March 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	1.31%	3.12%	1.49%	-0.74%	1.86%
Benchmark return[3]	1.29%	3.20%	1.67%	-0.51%	2.32%
Active return	0.01%	-0.09%	-0.18%	-0.23%	-0.46%

Table 1
Source: Equity Trustees as at 31/03/2025

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

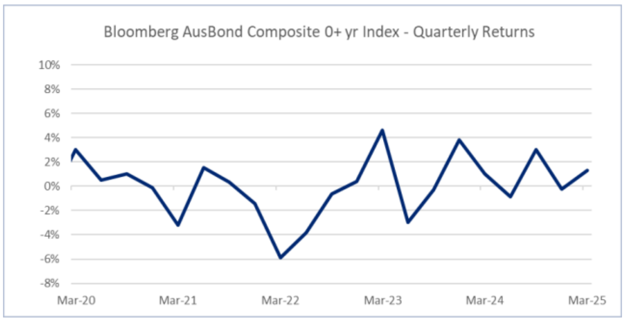
[2] Inception date is 14 October 2014.

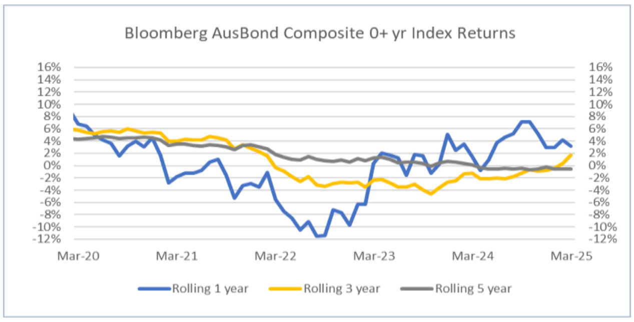
[3] Benchmark is the Bloomberg AusBond Composite 0+ Year Index.

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

PERFORMANCE SUMMARY

The Fund recorded a total net return of 1.31% for the March 2025 quarter, outperforming the Bloomberg AusBond Composite 0+ year Index by 1bp. Over the last 12 months the Fund recorded a total net return of 3.12%, underperforming the Index by 9bps. The total net return since inception is 1.86% p.a., underperforming the benchmark by 46bps over the same period.





Source: Bloomberg, Equity Trustees as at 31/03/2025

MARKET SUMMARY

Solid US economic data in the form of labour market, ISM manufacturing and industrial production saw longer-dated bond yields move higher in January. Domestically, further progress on underlying inflation saw the market price an increased probability of a rate cut in February and sent very short-dated bank bill and bond yields lower.

During February, US economic data and trade policy rhetoric drove global bond yields lower. ISM Services activity showed a slump in new orders, prompting investors to contemplate a general slowdown in consumer spending. This was further supported by lower personal spending data and weak retail sales activity. Regional manufacturing surveys also showed declines in activity and consumer sentiment fell sharply in February off the back of tariff concerns. Also supporting lower bond yields was the borrowing announcement from the US treasury which showed the level of new borrowings for the upcoming quarter as largely unchanged. US treasury secretary Scott Bessent provided further support to long-dated bonds by stating the Department intended to target the 10-year bond yield to supress mortgage and corporate borrowing costs. Adding to the rally, the Fed hinted at a potential slowdown in its bond sales which were purchased throughout the pandemic, courtesy of its quantitative easing policy. Domestically, the RBA decided it had seen sufficient progress on inflation to lower its policy rate by 25bps. Quarterly wage price data, which printed slightly weaker than expected provided support that wages were unlikely to contribute to price pressures in the near-term.

In March US bond yield moves were largely restrained, supported by better services activity and higher than expected job opening data. Domestically, monthly employment data for February was weaker and CPI was a little lower than expected with headline running at 2.4% YoY and trimmed mean falling from 2.8% to 2.7% YoY.

In terms of market movements, the yield on the Australian 3-year generic bond opened the quarter at 3.82% rose as high as 4.08% in January before reversing to close at 3.70%. The yield on the 10-year generic bond opened at 4.36% and moved as high as 4.63% in January before falling to 4.38%, ending the quarter just 2bps higher. The 3s/10s curve steepened by 14bps to 68bps.

The spread between the Australian 10-year government bond and US 10-year treasury note widened by 38bps, to close the quarter at 17bps.

GLOBAL BOND MARKET MOVES

	DEC QUARTER	MAR QUARTER	MOVE (BPS)	QUICK COMMENT
US 10-year note	4.57%	4.21%	-36	Weaker economic data in February provides tailwind for long-dated treasury note performance
German 10-year bund	2.36%	2.74%	38	Announced defence spend sends yields 30bps higher
UK 10-year gilt	4.56%	4.67%	11	BOE on hold in March
Japanese 10-year bond	1.08%	1.49%	41	BOJ maintains policy rate at 0.50% despite high inflation
Australian 3-year bond	3.82%	3.70%	-12	Market prices 75bps of RBA easing in 2025
Australian 10-year bond	4.36%	4.38%	2	Long-dated bonds underperform US rally

Table 2
Source: Equity Trustees as at 31/03/2025

PORTFOLIO ACTIVITY AND ATTRIBUTION

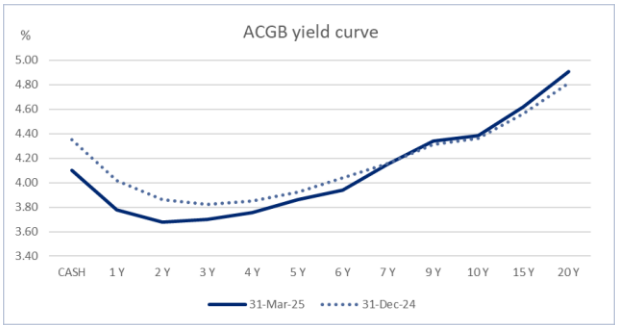
DURATION

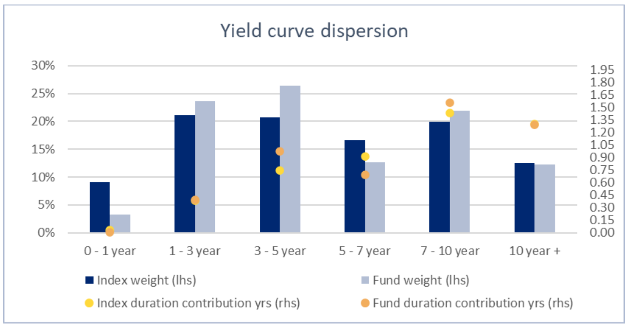
We began the quarter with a slightly longer duration position which we extended through January and maintained in February. With yields moving lower over the period, we moderated our long duration position into month-end, closing the quarter 0.10 years longer than the benchmark.

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

YIELD CURVE

The domestic yield curve bull steepened over the period as front-end bond yields (out to 7 years) fell whilst ultra-long-dated tenors rose.





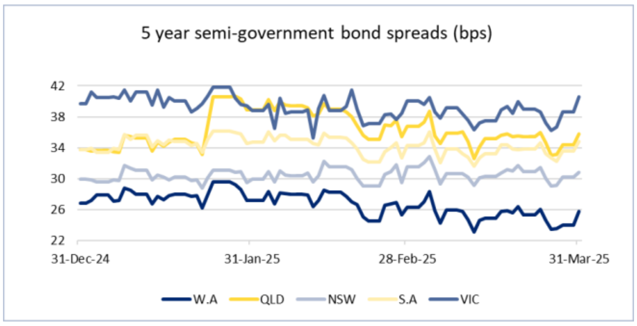
Source: Bloomberg, Equity Trustees as at 31/03/2025

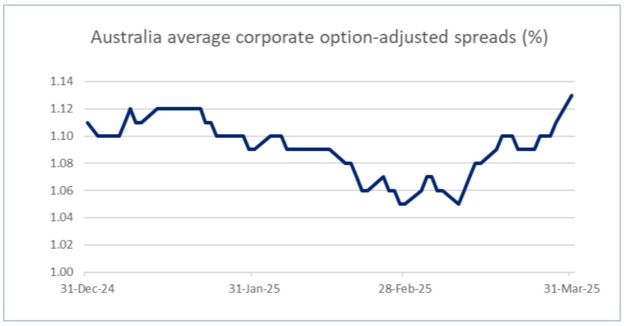
Our active curve positioning added to performance.

SECTOR ALLOCATION

Both semi-government and corporate bond spreads widened through late March as investors took profits amidst mounting concerns of trade tariffs and the rising threat of a US recession. Subordinated bonds underperformed senior bank lines.

From a benchmark component perspective, the shorter duration credit sector performed best, delivering a 1.52% return for the quarter, followed by supranational bonds at 1.42%. Semi-government bonds delivered1.38% and government bonds returned 1.16%.





Source: Bloomberg, Equity Trustees as at 31/03/2025

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

At the security level, our short-dated NBN holdings (2025 and 2026 maturities) made positive contributions, whereas our longer-dated Housing Australia (2031) and Airservices (2030) agency bonds detracted slightly from performance.

Sector allocation as of 31 March 2025

	BENCHMARK [1]		PORTFOLIO		
SECTORS	BENCHMARK [1] WEIGHTS	DURATION CONTRIBUTION	PORTFOLIO WEIGHTS	DURATION CONTRIBUTION	DIFFERENCE
Commonwealth Govt bonds	48.6%	2.45	30.0%	2.08	-0.37
State (semi) Govt bonds	32.4%	1.77	34.0%	1.94	0.17
Supranational/sovereign/other	5.5%	0.17	7.2%	0.17	-
Corporate bonds	13.5%	0.42	27.8%	0.73	0.31
Cash and related	0%	0.00	1.0%	0.00	0.00
	100%	**4.82**	**100%**	**4.92**	**0.10**

Source: Bloomberg, Equity Trustees as at 31/03/25
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 March showed the US added 151,000 jobs against an expected increase of 160,000. The participation rate printed at 62.4%, while the unemployment rate ticked up to 4.1% and average hourly earnings rose by 0.3% MoM, in line with expectations.

The US ISM manufacturing index declined from 50.9 to 50.3 and the ISM services index rose from 52.8 to 53.5, impacted by a rise in new orders and prices paid. Factory orders (ex-transport) rose 0.2% in January, and durable goods orders rose 0.9% against an expected decline of 1% for February.

Retail sales lifted 0.2% MoM in February, against an expected rise of 0.6%.

US headline inflation stood at 2.8% YoY in February and core CPI was running at 3.1%. The Feds preferred Core PCE inflation measure printed at 2.8% YoY.

Q4 GDP printed at 2.4%.

The FOMC left its policy rate unchanged at between 4.25% and 4.50% in March. Market pricing on 31 March had 75bps of policy easing by December 2025.

China

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

The Caixin manufacturing PMI index improved from 50.1 to 50.8 and the services PMI index rose from 51.0 to 51.4. Industrial production was up 5.9% YoY in February. Fixed asset investment growth increased 4.1% and retail sales rose 4% YoY against an expectation of 3.8%.

Conversely trade data was softer as exports printed at 2.3% YoY versus an expected 5.9% and imports fell 8.4% against an expected increase of 1%. US imposed tariffs threaten future trade.

Inflation continues to remain soft at -0.7% YoY.

Europe

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

Flash PMI data for March showed a decline in manufacturing and service sectors, printing at 48.6 and 50.4, respectively. Industrial production rose 0.8% in January but remained flat YoY, while retail sales fell 0.3% MoM.

Q4 GDP printed at 0.4% QoQ and 1.2% YoY.

The annual headline rate of inflation for Europe was expected to print at 2.2% YoY in March and core inflation is expected to be running at 2.4% YoY.

The ECB lowered its policy rate by 25bps to 2.5% in March, with market pricing on 31 March implying a further 60bps of easing in 2025.

Australia

Employment fell by 52,800 in February, below the consensus of an increase of 30,000. The unemployment rate remained steady at 4.1% due to a fall in the participation rate.

Manufacturing and service sector PMI indicators printed at 50.4 and 50.8, respectively. Business conditions rose and business confidence fell in February.

Retail sales rose 0.2% MoM in February and household spending lifted 0.2% MoM.

The February monthly CPI data saw inflation fall from 2.5% YoY to 2.4% and the RBA's preferred trim mean measure fell from 2.8% YoY to 2.7%.

Q4 GDP printed at 0.6% in line with expectations. The annual pace was 1.3%.

The RBA lowered the target cash rate by 25bps to 4.1% in February. Market pricing on 31 March had three 25bp cuts priced in for 2025.

SUMMARY

US trade policy is lowering global growth forecasts and increasing market volatility. Recently announced trade tariffs, when implemented, are expected to increase inflation in the short-term.

Locally, we expect the RBA to react to developments and cut rates by a further 25bps at the May meeting. Further easing will be required if we see declines in hard data.

Our preferred portfolio construction is:

- Duration: Long.
- Yield curve: We look to maintain a slightly heavier allocation to bonds out to 5 years on expectations of RBA rate cuts.
- 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.