



Fund objective

The fund aims to provide a superior stream of income and capital stability over the medium term while aiming to outperform its benchmark through market cycles.

Fund application

Investors seeking to enhance their overall fixed income returns with a higher yielding, predominantly investment grade, absolute return-oriented global fixed income portfolio.

Fund details

Inception date	16 August 2018
Fund size	AUD 560m
Distribution frequency	Quarterly
Management fee	0.45% p.a.
Buy/sell spread	0%/0.2%
Interest rate duration	0.56yrs
Spread duration physical	2.17yrs
Yield to Maturity	6.04%
Average credit rating	BBB
Number of issuers	69

Fund guidelines

Target return	cash plus 3-4%
Target volatility	<3% annualised
Duration limit	-2 to +2 yrs
Credit quality	>75% investment grade

Platforms

- AMP North (Class A)
- Asgard Infinity
- BT Panorama
- Insignia - Asset Administrator (Badge BT)
- Netwealth



Dylan Bourke
Portfolio Manager



Daniel Siluk
Portfolio Manager

March 2025

Performance (%)	1 month	3 months	calendar year to date	1 year	3 years annualised	5 years annualised	since inception annualised
Fund Return <i>(before fees and sell spread)</i>	0.44	1.75	1.75	8.88	6.32	4.91	4.50
Fund Return <i>(after fees, before sell spread)¹</i>	0.40	1.63	1.63	8.37	5.83	4.41	4.06
Fund Return <i>(after fees and sell spread)²</i>	0.40	1.63	1.63	8.37	5.83	4.90	4.00
RBA Cash Rate	0.34	1.03	1.03	4.36	3.50	2.14	1.90
Active return³ <i>(before fees and sell spread)</i>	0.10	0.72	0.72	4.52	2.82	2.76	2.60
Active return ³ <i>(after fees and sell spread)²</i>	0.06	0.60	0.60	4.02	2.33	2.76	2.10
Ausbond Bank Bill Index	0.35	1.07	1.07	4.46	3.56	2.15	2.00

Past performance is no guarantee of future results. Net of fee returns inclusive of 0.4632% annualised total expenses. No allowance is made for tax. Numbers may not add due to rounding. 1) For a continuing investor the actual return experienced based on the NAV performance of the Fund, after accounting for management fees. 2) The return experienced by a redeeming investor, based on the exit price performance of the Fund which accounts for the start and end of period sell spread level, and management fees. 3) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 31 March 2025.

Performance commentary

The Fund returned 0.44% before fees in March and the rolling one-year return was a very strong 8.88%, despite a significant deterioration in risk sentiment as tariff-related uncertainty plagued financial markets. The related widening in credit negatively impacted performance, broadly offsetting the benefits from the credit carry in the portfolio. Rates also contributed positively given our focus on the front end where yields fell, despite longer-dated yields rising in many regions around the world in March. Annual returns remain at very high levels, with the yield to maturity of 6.04% maintaining a strong basis for returns looking forward.

Portfolio strategy

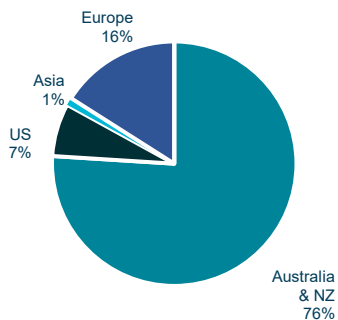
The portfolio's physical spread duration was marginally higher at 2.17yrs, as we participated in some attractive primary deals amongst market volatility, while taking profit on some bonds that had performed well. We plan to maintain our spread duration at around 2 - 2.5 years in the upcoming months, balancing our view that we expect the Republican victory to potentially extend the credit cycle, offset by fairly tight US credit spreads and the ability for tariffs to induce short bouts of volatility. The exposure has been skewed towards Australian credit because credit spreads are closer to their long-term averages compared to the significantly tighter spreads observed in the US. Considering the sustained interest from yield-seeking high-net-worth and Asian investors, we anticipate that Australian spreads will likely play catch-up to the US by moving towards the lower end of their historical ranges, unless disrupted by an unforeseen macro event.

The average credit rating of holdings was BBB. High yield exposure was flat at 15%, in typically BB-rated short maturity assets. The portfolio is split across financials (~65%), corporates (~16%), and ABS/MBS and warehouses (~16%), with the residual in cash and SSGAs. We have a ~76%/24% split between Australia/New Zealand and international issuers.

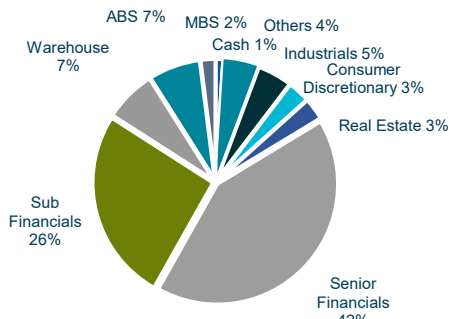
Portfolio liquidity remains solid over the month, with 'Level 1' liquidity at ~13% (cash, commercial paper, SSGA). 'Level 2' liquidity was fairly stable at 11% (<1yr investment grade). We believe the high level of liquidity gives us the flexibility to buy attractive credits or take advantage of a better entry point should there be a sell-off.

In the rates space, duration positioning was lightened to 0.56 years to reflect a declining conviction in the monetary policy easing cycles, with exposures in Canada (0.15yr) and Europe (0.13yr) reduced modestly. Our conviction around lower yields in New Zealand (0.09yr) remains in place while US duration was flat at 0.2yr. More broadly, yields falling towards the bottom of recent ranges is also supportive of having duration a little lighter than is usually the case, in what we continue to expect will be a sideways range over the course of this year.

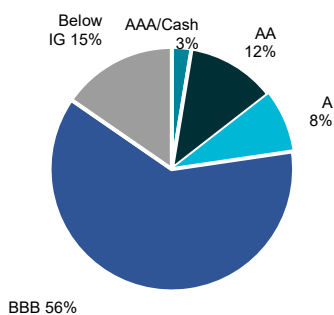
Geographic Allocation



Sector Allocation



Credit Rating



Outlook

Policy uncertainty was again the key driver of financial markets over March. The threat of tariffs (and reciprocal tariffs), combined with potentially-related softening in US economic data, saw US equity markets finish the month of March down 8.7% from the latest record highs posted in February. To put this into perspective, this takes us back to levels seen in September 2024. Credit spreads widened in sympathy with sentiment, with the US Bloomberg Corporate Agg Average OAS index out 7bps (and 15bps over the past two months) to 94ps. European Credit spreads also widened 7bps in March, but are only out 7bps over the past two months as defence spending plans supported economic growth expectations. Australian credit spreads to swap performed similarly, with the Bloomberg Credit Index out 7bps to +88bps. The disparity relative to historical ranges remains - US spreads are still 31bps inside their historical median whereas Australian spreads are in line.

Central Banks have arguably tougher decisions looming. Inflation appeared to have stabilised in recent months at an above trend rate in many regions, namely the US, Canada and Europe. This calls into question the depth of easing cycles that were underway, reducing the risk of below neutral monetary policy settings. Tariffs pose at least a one-off upward shift to inflation, with risks of second round impacts. However, markets and central banks are focused more on the negative growth implications from disposable spending being sapped, combined with the detrimental impacts of higher uncertainty. This is why markets moved to price in more rate cuts over the month despite the inflationary impacts of tariffs, with US 2-year yields down 11bps in March. Front end yields outside the US generally moved by less, with German 2-year yields actually rising 2bps as the significant increase in fiscal expenditure dragged German 10-year yields up 33bps in the month to 2.74%.

Looking forward, financial market volatility in response to policy uncertainty will remain a feature over the year. A speedy resolution around tariff arrangements does not mean that the response of economic actors is clear or minor. For example, we suspect that part of the weakness in Q1 US economic activity reflects a bring forward of activity into Q4 of last year. Markets appear to be extrapolating this weakness beyond Q1. The negative impacts of trade policy, combined with the negative employment impacts from efficiency savings is well known, whereas the tax cuts that have been promised are not as yet on the radar. These are expected to be strongly supportive for economic growth later in the year, which could provide something of a floor to how far the current risk off move may extend.

Rates markets are not immune to the uncertainty surrounding the future path of global economic growth in the presence of a trade war. However, we feel that this has overshadowed the stabilisation of inflation above target even before tariffs impact the balance between demand and supply. We had previously expected many regions to move rates below neutral, supporting an extended cycle in bond yields. Our conviction around this in areas such as Europe and Canada has therefore diminished. The year of the bond will therefore have to wait for another year, or the next recession. In that context, the benefit of longer-duration funds diminishes and the flexibility of funds to pivot away from lazily capturing medium term up-trends in price and towards the alpha generated from relative value trading will be even more apparent.

We are unsurprised that the market has shifted its focus to potential negatives after inauguration driven by potential tariff induced trade wars, unpredictable executive orders and significant fiscal spending cuts causing increased uncertainty for individual company earnings profiles. As such, we continue to run a 'sleep-at-night' portfolio, quickly selling investments with any concerns to minimise potential price impacts, and we expect the attractive yield to generate a meaningful return for investors. Additionally, the elevated levels of available portfolio liquidity and volatility budget provide us with ample ability to take advantage of expected volatility and pounce on any opportunities.

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