

# EQT DIVERSIFIED FIXED INCOME FUND (CLASS B)

## PORTFOLIO OBJECTIVE

The Fund aims to provide investors with exposure to high-quality income-yielding investments. The Fund aims to outperform the benchmark over rolling three-year periods, after taking into account fees and expenses.

## FUND PERFORMANCE

PERFORMANCE <sup>1</sup>	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.) <sup>2</sup>
Total net return	-0.33%	2.77%	-0.98%	-0.40%	1.78%
Benchmark return <sup>3</sup>	-0.26%	2.93%	-0.79%	-0.18%	2.25%
Active return	-0.06%	-0.16%	-0.18%	-0.22%	-0.47%

Table 1

Source: Equity Trustees as at 31/12/2024

<sup>1</sup> Performance: Total net return is the return after the deduction of ongoing fees and expenses. Results greater than one year are annualised.

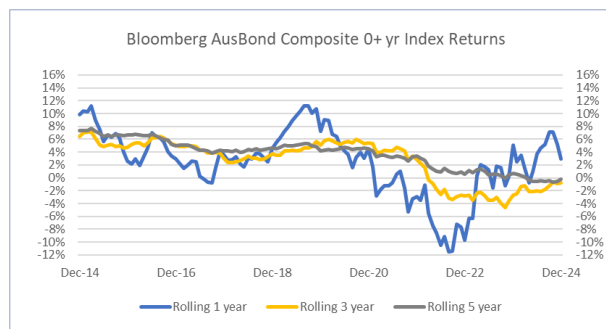
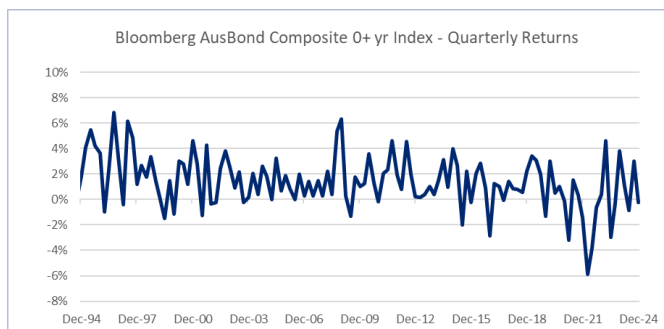
<sup>2</sup> Inception date is 14 October 2014.

<sup>3</sup> Benchmark is the Bloomberg AusBond Composite 0+ Year Index.

Past performances should not be taken as an indicator of future performance.

## PERFORMANCE SUMMARY

The Fund recorded a total net return of -0.33% for the December 2024 quarter, underperforming the Bloomberg AusBond Composite 0+ year Index by 6bps. Over the last 12 months the Fund recorded a total net return of 2.77%, underperforming the Index by 16bps. The total net return since inception is 1.78% p.a., underperforming the benchmark by 47bps over the same period.



Source: Bloomberg, Equity Trustees as at 31/12/2024



## MARKET SUMMARY

October saw global bond yields surge higher, guided by US treasury movements which responded to a stronger than expected ISM service sector survey, solid employment data and a lift in monthly retail sales. An expected Republican win in the US presidential election also fuelled the bond sell-off as investors reflected on the growing size of US fiscal deficits and widely touted trade tariffs.

November saw the Fed ease rates by 25bps and CPI data showed further progress towards the Fed's target of 2%, resulting in lower bond yields across the curve.

The Fed lowered its monetary policy setting 25bps again in December, but Chair Powell struck a more hawkish tone, stating he would need to see further progress on inflation before easing further. This prompted a lift in longer-dated bond yields which saw the curve steepen into month-end.

Domestically, the RBA maintained the target cash rate at 4.35% in November and December but surprised the market with a dovish tone at the December meeting which provided temporary relief against the backdrop of rising global bond yields. Later in the month, labour market data showed the unemployment rate dropped from 4.1% to 3.9% which sent domestic yields higher.

In terms of market movements, the yield on the Australian 3-year generic bond opened the quarter at 3.54% rose as high as 4.22% in November, before falling to 3.82%. The yield on the 10-year generic bond opened at 3.97% and moved as high as 4.70% in November before falling to close the quarter at 4.36%. The 3s/10s curve steepened by 11bps to 54bps.

The spread between the Australian 10-year government bond and US 10-year treasury note narrowed by 40bps, to close the quarter at -21bps.

## GLOBAL BOND MARKET MOVES

	SEP QUARTER	DEC QUARTER	MOVE (BPS)	QUICK COMMENT
US 10-year note	3.78%	4.57%	79	Strong economic data, sizeable fiscal deficits and slower progress on inflation drive long-dated yields higher
German 10-year bund	2.12%	2.36%	24	Weaker economic data suppressing bond selloffs
UK 10-year gilt	4.00%	4.56%	56	Market removes 60bps of expected rate cuts in 2025
Japanese 10-year bond	0.85%	1.08%	23	BOJ expected to hike by 25bps twice in 2025
Australian 3-year bond	3.54%	3.82%	28	A dovish tilt by the RBA limits front-end yield increases
Australian 10-year bond	3.97%	4.36%	39	Long-dated bonds sell-off but outperform US treasuries given divergent economic growth

Table 2

Source: Equity Trustees as at 31/12/2024



## PORTFOLIO ACTIVITY AND ATTRIBUTION

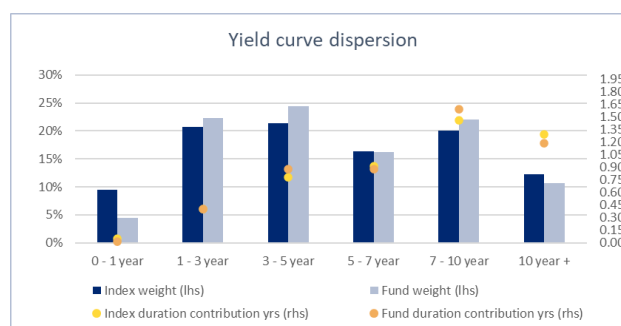
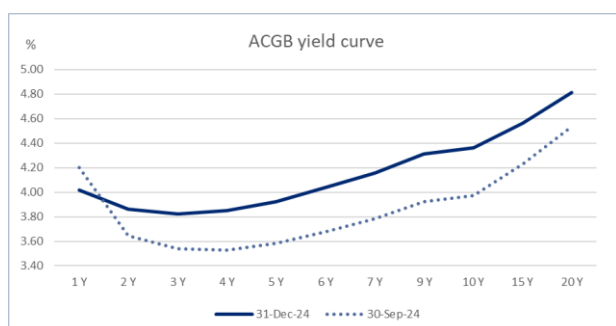
### DURATION

We began the quarter with a slightly shorter duration position which we maintained until mid-December. With yields moving higher over the period, we shifted from a short duration position to end the quarter 0.04 years longer than the benchmark.

As we maintained on average, a slightly short duration position, our active duration positioning added to performance.

### YIELD CURVE

The domestic yield curve shifted higher over the course of the quarter, with yields between 6–10-year tenors lifting the most. The dovish tilt by the RBA at the December meeting saw very short-dated yields fall on expectations of rate cuts in early 2025.



Source: Bloomberg, Equity Trustees as at 31/12/2024

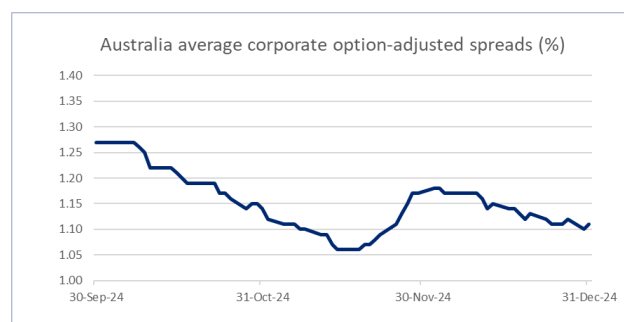
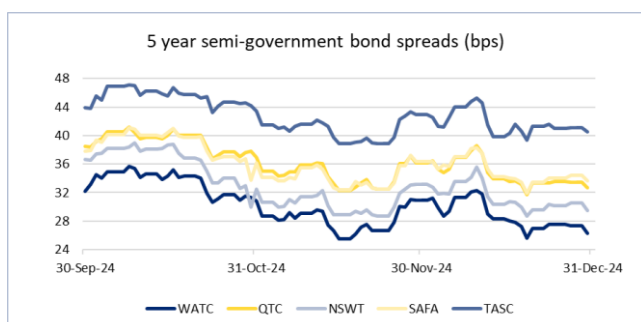
Our active curve positioning slightly detracted from performance.

### SECTOR ALLOCATION

Corporate bond spreads tightened on average 16bps over the quarter, supported by investor appetite for higher all-in yields and expectations of monetary policy easing.

Semi-government bond spreads also tightened across a range of maturities, with 10-year bonds slightly outperforming mid curve maturities, with moves of -6bps and -5bps, respectively.

From a benchmark component perspective, the shorter duration credit sector performed best, delivering a 0.67% return for the quarter, followed by supranational bonds at 0.32%. Semi-government bonds delivered -0.30% and government bonds returned -0.55%.



Source: Bloomberg, Equity Trustees as at 31/12/2024



As we maintained a higher allocation to corporate bonds, our sector positioning had a positive impact on performance.

Over the course of the quarter we added to our semi-government holdings, moving from a neutral position to slightly overweight in term of both weighting and duration.

### Sector allocation as of 31 December 2024

SECTORS	BENCHMARK <sup>1</sup>		PORTFOLIO		
	BENCHMARK <sup>1</sup> WEIGHTS	DURATION CONTRIBUTION	PORTFOLIO WEIGHTS	DURATION CONTRIBUTION	DIFFERENCE
Commonwealth Govt bonds	48.4%	2.52	30.9%	2.15	-0.37
State (semi) Govt bonds	32.5%	1.80	34.1%	1.92	0.12
Supranational/sovereign/other	5.2%	0.16	7.7%	0.19	0.03
Corporate bonds	13.9%	0.43	26.7%	0.69	0.26
Cash and related	0%	0.00	0.6%	0.00	0.00
	<b>100%</b>	<b>4.91</b>	<b>100%</b>	<b>4.95</b>	<b>0.04</b>

Source: Bloomberg, Equity Trustees as at 31/12/24

Note: Numbers taken from our Portfolio Management System may vary slightly from accounting or index reports. Numbers may not add precisely due to rounding.

<sup>1</sup> Benchmark is the Bloomberg AusBond Composite 0+ Year Index.

## GLOBAL OUTLOOK

### United States

Employment data released in December showed the US added 227,000 jobs against an expected increase of 220,000. The participation rate printed at 62.5%, while the unemployment rate ticked up one point to 4.2% and average hourly earnings rose by 0.4% MoM, above the expected 0.3%.

The US ISM manufacturing index improved to 48.4 from 46.5 and the ISM services index fell from 56.0 to 52.1, impacted by a decline in new orders. Factory orders (ex-transport) rose 0.1% in October, and durable goods orders were expected to rise 0.3%. Flash manufacturing PMI data printed at 49.7 and Flash services PMI data printed at 56.1.

Retail sales lifted 0.7% MoM in November, slightly better than the expected lift of 0.6%.

US headline inflation stood at 2.7% YoY in November and core CPI was running at 3.3%. The Feds preferred Core PCE inflation measure printed at 2.8% YoY.

Q3 GDP printed at 3.1%, well above the potential GDP growth rate of 1.8%.

The FOMC elected to cut the Fed Funds Rate by 25bps in both November and December but looks set to pause given the strength of recent economic data and sticky inflation above 2%.

Current market pricing has a further 40bps of policy easing by December 2025.

### China

Economic data released during December was softer. The Caixin manufacturing PMI index improved from 50.3 to 51.5 but the services PMI index fell from 52.0 to 51.5. Industrial production was up 5.4% YoY in November. Fixed asset investment growth increased 3.3% and retail sales rose 3% YoY against an expectation of 5%.

Exports printed at 6.7% YoY versus an expected 8.7% and imports fell 3.9% against an expected increase of 0.9%.

Inflation continues to remain soft at 0.1% YoY, another sign of weak domestic demand.

### Europe

Recent Eurozone economic data has been weaker suggesting further monetary support in the months ahead.



Flash PMI data for November showed a decline in manufacturing and service sectors, printing at 45.2 and 49.5, respectively. Industrial production was flat in October, while retail sales fell 0.5% MoM.

Q3 GDP printed at 0.4% QoQ and 0.9% YoY.

The annual headline rate of inflation for Europe was expected to print at 2.2% YoY in November and core inflation is expected to be running at 2.7% YoY.

The ECB lowered its policy rate by 25bps in both October and December, with market pricing implying a further 100bps of easing in 2025.

## Australia

Employment rose by 35,600 in November, above the consensus of 25,000. The unemployment rate fell from 4.1% to 3.9%.

Manufacturing and service sector PMI indicators printed at 49.4 and 50.2, respectively. Business conditions fell five points and business confidence fell eight points.

Retail sales rose 0.6% MoM in October and household spending lifted 0.8%.

The November monthly CPI data saw inflation lift from 2.1% YoY to 2.3%, however the RBA's preferred trim mean measure fell from 3.5% YoY to 3.2%. Services inflation remains high at 4.2%.

Q3 GDP printed at 0.3% against an expected 0.5%. The annual pace was 0.8%, versus 1.1%.

The RBA left the target cash rate unchanged at 4.35% but provided a dovish tilt at the December meeting which saw very short-dated bond yields move lower. Current market pricing sees three 25bp cuts priced in for 2025.

## SUMMARY

The recent repricing higher of global bond yields is a result of US economic strength and concerns about future US treasury issuance. Our internal models currently have the US 10-year treasury yield approx. 50bps above fair value and whilst it is possible that sentiment can drive the US 10-year yield to 5%, we do not believe domestic bonds will follow to the same extent.

Locally, we continue to view the target cash rate has peaked for this cycle and we expect the RBA to start to lower rates in early 2025.

Given the recent rise in domestic yields, we see value moving to a long duration position and will look to add on any further US led selloffs.

Our preferred portfolio construction is:

- Duration: Long.
- Yield curve: We expect to add duration in 0–3-year tenors.
- Sector/credit mix: We prefer to be overweight corporate and semi-government bonds.

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Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product. The Fund's Target Market Determination is available here <https://www.eqt.com.au>. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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