



Fund Objective

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

Fund Details

APIR code	HOW0052AU
Inception date	31 May 2007
Fund size	AUD 2,051m
Distribution frequency	Quarterly
Management fee	0.55%
Buy/sell spread	0.00%/-0.07%

Fund Statistics

Interest rate duration	1.03yrs
Credit spread duration	1.59yrs
Average credit rating	BBB+
No of issuers	74
Yield to maturity	6.00%

Fund Guidelines

Target return	cash plus 2-3%
Target volatility	>1.5% annualised
Duration limits	-2 to +2 years
Credit quality	>85% investment grade

January 2024

Performance	1 month %	3 months %	CYTD	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund Return (Net) ¹	0.50	2.01	0.50	5.75	1.82	2.02	2.55	3.94
RBA Cash Rate ²	0.39	1.07	0.39	3.97	1.85	1.38	1.62	2.76
Active Return ¹	0.12	0.94	0.12	1.78	-0.03	0.63	0.93	1.18

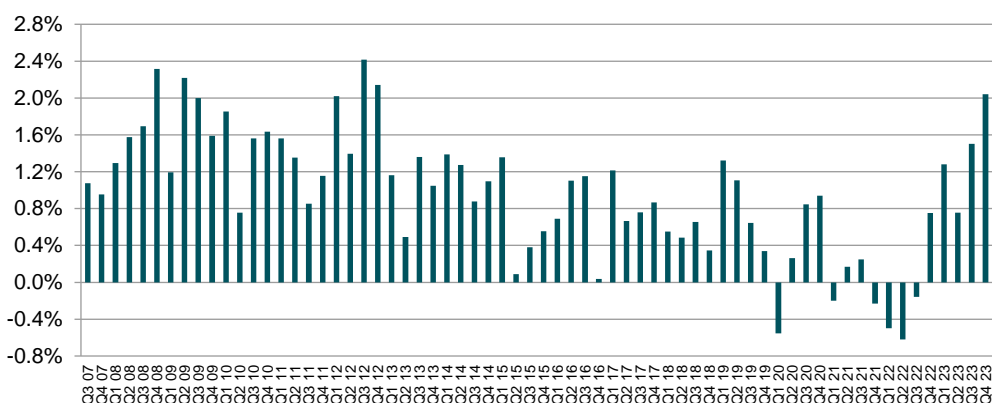
Past performance is not a reliable indicator of future performance

¹ Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowances are made for tax when calculating these figures. After fee returns inclusive of annualised total expenses for Class A Units. Prior to 1 October 2019, annualised total expenses were 0.70%. From 1 October 2019, annualised total expenses are 0.55%.

² From 1 February 2014 to 30 September 2019, the Fund's benchmark was a composite benchmark comprising 50% Bloomberg Ausbond 0-3 Yr Index & 50% Bloomberg Ausbond Bank Bill Index. Prior to 1 February 2014, the Fund's benchmark was the RBA Cash Rate.

Source: Fidante Partners Limited, 31 January 2024

Quarterly Performance History¹



Source: Kapstream Capital, 31 January 2024

Performance Commentary

The Fund returned 0.50% in January. This takes the rolling 12 month return to 1.78% above the cash rate. The excess return over cash highlights the benefit of the structurally higher credit spread we have orchestrated in the portfolio over the past 12-18 months, given that market credit spread and yield moves in particular over the month were muted (despite intra-month volatility). The yield on the portfolio ended the first month of the year more-or-less unchanged at 6%, which continues to support confidence in strong return expectations on both an absolute and relative to cash basis looking forward.

Portfolio Managers

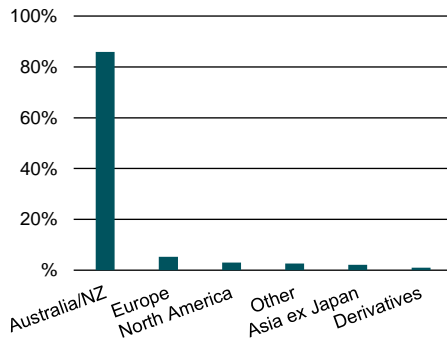


Dan Siluk
Co-Lead Portfolio Manager

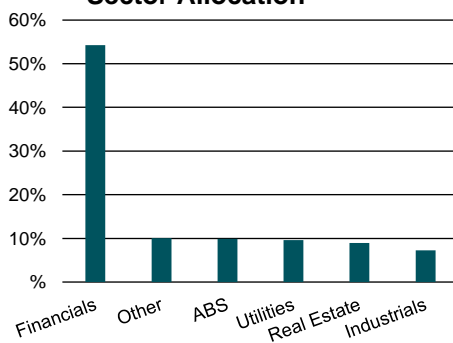


Dylan Bourke
Co-Lead Portfolio Manager

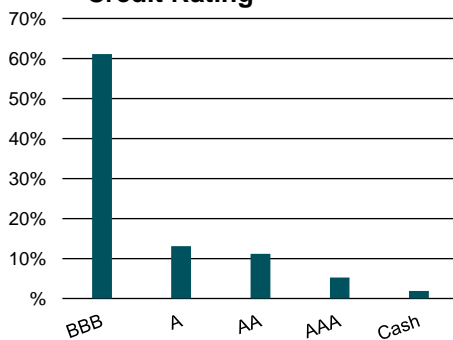
Geographic Allocation



Sector Allocation

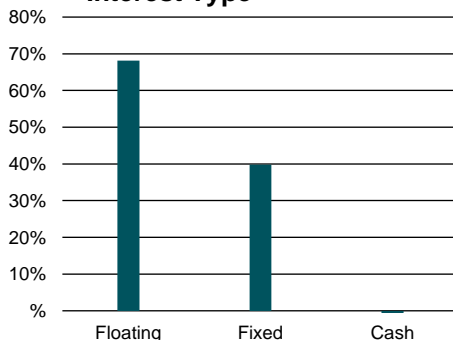


Credit Rating



*of which 5.27% of Investment Grade and 5.89% of High Yield were internally rated

Interest Type



Market Commentary

Inflation remains the key driver of central banks and markets, as it has been for a few years now. More recently the fall in inflation across the developed world towards central bank targets has seen markets turn focus away from further tightening to the timing and magnitude of an expected easing cycle. For example, the 6-month core PCE inflation rate fell below the US Fed's 2% target on an annualised basis in December, leading to market speculation of a March start to the easing cycle and more than 150bps of cuts priced in by year's end. The pricing for other developed market central banks moved in sympathy, particularly in Europe where inflation is also rapidly moving towards target. It should be noted though that even with downward inflation surprises like that in Australia, with the RBA's preferred trimmed mean CPI measure coming in 0.3pps below RBA expectations, that at 3.9% over the year it remains significantly above the RBA's 2.5% midpoint target. The market's pricing of imminent rate cuts in these regions where inflation is coming down but is still too high therefore looks premature, which is also the case in New Zealand, Canada and the UK.

This confidence in the imminent nature and magnitude of the easing cycle that was seen in the first half of the month then saw a range of strong US economic data and global central bank push back in the second half. US GDP in the fourth quarter came in at a 3.3% annualised pace, resisting the impact of rate hikes to date and remaining well above trend of around 2%. FOMC Chairman Powell said a March rate cut was not his base case, reflecting the desire to see more evidence that inflation is returning to trend, as well as seeing evidence that the strength of the economy and labour market mentioned above. ECB President Lagarde similarly pushed back on the idea of rate cuts in Europe until mid-year, despite the Eurozone only narrowly avoiding a technical recession with a flat outcome for activity in Q4. Bond yields therefore reversed most of the move lower early in the month to finish largely unchanged and were therefore not a key driver of returns in January.

The soft landing (or even the no landing?) scenario in the US gave risk markets a boost again in January. The S&P500 finished 1.6% higher in the month and is now over 17% above October lows. Credit markets, which are usually correlated with movements in equity markets, didn't quite show the same level of performance. This partly reflected the already low level of credit spreads, which acts as more of a floor to credit spreads than hitting new highs acts as a ceiling for equities. Also significant was the record amount of issuance in January, further inhibiting the amount of spread compression in the month. This saw most credit indices finish largely unchanged, with the US Corporate Agg OAS in 3bps to 96bps and the Bloomberg Ausbond Corporate OAS out 1bp to 145bps in January.

Portfolio Strategy

January has proven to be a strong start to what is expected to be a solid year for fixed income. Yields are high by recent standards and with inflation easing and the easing cycle coming into sight for many central banks there should also be the potential for further gains from declines in yields. The start point may not be known for all central banks, the pace may be uncertain and even the end point is far from clear, but the direction of travel for central bank rates and yields is becoming more certain.

The strength of the US economy should also provide support to the credit elements of fixed income, but there remain a few clouds on the horizon. It should be noted that while economic growth in the US is above trend and the unemployment rate is low and rising gradually at best, that in other parts of the world activity is below trend and the unemployment rate is rising more quickly. Furthermore, monetary policy acts with a lag and the negative influence of the last portion of each central bank's tightening cycle may yet be felt, further reducing activity and earnings. Geopolitical tensions have also risen of late, raising upside risks to inflation if supply chains were again disrupted and potentially delaying the benefits of lower official interest rates. If these risks materialise and a hard landing scenario was to play out in the US and elsewhere, this could pose a risk to the credit spread related elements of the asset class.

Outlook

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