the risk of sudden market shifts. From a shorter-term perspective, we continue to explore regional opportunities that emerge due to an uneven global economic recovery. In October, we held an underweight position in European equities and overweight in Australian equities as the spread of the virus worsened in Europe compared to Australia.

Portfolio allocations



Market overview

Australian and international equities market

Equity markets volatility was high in October as hopes for a US fiscal stimulus faded and COVID-19 cases in the US and Europe continued to soar. Amid the backdrop of the fiscal uncertainty and virus concerns, the earnings season also began during the month. By month-end, 64% of the S&P 500 companies reported earnings, of which 86% had performed better than expected, though with a blended earnings per share declining by 9.8% YoY. In October, the MSCI World Index dropped by 3.2% while the ASX 300 Index was up by 1.9%.

Australian and global credit market

USD credit performed well in October. Spreads in most USD markets tightened despite some volatility late in the month, with positive market supply-demand technicals being a key driver. IG credit held up particularly well, reflecting the central bank-supported nature of the asset class, while HY was more impacted by the weakness later in the month. European IG spreads closed 2bps tighter, but on a weaker footing as a return to stricter COVID-19 lockdowns across several core countries such as the UK, Germany and France hampered recovery. Australian credit spreads closed the month 1bp tighter, marginally underperforming global IG credit markets.

Australian and global bond market

In global bond markets, US 10-year Treasury yields finished the month of October 18bps higher at 0.87%, while 10-year German bund yields rallied 10bps lower to -0.63% amid surging virus cases in the second wave across Europe. In Australia, Australian bonds outperformed equivalent US Treasury maturities, supported by expectations for further monetary policy easing from the Reserve Bank of Australia.

Outlook

The US presidential vote remains undecided at the time of writing but it appears that Congress will remain unchanged, with the House led by the Democrats and the Senate by the Republicans. This situation implies that hopes for clear and decisive fiscal stimulus can be unlikely, though further support measures are likely to be put in place. This plays into a cautious outlook for economic growth with the coronavirus still with us.

On recent economic data, it is becoming clear that China in particular, but also other Asian/southern hemisphere countries that followed a virus eradication approach, are returning toward pre-COVID normal more quickly. In contrast, Europe and the UK are already looking vulnerable to a double-dip recession as the virus grip is proving particularly severe. The US seems to be delicately treading a middle path, on one hand dealing with surging virus cases but so far managing to avoid the pull towards broader and more restrictive measures. That said, the northern hemisphere is facing seasonal risk (the winter) on top of the already vulnerable situation. In addition, the bias in the early Q4 data suggests that growth is already slowing and that the overall services sector will remain compromised for some considerable time.

In the meantime, policy makers continue to give considerable support to the economy. Prospects are that further monetary easing will be deployed by central banks in coming months. While this is likely to be welcomed by financial markets, the real benefit to economic activity is likely to be modest. Fiscal policy is now seen as the key to igniting economic activity. But as this is subject to politics, its deployment is much less certain. Europe agreed to significant stimulus in July, but by delaying deployment until January economic activities have suffered. Talks in the US are for significant stimulus, but sticking points between Congress and the White House remains. The key uncertainty therefore is: will this become clearer after the election?

In summary, we believe the ‘lower for longer’ environment is likely to continue to characterise fixed income investment for a considerable period. As we expect central bankers to maintain highly supporting policies, financial markets should be underpinned, but pocketed by periodic volatility as the real economy tries to navigate the very difficult months ahead.

Look-through portfolio holdings

Risk sector	Asset class exposure	%
Income	Credit - investment grade	17.7
	Credit - high yield	7.4
	Structured securities	3.5
	Australian fixed interest	20.6
	International fixed interest	12.3
	Cash and government bonds	14.1
	Total Income	**75.6**
Growth	Australian equities	12.1
	International equities	4.9
	Global real estate	2.0
	Global infrastructure	3.0
	Alternatives	2.4
	Total Growth	**24.4**

If you have any questions regarding your managed account, please contact your adviser or the client service team of the managed account provider. For any investment related queries, please contact MIM Client Service on 1800 814 523 or via email at mim.clientservice@macquarie.com.