



### 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 6 November 2019  
 Fund size AUD 426m  
 Distribution frequency Quarterly  
 Management fee 0.60% p.a.  
 Buy/sell spread 0%/0.2%

### Fund statistics

Interest rate duration 1.18yrs  
 Spread duration physical 2.27 yrs  
 Yield to Maturity 7.12%  
 Average credit rating BBB  
 Number of issuers 59

### Fund guidelines

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



**Dylan Bourke**  
Portfolio Manager



**Daniel Siluk**  
Portfolio Manager

### May 2024

Performance (%)	1 month	3 months	calendar year to date	1 year	3 years annualised	5 years annualised	since inception annualised
Fund Return <i>(after fees and sell spread)</i>	0.79	1.84	2.62	6.89	3.75	-	2.77
RBA Cash Rate	0.36	1.08	1.81	4.25	2.32	-	1.62
Active return <sup>1</sup> <i>(after fees and sell spread)</i>	0.43	0.77	0.81	2.64	1.44	-	1.15
Ausbond Bank Bill Index	0.37	1.10	1.82	4.32	2.32	-	1.63

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) Active return of the Fund compared to Benchmark (RBA Cash Rate). Source: Fidante Partners Limited, 31 May 2024.

### Performance commentary

The Fund returned 0.79% in May, and the rolling one-year return was 6.89%, marking the 20<sup>th</sup> month in a row of positive absolute returns, which is pleasing in light of the tightly managed risk budget and highlights the robustness and resilience of the portfolio. Coupon income, credit spread compression and rates duration all contributed to the strong performance. Our conviction on the outlook for 2024 remains strong given the fund's yield of 7.12%.

### Portfolio strategy

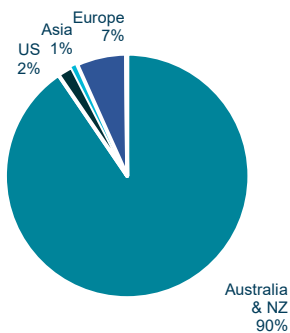
The Fund invested in primary issuances in financials, corporates and securitised, taking advantage of strong momentum in AUD markets. While economic activity has slowed below trend in most developed markets, US economic activity, historically more correlated with risk markets, has remained stubbornly strong and the odds of a soft landing (rather than hard landing) in the US continues to be likely given strong GDP and unemployment data. Nevertheless, a soft landing is still a landing of sorts and we expect some volatility, which should provide better entry points in credit. We see Australian credit spreads as around average, offering good relative value compared to historically tight US spreads. We maintained a short-dated credit book with no CDX exposure. Level 1 liquidity dropped to ~8.40% (cash, commercial paper, SSGA) as we invested in attractive new issues and Level 2 liquidity is ~16.3% (<1yr investment grade).

The Fund's yield to maturity remained pretty much flat at 7.12% and continues to provide a strong tailwind for future returns. Physical spread duration ex. SSGA increased to ~2.3yrs from ~1.9yrs due to investments in new primary deals, mainly the 15NC10 NAB T2 which rallied substantially. We expect to stay around 1.8-2.0yrs unless there are new issues with attractive concessions and will go back there as we take profits. There's significant capacity to add spread but we remain cautious on longer-dated credit. There was no repo exposure.

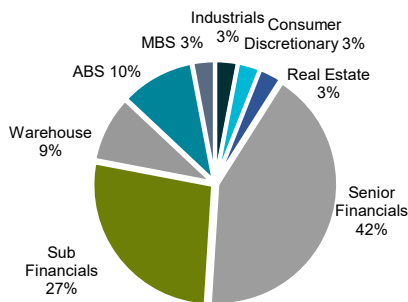
The average credit rating of holdings decreased a notch to BBB. High yield remained stable at ~18%, in typically BB-rated short maturity assets. We continue to avoid exposure to companies with material default risk and / or vulnerable to a downturn in the economy. The portfolio is split across financials (~70%), corporates (~9%), and ABS/MBS and warehouses (~22%), with the residual in cash and SSGAs. We expect ABS/MBS and warehouses to reduce in the coming months towards the soft limit of 20%. We have a ~90%/10% split between Australia/New Zealand and international issuers.

Rate duration increased 0.05yr to 1.18yr. The mix remains more weighted towards Europe (0.63yr) and to a lesser extent Canada (0.29yr), where the central banks are expected to begin their easing cycles as inflation is falling towards target. We maintain an exposure to the US for the same reasons (0.20yr), albeit that the conviction around timing has reduced as progress on inflation has stalled. We continue to see little chance of a move in official rates in Australia so are largely neutral that region and continue to hold a small 0.07yr position in New Zealand.

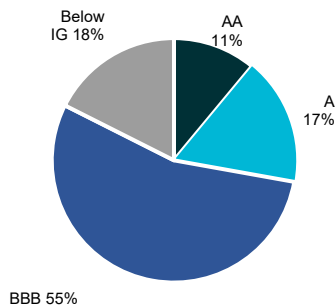
## Geographic Allocation\*



## Sector Allocation\*



## Credit Rating\*



## Outlook

The improvement in risk sentiment was the dominant market theme in May. After a dip in April, the uptrend in asset prices since late 2022 resumed. The ongoing strength in earnings, supported by a US economy that is not just avoiding recession but showing solid growth, continued to provide a tailwind to risk assets. The S&P 500 was up 4.8% in May and is now up almost 30% from the lows in late 2022 and set fresh record highs. Credit spreads have narrowed in tandem. US physical credit, as measured the Bloomberg US Credit Aggregate, fell by 2bps to 85bps in May, down from 165bps in late 2022. This index now sits towards the bottom of its 76bps to 618bps range since 2000. Australian physical credit spreads (in the form of the Bloomberg Ausbond credit 0+ index OAS) narrowed an even larger 8bps to 130bps in May, with the greater compression partly reflecting that Australian spreads are closer to the historical average of 131bps. The larger move therefore partly reflects some catch up to the moves seen offshore.

The uptrend in asset prices also seems to be resisting the 'higher for longer' theme that appears appropriately priced into fixed income markets for now. Bond yields were little changed over the month of May and were mixed depending on the region. Yields fell in the US - down 16bps at the 2yr part of the curve where our US exposures tend to be concentrated, as core inflation figures over the month showed a modest decline. In contrast, German 2yr yields were 6bps higher in the month as the market re-assesses the path of easing from the European central bank (ECB) with the preliminary core CPI inflation figure for May unexpectedly rising by 0.2pps to 2.9%. Other markets, such as Australia, saw a very limited change in yields over the month. Given the rise on the higher for longer theme earlier in 2024, bond yields therefore still sit towards the upper end of the largely sideways range of the past two years.

Looking ahead, the outlook for rates markets has significant and two-sided risks. If inflation fails to continue its downtrend trend and stabilises above central bank targets, we may not only see high for longer for monetary policy but even higher for even longer! In this scenario the central banks may see monetary policy as not restrictive enough (in contrast to the currently held opposite view). This is not our base case, but still a risk of driving higher bond yields. Even if inflation were to decline at a pace slower than the central banks are currently forecasting, then a delay in rate cuts could see bond yields rise and duration positions suffer. However, with the repricing of this higher for longer theme into markets in 2024 the hurdle to beat is now lower. Inflation only need show a resumption of the downtrend for it to be in touching distance of target. Central banks would likely look to ease policy off its currently restrictive stance in that setting. This highlights just how important near term inflation outcomes are to fixed income fund performance looking ahead.

We believe the uncertainty in 2024 will continue to reinforce the importance of active investment in conjunction with strong analysis, as passive index portfolios may face painful tail risks such as defaults, leading to increased fundamental differentiation and dispersion of returns. Our portfolio held no exposure to US regional banks, Credit Suisse, or AT1 bonds in 2023 or 2024, which we have historically avoided due to their equity-like volatility during crises.

Our philosophy is 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. Nevertheless, we remain positive on the outlook for stable and attractive portfolio returns, as the yield to maturity bounces around 7%, providing a rich buffer to the uncertainty of the macro backdrop. Additionally, the elevated levels of available portfolio liquidity and volatility budget provide us with ample ability to pounce on any opportunities, reinforcing our cautious optimism for returns in the period ahead.

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\*adjusted for forecast settlement of upcoming unsettled bonds