Equity Trustees

June 2025
Quarterly Report

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[1]	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)[2]
Total net return	2.58%	6.74%	3.71%	-0.37%	2.06%
Benchmark return[3]	2.63%	6.81%	3.88%	-0.10%	2.51%
Active return	-0.05%	-0.07%	-0.17%	-0.27%	-0.45%

Table 1
Source: Equity Trustees as at 30/06/2025

[1] Performance: Total net return is the return after the deduction of ongoing fees and expenses. Results greater than one year are annualised.

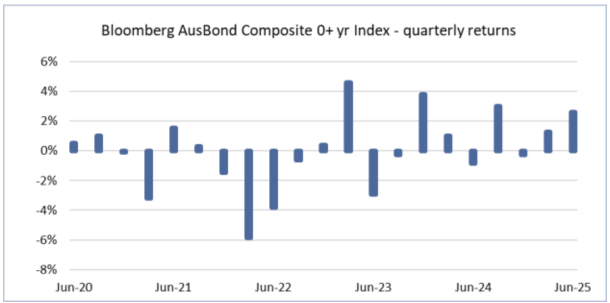
[2] Inception date is 14 October 2014.

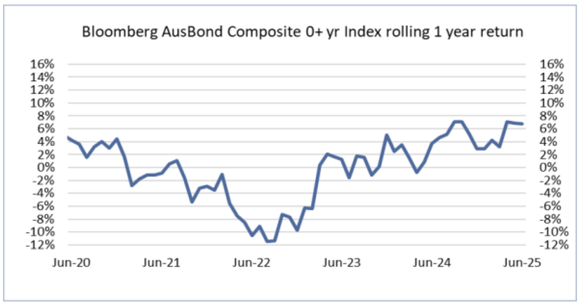
[3] Benchmark is the Bloomberg AusBond Composite 0+ Year Index.

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

PERFORMANCE SUMMARY

The Fund recorded a total net return of 2.58% for the June 2025 quarter, underperforming the Bloomberg AusBond Composite 0+ year Index by 5bps. Over the last 12 months the Fund recorded a total net return of 6.74%, underperforming the Index by 7bps. The total net return since inception is 2.06% p.a., underperforming the benchmark by 45bps over the same period.





Source: Bloomberg, Equity Trustees as at 30/06/2025

MARKET SUMMARY

US tariff announcements shaped market moves in April, sending bond yields lower as concerns over the impact to global growth directed investor funds out of growth and into defensive assets. Stagflation fears sparked a broad-based repricing of credit, with spreads widening sharply in the early part of the month. Domestically, the RBA held the cash rate steady at 4.10% as local economic and inflation data (released in March) supported a wait-and-see approach. However, US trade policy announcements released later in the month saw markets quickly re-price rate expectations against a backdrop of increased uncertainty and rising volatility.

Longer-dated bond yields shifted higher in May due to a combination of better-than-expected US non-farm payroll data and service sector activity. Positive US/China trade tariff negotiations, the probable passing of the 'Big Beautiful Bill' and subsequent expected deficit impacts along with the Moody's downgrade of the US sovereign credit rating added to the dampened demand for longer-dated US treasuries. The RBA lowered the cash rate by 25bps to 3.85% and struck a dovish tone by revealing it had discussed a larger cut, as it shifted its focus from inflation to the prospects of a slower pick-up in household consumption and greater uncertainty around global growth due to US trade policy developments.

US economic data released during June saw global bond yields fall, headlined by a softer ISM services print and a fall in core CPI. Monthly retail sales data also disappointed and consumer confidence measures remained at very weak levels. Some FOMC members suggested the Fed could cut rates sooner than expected should tariff related price increases prove transitory. Domestic inflation also printed lower than expected in June, with headline CPI falling to 2.1% YoY and trimmed mean inflation falling from 2.8% to 2.4% YoY, paving the way for the RBA to ease again in the coming period.

In terms of market movements, the yield on the Australian 3-year generic bond opened the quarter at 3.70% and traded in a 49bp range before closing at 3.26%. The yield on the 10-year generic bond opened at 4.38% and traded in a 43bp range before closing the quarter lower at 4.16%. The 3s/10s curve steepened by 22bps to 90bps.

The spread between the Australian 10-year government bond and US 10-year treasury note narrowed by 24bps, to close the quarter at -7bps.

GLOBAL BOND MARKET MOVES

	MAR QUARTER	JUN QUARTER	MOVE (BPS)	QUICK COMMENT
US 10-year note	4.21%	4.23%	2	Looming fiscal deficits keep long-dated yields high
German 10-year bund	2.74%	2.61%	-13	European inflation cools and growth remains flat
UK 10-year gilt	4.67%	4.49%	-18	BOE cuts in May. Market prices 75bps of further easing
Japanese 10-year bond	1.49%	1.43%	-6	BOJ maintains policy rate at 0.50% despite high inflation
Australian 3-year bond	3.70%	3.26%	-44	RBA eases policy rate 25bps in May and sends dovish signal
Australian 10-year bond	4.38%	4.16%	-22	Long-dated bonds outperform US as inflation moves towards RBA target

Table 2
Source: Equity Trustees as at 30/06/2025

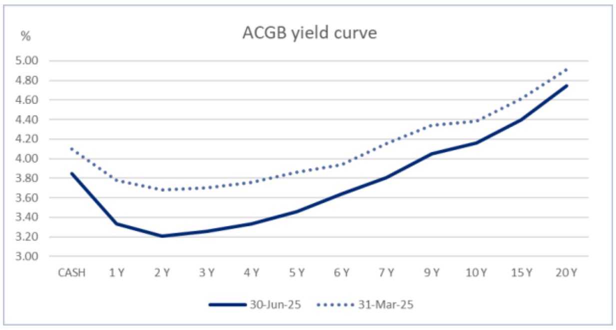
PORTFOLIO ACTIVITY AND ATTRIBUTION

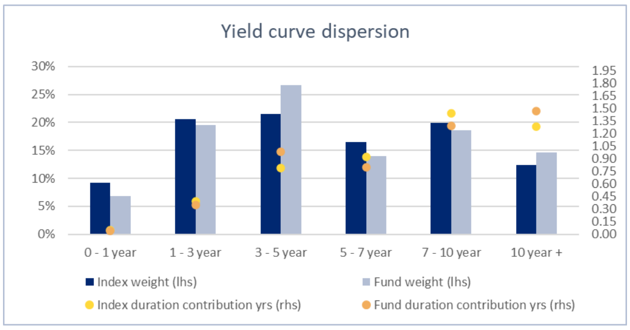
DURATION

We started the quarter broadly neutral duration, expecting to add on any meaningful bond sell-off. When yields edged higher around mid-May, we moved to a slightly longer duration position and maintained that stance until the end of the quarter.

YIELD CURVE

The domestic yield curve bull steepened over the period as front-end bond yields (out to 3 years) fell approx. 50bps and longer-dated tenors also fell, but not to the same extent.





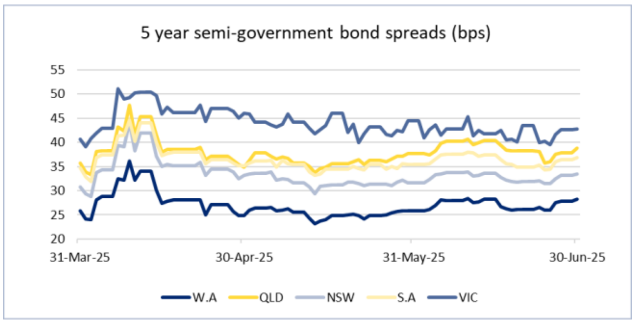
Source: Bloomberg, Equity Trustees as at 30/06/2025

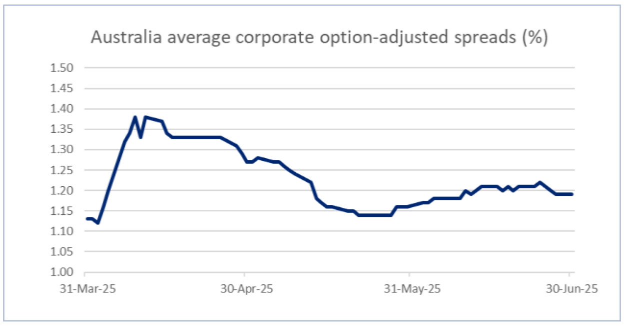
Our active curve positioning had a negligible impact on performance.

SECTOR ALLOCATION

Credit spreads widened in response to US tariff announcements in early April but progressively tightened over the course of the quarter once trade negotiations started with global trading partners. By the close of the quarter 5-yr semi-government spreads and corporate bond spreads had widened 2bps and 6bps respectively

From a benchmark component perspective, the semi-government sector performed best, delivering a 2.86% return for the quarter, followed by government bonds at 2.63%. Credit returned 2.31% and supranational bonds returned 2.17%.





Source: Bloomberg, Equity Trustees as at 30/06/2025

As we maintained a slightly higher allocation to semi-government bonds, our sector positioning had a mild positive impact on performance**.** Our security selections delivered the largest contribution to return over the quarter, adding 4bps.

Sector allocation as of 30 June 2025

	BENCHMARK [1]		PORTFOLIO		
SECTORS	BENCHMARK [1] WEIGHTS	DURATION CONTRIBUTION	PORTFOLIO WEIGHTS	DURATION CONTRIBUTION	DIFFERENCE
Commonwealth Govt bonds	47.1%	2.46	31.8%	2.22	-0.24
State (semi) Govt bonds	33.9%	1.83	34.1%	1.89	0.06
Supranational/sovereign/other	5.3%	0.16	6.3%	0.14	-0.02
Corporate bonds	13.7%	0.43	26.2%	0.70	0.27
Cash and related	0%	0.00	1.0%	0.00	0.00
	100%	**4.88**	**100%**	**4.95**	**0.07**

Source: Bloomberg, Equity Trustees as at 30/06/25
Note: Numbers taken from our Portfolio Management System may vary slightly from accounting or index reports. Numbers may not add precisely due to rounding.
[1] Benchmark is the Bloomberg AusBond Composite 0+ Year Index.

GLOBAL OUTLOOK

United States

Employment data released in June showed the US added 139,000 jobs against an expected increase of 126,000. The participation rate printed at 62.6%, while the unemployment rate remained at 4.2% and average hourly earnings rose by 0.4% MoM, slightly higher than expectations.

The US ISM manufacturing index declined from 48.7 to 48.5 and the ISM services index fell from 51.6 to 49.9, impacted by a fall in new orders. Factory orders (ex-transport) fell 0.5% in April, and durable goods orders fell 6.3%.

Retail sales fell 0.9% MoM in May, against an expected fall of 0.6%.

US headline inflation stood at 2.4% YoY in May and core CPI was running at 2.8%. The Feds preferred Core PCE inflation measure printed at 2.7% YoY.

The third read of Q1 GDP printed at -0.5%, revised from -0.2%.

The FOMC left its policy rate unchanged at between 4.25% and 4.50% in June, preferring to wait for the impacts of tariffs before adjusting policy. Market pricing has close to 100bps of easing for this financial year.

China

Economic activity data released during March improved as growth policies appear to have had an impact.

The Caixin manufacturing PMI index improved from 49.5 to 49.7 and the services PMI index rose from 50.3 to 50.5. Industrial production was up 6.3% YoY in May. Fixed asset investment growth increased 3.7% and retail sales rose 6.4% YoY against an expectation of 4.9%.

Conversely trade data was softer as exports printed at 4.8% YoY versus an expected 6% and imports fell 3.4% against an expected fall of 0.8%. US imposed tariffs threaten future trade.

Inflation continues to remain soft at -0.1% YoY.

Europe

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

Flash PMI data for May showed an improvement in manufacturing but a decline in services, printing at 49.4 and 49.7, respectively. Industrial production fell 2.4% in April, while retail sales rose 0.1% MoM.

The third read of Q1 GDP printed at 0.6% QoQ and 1.5% YoY.

The annual headline rate of inflation for Europe was expected to print at 1.9% YoY in May and core inflation is expected to be running at 2.3% YoY.

The ECB lowered its policy rate by 25bps in both April and June, taking the new level on the deposit facility announcement rate to 2%. Current market pricing implies another 25bp cut by year-end.

Australia

Employment fell 2,500 in May, below the consensus of an increase of 21,200. The unemployment rate remained steady at 4.1% due to a fall in the participation rate.

Manufacturing and service sector PMI indicators printed at 51 and 50.6, respectively. As measured by the NAB survey, business conditions fell, and business confidence rose in May.

Household spending rose 0.1% MoM in April against an expected increase of 0.2%.

The May monthly CPI data saw inflation fall from 2.4% YoY to 2.1% and the RBA's preferred trim mean measure fell from 2.8% YoY to 2.4%.

Q1 GDP printed at 0.2%, slightly lower than the 0.4% expected. The annual pace was 1.3%.

The RBA lowered the target cash rate by 25bps to 3.85% in May. Current market pricing implies a further 85bps of easing by June 2026.

SUMMARY

Softer economic data, falling inflation and the prospect of central bank policy easing has supported lower front-end yields. US trade and government fiscal policy uncertainty has resulted in an increase in the term premium for longer-dated treasuries. The result has seen a steepening in several sovereign yield curves.

Locally, we expect the RBA to continue to ease monetary policy further due to moderating inflation and subdued consumer spending. This easing profile has already been priced in bond markets.

Our preferred portfolio construction is:

- Duration: Neutral
- Yield curve: We look to maintain a slightly heavier allocation to bonds out to 5 years
- Sector/credit mix: We will maintain a broadly diversified portfolio consisting of short-dated highly rated corporate bonds and longer-dated semi-government and government securities.