# Mason Stevens OCIO

## Fixed Income Sector Review

## June 2024

# Fixed Income Sector Review

## Introduction

The The Mason Stevens OCIO Fixed Income sector review was completed in June 2024. This was a focused review of who we believe to be the best managers in market across both Australian and International Fixed Income. This review has in turn informed decisions around managers on the Mason Stevens High Conviction List (HCL). This document details our thoughts on this asset class, the process and outcomes of the review, and summaries of each of the managers.

In reviewing this sector we have looked to review the main subsectors and investment styles across fixed income. The subsectors that are covered both domestically and internationally include:

- **Diversified** – These are diversified bond strategies that typically invest around the relevant broad market index. They are predominantly allocated to government bonds but also include allocations to Investment Grade credit.
- **IG Credit** – These strategies invest predominantly in a diversified portfolio of investment grade corporates. One key differentiator within this segment are those strategies that invest in floating rate notes, and therefore have minimal interest rate duration, and those that invest in fixed rate corporate issuance and therefore typically have quite lengthy interest rate duration exposures.
- **Government** – Strategies that focus purely on government issued debt, but with consideration of semi-government and supra national debt as well.
- **High Yield** – These are investment strategies that invest predominantly in the sub-investment grade corporate debt market. This part of the market sees higher levels of default and as such offers typically higher yields as well as greater volatility.
- **Syndicated Loans** – This generic term describes the senior, secured sub investment grade market. This market bridges the private and public fixed income markets and provides borrowers with an alternative to high yield bonds and bilateral commercial bank loans. Debt issued in this space is typically floating rate in nature.
- **Emerging Market Debt** – This covers bonds issued by sovereigns and corporates in emerging markets. This includes both USD and local currency issued debt.
- **Absolute Return and Unconstrained** – This covers a broad range of strategies from Diversified Bond funds that run very wide ranges in terms of interest rate duration and sector exposure, through to those strategies that use derivative based strategies that effectively lower correlations and exposures to duration and credit.
- **ESG and Green** – This is a growing area of bond investing, which ranges from those strategies that incorporate meaningful ESG screening into their investment process through to those strategies that invest in Green and Social Impact bonds.

These areas are not of course exclusive and many managers have strategies that will straddle a couple of the areas listed above. Below we detail some key thoughts and themes for the sector and this is followed by a summary of the sector review itself.

# Sector commentary

## Duration is back

In late 2011 the US 10-year bond yield went below 2% for the first time in the past 100 years, and for the next decade rarely got above that level, and indeed fell to around 0.50% during the COVID pandemic in 2020. For much of that decade, despite the low levels of yield, being long duration in your portfolio delivered strong real returns as bond yields moved ever lower. The long-term forward-looking returns, however, looks skinnier and skinnier, with the term premium highly unappealing given the risk that inflation would return at some point. We all now know the story of the last couple of years as inflation surged in 2021 and 2022, followed thereafter by one of the steepest and most synchronised global interest rate hiking cycles in history. Unsurprisingly this led to the largest bond bear market, since the 1970s, with bond markets down over 10% in most markets.

That damage having been done, however, bonds look far more attractive as an asset class on a go forward basis. Good quality investment grade bond portfolios have a yield to maturity of around 5-6%, while central banks look to be slowly but surely bringing inflation back to their respective targets (typically 2-3%). Indeed some central banks have already started to cut rates. A positive real return on bonds can be more confidently predicted than at any time in the past 13 years.

Accordingly, allocations to traditional diversified and highly quality bond strategies should have a place in your portfolio. The downside with traditional bonds are far more limited in 2024 and beyond. The maths of convexity with bonds means the higher the starting yield, the less a rise in yields hurts returns. For example when US 10 year Bond Yields were 1% in 2020-2021, a 100bps back up in yields resulted in an approximate 5% loss. As we sit today, however, with the US 10 Year yield around 4.5%, if we had a back up in yields by a 100 bps across the curve, losses would be around 1.5%, far less than the prior environment given the high starting yield. We consider a 100 bps rise in yields to be relatively unlikely at present, given the broadly disinflationary environment, and as such the downside on bonds look relatively limited. Conversely there may very well be some meaningful upside in Bonds in the next year or so if the long-debated recession in US (and domestically) does actually occur. This doesn't have to happen for bonds to be attractive but it does provide a nice asymmetry to the likely return profile of bonds going forward.

### What interest rate duration is my manager taking?

With interest rate duration set to reward investors again on a medium-long term basis, it's certainly time to consider what exposure you have in your portfolio to this risk premia, and which managers are you allocating too for this. In the same way that not having enough equity beta in your portfolio can be a long-term detractor from returns, not having enough interest rate duration could also be a drag on potential returns in the defensive part of your portfolio, as well as reducing diversification. Within that however, yields at the front end of the curve are higher than the long end (US and Australia curves remain inverted at this point), and there has been a strong argument to stay shorter in your duration in the short-term, particularly as growth and inflation remain somewhat elevated. Likely the most efficient way to manage the challenges here is with an active manager that has demonstrated an ability to add alpha via duration positioning over time. With that said generating alpha via duration has not necessarily been a happy hunting ground for many active managers, with it being a highly efficient market. On our High Conviction List, however, we have identified a small handful of diversified managers whose alpha attributon through time has included interest rate duration, and we expect to deliver long term alpha going forward.

With that said, many portfolios we look at today have a heavy overweight to floating rate credit. This has proved to be an excellent source of excess returns in recent years as credit spreads have tightened to very low levels, and as these strategies have avoided the pain that benchmark duration strategies have endured since 2022. However, as highlighted above, we like the asymmetry of strategies with benchmark like duration over the medium to long term, while there is a question on how much more upside there is in credit given tight credit spreads. Furthermore, floating rate credit exposures will likely generate much lower returns in a recession as credit spreads move wider. This is not to argue for swapping out credit for duration, but rather to consider reviewing the balance and diversification you have in your portfolio across these two levers. We have a range of duration and credit options on the High Conviction List, both active and passive, that should facilitate a well-diversified Fixed interest portfolio for the current environment.

### Whither the Absolute Return Bond Fund?

The last decade of ever lower yields saw an ever increasing number of unconstrained or absolute return bond funds in market. This was a response to asset allocators seeking to generate higher absolute returns from their defensive assets when interest rates were near zero. The better absolute return strategies have been meaningful contributors to portfolio returns while also reducing risk. On a relative return basis, even if some of these absolute return strategies were delivering small single digit losses in recent years, they were providing far better returns than the double digit drawdowns we saw with traditional Bonds. As we look forward, however, allocating to traditional bond strategies looks attractive as has been discussed. In this environment an allocation to an absolute return bond fund is less obvious than it once was. While there are a broad range of absolute return bond funds doing quite different things, they are broadly more reliant on manager skill to generate real returns. This is distinct from the traditional bond fund manager where the bond beta will do most of the heavy lifting. The traditional bond fund manager may underperform the market but still likely deliver a positive real return going forward. Conversely, and as we have discussed in other commentaries, the more reliant a strategy is on the actual skill of the manager to generate positive absolute returns, the more work you have to do to be certain about the actual skill of the manager, otherwise you may well be looking at an expensive way to generate a return lower than cash. On our High Conviction List we have a small, but we believe, high quality list of absolute return strategies that continue to warrant their place in a defensive allocation both from a return and diversification perspective.

# Scope of Review

There are more than 200 fixed income managed funds available in the local market along with about 60 ETFs. Our review process seeks to identify the best in market managers across this broad universe.

## Initial Screen

In conducting a review of this asset class, the Mason Stevens process starts with a quantitative screen. Managers within each asset class and sub-asset class are reviewed in terms of performance and ratios within relevant peer groups. For fixed income this is done as follows:

» Breakdown the asset class into Global and Australian fixed income, and then subsequently into smaller peer groups – diversified, government, IC Credit, High Yield, Emerging Market Debt, Unconstrained, ESG and Green Bonds.

» Consider performance and alpha within peer groups over all timeframes but with a particular focus on 3 and 5 years for Fixed Income, which are timeframes that align to managers own stated objectives.

» Look at asset class relevant performance and risk statistics e.g. information ratio, sharpe ratio, tracking error, batting average, consistency of return and correlation.

» ESG screen – use of Morningstar Sustainalytics to understand exposures and identify any poor performers in this space.

» Cost comparisons – look at total cost ratios in comparison with peers.

This screening process is designed to refine the list of managers under consideration to those where the data is strongly supportive of the manager having a level of investment skill in either alpha generation and/or risk minimisation. Morningstar Direct and Jacobi Analytics are the two main systems used for the quantitative screen.

## External Research House Screen

Mason Stevens will review external research house ratings for the asset class as well. This provides a qualitative check on the quant screen process, helping to identify managers for selection or de-selection that a quant screen in isolation may not. The major external research houses provide broad market coverage, detailed qualitative and operational research. Their output is a ratings methodology that clearly identifies their highly rated managers e.g. recommended and highly recommended. This effectively provides us with an expert second opinion, as well as a cross check against the quantitative screen.

Finally, we will on occasion review strategies that meet neither that quantitative or qualitative screening process, due to their newness in market, but where there is evidence of a compelling capability.

Through the quantitative and qualitative process outlined above, there were 35 strategies placed on a short list for detailed due diligence for the Fixed Income review.

## Manager Due Diligence

Managers that passed both the quantitative and qualitative screen were engaged to complete a due diligence questionnaire (DDQ). This questionnaire is a detailed set of questions that covers key areas of consideration including more objective and data related areas as well as some open-ended questions. We also request key documents such as the Product Disclosure Statement (PDS)/Investment Memorandum (IM), investment recommendation samples, and the Financial Services Council (FSC) Questionnaire.

Review of this DDQ led to either proceeding with a meeting with the manager or being screened out. Manager meetings are always a multi meeting process with the aim to gain clarity in the following five areas:

- **Objective and philosophy** – What are they trying to achieve and what is the approach they are taking to achieve that? What is the manager's underlying investment philosophy? What's the evidence that this approach works and why do they think they have an information edge vs peers?
- **Organisation and people** – who is the fund manager, portfolio manager and analysts? How experienced are they? How stable has the team been? How well aligned are the team to the end objective of the fund?
- **Investment process** – is idea generation, security selection, portfolio construction and risk management coherent and does it tie back to the objective? We look for critical thinking and a clear view on what their competitive advantage is.
- **Fees** – are the fees competitive within the peer group and are any performance fees aligned to the interests of investors? Do they inhibit the stated objective?
- **Performance** – assessment of performance against objective and against peers, referencing back to quantitative screen process.

Assessment across these five areas looks to identify the consistency or inconsistency with the investment objective and approach, and ultimately whether there is an identifiable competitive advantage or information edge.

# Scoring Process

In going through this research process, the managers were scored against their peers using the following scale across the five areas mentioned previously of philosophy, people, process, price, and performance. The scoring outcome is defined in Table 1.

**Table 1: Mason Stevens Manager Selection Rating Process**

| Individual Component Ratings | Explanation |
|---|---|
| 1 | Poor |
| 2 | Below average/below peers |
| 3 | Investment Grade/In line with peers |
| 4 | Recommended/ahead of peers |
| 5 | Highly Recommended/significantly ahead of peers |
| **Numerical Scores** | **Qualitative Score** |
| 0-2 | Sell |
| 2.25 – 2.75 | Below average/reduce |
| 3 – 3.5 | Investment Grade/Hold |
| 3.75 – 4.25 | Recommended/buy |
| 4.5+ | Highly Recommended/buy |

Source: Mason Stevens OCIO

This scoring process provides a discipline in testing overall impressions, and potentially highlights where more work needs to be done before landing on a final score.

All managers on the HCL received a score of 3.75 or greater. Further information on the Mason Stevens OCIO Managed Fund and ETF Selection Process can be found here.

# Review Outcomes

Our scoring noted above drives the outcomes, and typically the top two scoring managers in any given style are the managers added to the HCL. If an insufficient number of active managers meet at least the Recommended score, then that is when we may defer to a rules based or even market cap ETF to fill the style or sub asset class. The outcome from the review was to add the following managers to the Mason Stevens HCL as per Table 2.

**Table 2: Fixed Income funds on the HCL**

| Product Name | Sub Asset Class | Style/Segment | Discount for Mason Stevens OCIO Clients | Structures |
|---|---|---|---|---|
| Pendal Short Term Income Securities Fund | Australian Fixed Interest | Cash Enhanced | Yes | Fund |
| Yarra Enhanced Income | Australian Fixed Interest | Diversified Credit - Hybrids | Yes | Fund |
| Macquarie Australian Fixed Interest Fund | Australian Fixed Interest | Diversified Fixed interest | Yes | Fund |
| Perpetual Active Fixed | Australian Fixed Interest | Diversified Fixed interest | Yes | Fund |
| Pendal Sustainable Australian Fixed Interest | Australian Fixed Interest | ESG Focused | No | Fund |
| Pendal Government Bond | Australian Fixed Interest | Government | No | Fund |
| Betashares Australian Investment Grade Corporate Bond ETF | Australian Fixed Interest | IG Credit - Duration | No | ETF |
| iShares Core Corporate Bond ETF | Australian Fixed Interest | IG Credit - Duration | No | ETF |
| Perpetual Diversified Income Fund | Australian Fixed Interest | IG Credit - Floating Rate | Yes | Fund |
| Realm Short Term Income | Australian Fixed Interest | IG Credit - Floating Rate | No | Fund |
| Janus Henderson Tactical Income Fund | Australian Fixed Interest | Unconstrained Bond | No | ETF/Fund |
| Perpetual Pure Credit Alpha | Australian Fixed Interest | Unconstrained Bond | No | Fund |
| Bentham Global Income Fund | Global Fixed Interest | Diversified Credit - Duration | Yes | Fund |
| Ares Credit Income | Global Fixed Interest | Diversified Credit - Floating Rate | No | Fund |
| JPMorgan Global Bond | Global Fixed Interest | Diversified Fixed interest | Yes | ETF/Fund |
| Macquarie Dynamic | Global Fixed Interest | Diversified Fixed interest | Yes | ETF/Fund |
| PIMCO Global Bond Fund | Global Fixed Interest | Diversified Fixed interest | Yes | Fund |

| Product Name | Sub Asset Class | Style/Segment | Discount for Mason Stevens OCIO Clients | Structures |
|---|---|---|---|---|
| Colchester Emerging Marlets Debt | Global Fixed Interest | Emerging Market Debt | Yes | Fund |
| PIMCO ESG Global Bond Fund | Global Fixed Interest | ESG Focused | Yes | Fund |
| Colchester Global Government Bond Fund | Global Fixed Interest | Government | Yes | Fund |
| BNP Paribas Green Bond | Global Fixed Interest | Green Bonds | No | Fund |
| Bentham High Yield | Global Fixed Interest | High Yield | Yes | Fund |
| Vanguard Active Global Credit Bond Fund | Global Fixed Interest | IG Credit - Duration | No | Fund |
| Invesco WS Senior Secured Income | Global Fixed Interest | Syndicated Loans | Yes | Fund |

Source: Mason Stevens OCIO

# Manager Performance

Below we have performance and volatility numbers for the fixed income managers on the HCL. One very evident difference in performance is between those managers with floating rate and/or low duration exposures, whose returns have typically been positive over 3 and 5 years, and managers with benchmark like duration exposure, whose returns have typically been negative over 3 and 5 years given the worst bond bear market since the 1970s. As outlined above we would expect far better returns from traditional bond funds in coming years.

**Table 3: Performance and 30th April 2024 for Fixed Income funds on the HCL**

| APIR Code | Product Name | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|
| | **Enhanced Cash** | | | | | |
| WFS0377AU | Pendal Short Term Income Securities Fund | 1.37 | 2.72 | 5.2 | 2.63 | 2.24 |
| *ETF Benchmark* | *iShares Enhanced Cash ETF* | *1.14* | *2.31* | *4.5* | *2.31* | *1.7* |
| | **Australian Floating Rate Credit** | | | | | |
| JBW0018AU | Yarra Enhanced Income Fund | 1.6 | 5.33 | 8.07 | 4.49 | 4.28 |
| PER0260AU | Perpetual Diversified Income Fund | 1.94 | 4.91 | 8.29 | 3.64 | 3.53 |
| OMF3725AU | Realm Short Term Income Fund | 1.94 | 3.84 | 7.22 | 3.72 | 3.29 |
| *ETF Benchmark* | *VanEck Australian Floating Rate ETF* | *1.36* | *2.67* | *5.11* | *2.55* | *2.12* |
| | **Australian Investment Grade Credit** | | | | | |
| CRED | Betashares Australian Investment Grade Corporate Bond ETF | -0.27 | 7.9 | 3.44 | -1.91 | 0.94 |
| *ETF Benchmark* | *Vanguard Australian Corporate Fixed Interest* | *0.08* | *4.23* | *3.09* | *-0.5* | *1.18* |
| | **Australian Diversified Fixed Interest** | | | | | |
| MAQ0061AU | Macquarie Australian Fixed Interest Fund | -1.17 | 5 | -0.35 | -1.89 | -0.02 |
| PER8045AU | Perpetual Active Fixed Interest Fund (Class A Units) | -0.7 | 5.57 | 1.14 | -1.65 | 0.24 |
| BTA0507AU | Pendal Sustainable Australian Fixed Interest Fund | -1.03 | 5.03 | 0.02 | -2.07 | 0.23 |
| *ETF Benchmark* | *iShares Core Composite Bond ETF* | *-1.03* | *4.72* | *-0.6* | *-2.26* | *-0.45* |
| | **Australian Government Bonds** | | | | | |
| BTA0111AU | Pendal Government Bond Fund | -1.46 | 5.01 | -1.12 | -2.23 | -0.27 |
| *ETF Benchmark* | *Betashares Australian Government Bond ETF* | *-1.77* | *6.68* | *-2.79* | *-4.21* | – |
| | **Unconstrained Bond Funds** | | | | | |
| IOF0145AU | Janus Henderson Tactical Income Fund | 0.36 | 3.77 | 5.49 | 1.95 | 2.26 |
| PER0669AU | Perpetual Pure Credit Alpha Fund – Class W | 2.37 | 4.83 | 9.59 | 4.98 | 4.48 |
| *ETF Benchmark* | *iShares Core Composite Bond ETF* | *-1.03* | *4.72* | *-0.6* | *-2.26* | *-0.45* |

| APIR Code | Product Name | 3 Months | 6 Months | 1 Year | 3 Years | 5 Years |
|---|---|---|---|---|---|---|
| | **Global Diversified Fixed Interest** | | | | | |
| PER6912AU | JPMorgan Global Bond Fund – Class A Units | -1.75 | 5.04 | 0.7 | – | – |
| MAQ0274AU | Macquarie Dynamic Bond Fund | -2.08 | 4.79 | 0.62 | -1.87 | 0.46 |
| ETL0018AU | PIMCO Global Bond Fund – Wholesale Class | -0.9 | 5.51 | 2.26 | -2.74 | 0.06 |
| PIC6396AU | PIMCO ESG Global Bond Fund – Wholesale Class | -1.18 | 5.3 | 1.4 | -3.17 | -0.23 |
| ETL0521AU | BNP Paribas Green Bond Trust | -1.24 | 5.29 | 1.42 | – | – |
| *ETF Benchmark* | *Vanguard Global Aggregate Bond Index (Hedged) ETF* | *-1.46* | *4.41* | *0.46* | *-3.86* | *-1.04* |
| | **Global Government Bonds** | | | | | |
| ETL0409AU | Colchester Global Government Bond Fund Class A | -2.75 | 3.75 | -1.06 | -3.01 | -0.51 |
| *ETF Benchmark* | *Vanguard International Fixed Interest Index ETF (Hedged)* | *-1.33* | *3.77* | *-0.06* | *-3.53* | *-1.11* |
| | **Emerging Market Debt** | | | | | |
| ETL3065AU | Colchester Emerging Markets Bond Fund – Class I (Unhedged) | -1.94 | 2.7 | 7.39 | 5.85 | 3.24 |
| *ETF Benchmark* | *iShares J.P. Morgan USD Emerging Markets Bond (AUD Hedged) ETF* | *0.87* | *9.62* | *5.79* | *-4.81* | *-1.52* |
| | **Global Investment Grade Credit** | | | | | |
| VAN3932AU | Vanguard Active Global Credit Bond Fund | -1.74 | 6.01 | 2.11 | -2.98 | – |
| *ETF Benchmark* | *iShares Core Global Corporate Bond (AUD Hedged) ETF* | *-1.44* | *5.94* | *2.25* | *-3.53* | *-0.38* |
| | **Global Divesfied Credit and High Yield** | | | | | |
| CSA0038AU | Bentham Global Income Fund | -0.55 | 7.75 | 3.56 | 2.74 | 3.55 |
| HOW4476AU | Ares Global Credit Income Fund | 1.41 | 5.09 | 8.54 | 3.46 | – |
| CNA0805AU | Invesco Wholesale Senior Secured Income Fund | 1.31 | 4.04 | 9.43 | 4.12 | 3.65 |
| CSA0102AU | Bentham High Yield Fund | 0.37 | 8.18 | 8.38 | 1.4 | 2.45 |
| *ETF Benchmark* | *iShares Global High Yield Bond (AUD Hedged) ETF* | *-0.06* | *6.93* | *7.4* | *0.32* | *1.69* |

Past performance is not a reliable indicator of future performance.

# Manager Summaries

## Ares Credit Income Fund

| | |
|---|---|
| **Summary** | An actively managed short duration global credit strategy with a max 50% in sub investment grade |
| **Objective** | The Fund seeks to generate excess returns (net of fees) of 3.0% to 4.0% above the Bloomberg Ausbond Bank Bill Index over a three-year period. |
| **People** | Ares manage $100b in liquid credit strategies, underpinned by over 100 investment professionals. This strategy is led by 4 Co-PMs – Keith Ashton, Charles Aduini, Kevin Alexander, and Brian Abdelhadi. |
| **Processes** | » The manager focuses on relative value opportunities in liquid credit markets. Based on macro views and relative value opportunities, the portfolio is dynamically rotated across U.S. and European loans, corporate bonds, collateralised loan obligations ("CLOs"), and commercial mortgage-backed securities ("CMBS")<br>» The manager leverages its integrated liquid and private credit platform of $200bn + to derive key insights and deal flow<br>» Detailed, bottom-up credit due diligence, with a focus on downside risks, has led to default rate of approx only one-third of relevant indices<br>» Portfolio interest rate duration is managed between 0.5 years to 2.5 years. |
| **Fees** | 0.75% p.a. |

## Bentham Global Income Fund

| | |
|---|---|
| **Summary** | A longstanding active and diversified global credit strategy that can have a maximum of 50% in High Yield. |
| **Objective** | Targeting benchmark plus 2% p.a. after fees on a rolling 3-year basis (benchmark is 50% Ausbond Composite and 50% Ausbond Bank Bill). |
| **People** | Led by Richard Quinn, a highly experienced PM, who started this strategy in 2003. Quinn is supported by a local team of 9, as well as via a longstanding relationship with Credit Suisse (UBS), one of the world's leading credit teams (approx. a team of 70). |
| **Processes** | » The process starts with the manager's quarterly economic outlook which looks to forecast risk and returns on a one- and three-year basis. This outlook is the key driver in terms of overall portfolio positioning from a duration and credit sector perspective.<br>» Bottom-up credit analysis is a combination of work from the Bentham team on the investment grade securities while any High Yield allocations are predominantly done by the Credit Suisse team<br>» Allocation limits across High Yield, Loans, Hybrids are wide but overall sub-investment grade is limited to 50%. Duration is management is highly active and has ranged from 0 years through global agg weight in recent years. |
| **Fees** | 0.77% p.a. (15bps rebate so effective fee of 0.62% p.a.). |

## Bentham High Yield Fund

| | |
|---|---|
| **Summary** | A longstanding active global High Yield strategy predominantly in US High Yield |
| **Objective** | Aims to outperform the ICE BofA MerrillLynch US Cash Pay High Yield Constrained Index (Hedged to AUD) after fees over three-year rolling periods. |
| **People** | Led by Richard Quinn, a highly experienced PM. Quinn is supported by a local team of 9, as well as via a longstanding relationship with Credit Suisse (UBS), one of the world's leading credit teams (approx. a team of 50). |
| **Processes** | » The process is focused on bottom-up credit analysis of High Yield securities predominantly done by the Credit Suisse team<br>» Security selection is based on relative value within the capital structure of comparable companies and industries, with preservation of principal an important focus in the investment process<br>» The strategy maintains a high level of industry and issuer diversification. The strategy is limited to 12% per sector, reducing the risk with any specific industry dislocations |
| **Fees** | 0.84% p.a. (15bps rebate so effective fee of 0.69% p.a.). |

## BetaShares Australian Investment Grade Corporate ETF (CRED)

| | |
|---|---|
| **Summary** | A smart beta exposure that tracks the Solactive Australian Investment Grade Corporate Bond Index. |
| **Objective** | The fund aims to track the performance of the underlying index before fees. |
| **People** | Betashares is a leading Australian ETF provider with $38BN in FUM. This strategy is led by Louis Crous, CIO, and is assisted by 5 portfolio managers and 2 assistant portfolio managers. |
| **Processes** | » The underlying index favours securities with higher expected returns rather than debt outstanding. Securities are prioritised by the yield spread over Australian government bonds of similar maturities.<br>» As such while we would expect this ETF to deliver higher returns through time vs a traditional index, it will also be more volatile given a greater exposure to BBB securities within the Investment Grade universe<br>» Bond holdings range between 28-50 securities and are equally weighted in the portfolio. Bond Maturities range from 5-10 years and duration is typically longer than the Ausbond Credit Index |
| **Fees** | 0.25% p.a. |

## BNP Paribas Green Bond Fund

| | |
|---|---|
| **Summary** | A diversified Bond strategy with at least 85% in Green Bonds and a heavy skew to Europe |
| **Objective** | Aims to outperform the Bloomberg Barclays MSCI Global Green Bond Index Euro Hedged |
| **People** | BNP Paribas is a large global bond fund manager, with over $150bn in FUM and over 90 investment professionals. This strategy is led by Arnaud Guillhem Lamy, and is supported by BNP's separate Sustainability Centre which has over 30 dedicated staff. |
| **Processes** | » The Sustainability Centre team rate eligible green bonds – reviewing the ambition of each bond and ensuring there are concrete spending plans tied to the issuance, as well as scoring the issuer with their proprietary issuer score<br>» This team also conduct ex-post analysis to track how the issuer is reporting and tracking towards goals<br>» The higher scoring Green Bonds then become eligible for the Green Bond Fund in alignment with the manager's overall investment process that incorporates the manager's macro, valuation and technical views<br>» The portfolio is managed to -3/+2 years benchmark duration, with a maximum of 20% in High Yield. |
| **Fees** | 0.65% p.a. |

## Colchester Global Government Fund

| | |
|---|---|
| **Summary** | A benchmark unaware Global Sovereign Bond strategy with a value focus |
| **Objective** | Aims to outperform the FTSE World Government Bond Index over the cycle by 2% p.a. gross of fees. |
| **People** | Colchester is a boutique Fixed Interest manager based in London with $40bn in FUM. Ian Sims (CIO) and Keith Lloyd (Deputy CIO) are highly experienced (over 40 years each) and lead team of 13. |
| **Processes** | » Colchester looks to own sovereign bonds with the highest relative real yields, and the currencies most undervalued from a relative perspective. It does this in a benchmark unaware manner.<br>» Colchester has its own proprietary model with a focus on forecasting inflation 18-24 months out. Colchester seeks to own those bonds with the highest relative real yields based on these forecasts<br>» This approach enables the manager to have significant weights to the highest real yielding sovereigns while having no/minimal exposure to countries with negative real yields e.g. Japan. This is nevertheless risk managed with a 3-4% tracking error average and a duration limit of +/-25% of the benchmark |
| **Fees** | 0.57% p.a. (5bps rebate so effectively 0.52% p.a.) |

## Colchester Emerging Market Bond Fund

| | |
|---|---|
| **Summary** | A benchmark unaware Global Emerging Market Bond strategy with a value focus |
| **Objective** | Aims to outperform the JP Morgan EM Global Diversified Index over the cycle by 2% p.a. gross of fees. |
| **People** | Colchester is a boutique Fixed Interest manager based in London with $40bn in FUM. Ian Sims (CIO) and Keith Lloyd (Deputy CIO) are highly experienced (over 40 years each) and lead team of 13. |
| **Processes** | » Colchester looks to own sovereign bonds with the highest relative real yields, and the currencies most undervalued from a relative perspective. It does this in a benchmark unaware manner<br>» Colchester has its own proprietary model with a focus on forecasting inflation 18-24 months out. Colchester seeks to own those bonds with the highes relative real yields based on these forecasts<br>» This approach enables the manager to have significant weights to the highest real yielding sovereigns while having no/minimal exposure to countries with negative real yields e.g.<br>» This is nevertheless risk managed with a 5% tracking error average and a duration limit of +/-25% of the benchmark. There is also a max. of 25% to any major EM country. |
| **Fees** | 0.77% p.a. (5bps rebate so effectively 0.72% p.a.) |

## Invesco Senior Secured Income

| | |
|---|---|
| **Summary** | An actively managed portfolio of US senior secured loans providing high levels of monthly income. |
| **Objective** | Targets Ausbond Bank Bill plus 4% p.a. before fees over rolling 3 year periods. |
| **People** | Led by Invesco's Head of Global Private Credit, Scott Baskind, a highly experienced investor who has been with Invesco for 24 years. He is supported by an experienced senior team and 22 credit analysts. |
| **Processes** | » This strategy invests in Syndicated Loans – sub-investment grade loans that are senior secured<br>» Fundamental credit analysis is the cornerstone of the approach, with a focus on the probability of default and expected loss.<br>» Each analyst recommendation is reviewed by the Invesco IC, assigning internal credit ratings, ESG ratings, and maximum exposure limits.<br>» The portfolio manager can then allocate to preferred credits within this universe subject to single borrower and sector limits. |
| **Fees** | 0.75% (rebate of 10bps so effective fee of 0.65%). |

## iShares Core Corporate Bond ETF (ICOR)

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|---|---|
| **Summary** | A passive exposure that tracks the Bloomberg Ausbond Credit 0+ Yr Index. |
| **Objective** | The fund aims to track the performance of the underlying index before fees. |
| **People** | iShares is the world's largest ETF provider. This strategy is led by Craig Vardy, Head of Australian Fixed Income, and is supported by a team of 5. |
| **Processes** | » The underlying index is a widely used Australian Corporate Bond index providing a diversified, investment grade exposure to Australian corporate bonds.<br>» The manager uses a sampling approach to provide a match to the index in terms of duration, yield curve, sector, and credit, without necessarily holding all the securities in the index.<br>» There are more than 300 bonds in the portfolio and interest rate duration is typically between 4-5 years |
| **Fees** | 0.15% p.a. |

## Janus Henderson Tactical Income Fund

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|---|---|
| **Summary** | An absolute return focused Australian Fixed Interest strategy that tactically allocates across the asset class |
| **Objective** | Aims to outperform the Bank Bill and Composite Index equally weighted by 1% p.a. before fees |
| **People** | Janus Henderson has a long-established and cohesive Australian Fixed Interest team of 9 managing. Head of Fixed Interest, Jay Sivapalan, has been with the team for 23 years and leads the strategy |
| **Processes** | » The strategy actively manages exposures through the cycle across Sovereigns, Investment Grade Bonds, Floating Rate Credit, High Yield and Cash<br>» The allocation across these exposures is driven by fair value model that starts with cash forecasts and assesses pricing across the markets based on an assessment of the macro environment and monetary policy<br>» Credit analysis focus on quality, with an emphasis on preserving defensive characteristics rather than any relative value opportunity<br>» The strategy allocates actively across all sectors with a maximum of 20% to high yield. Duration can range from -0.75 years absolute to +1.5 years above the Composite benchmark. Historically has typically ranged 0-3.5 years |
| **Fees** | 0.45% p.a. |

## JP Morgan Global Bond Fund

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|---|---|
| **Summary** | A benchmark aware Global Fixed Interest strategy that seeks to generate consistent alpha. |
| **Objective** | Aims to outperform the Bloomberg Global Agg Index (AUD Hedged) by 0.75-1.25% p.a. gross of fees. |
| **People** | JP Morgan is one of the world's largest bond fund managers with $1 trillion in FUM, and over 300 investment professionals worldwide. This strategy is led by Myles Bradshaw who leads a portfolio team of 9 PMs. |
| **Processes** | » The JP Morgan process consistently reviews three key drivers – Fundamentals (Macro data and earnings), Quantitative (proprietary valuation model), and Technicals (supply/demand and momentum).<br>» Using the three drivers each sector across the global fixed interest universe is ranked based on conviction and expected return to drive portfolio positioning<br>» The Portfolio Manager works with sector heads on specific positioning and security selection within the strategy, leveraging the large credit analyst capability.<br>» Duration is managed within 2 years either side of the benchmark, while the strategy typically won't have more than 10% in sub-investment grade. |
| **Fees** | 0.23% (Institutional Class pricing) |

## Macquarie Australian Diversified Fixed Interest

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|---|---|
| **Summary** | A benchmark aware Australian Fixed Interest strategy that seeks to generate consistent low risk alpha. |
| **Objective** | Aims to outperform the Bloomberg AusBond Composite 0+ Yr Index over the medium term. |
| **People** | Macquarie has built a highly experience and global fixed interest team of 130.<br>This strategy is led by Head of Rates and Currency, Matthew Mulcahy, and Senior PM David Ashton. |
| **Processes** | » This is a conservative, benchmark aware, portfolio that that is seeking to generate alpha in a low risk manner<br>» Macquarie's quarterly investment forum establishes view on duration, credit, and sectors. Portfolio positions are then established with tight risk controls around interest rate and credit duration exposures<br>» Additionally the manager looks to generate alpha through relative value and arbitrage trades that exploit anomalies in the market e.g. mispricing between futures and physical that occurs when large institutions are forced buyers/sellers |
| **Fees** | 0.40% (a 4bps rebate sees an effective fee of 0.36% p.a.). |

## Macquarie Dynamic Global Bond Fund

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|---|---|
| Summary | A dynamic Global Fixed Interest strategy that seeks to higher levels of alpha through time. |
| Objective | Aims to outperform the Bloomberg Global Agg Index (AUD Hedged) by 1-2% p.a. gross of fees. |
| People | Macquarie has built a highly experienced and global fixed interest team of 130, with $330bn in FUM. This strategy is led by Head of Rates and Currency, Matthew Mulcahy, |
| Processes | » The manager is benchmark unencumbered and looks to actively manage exposures through time across duration, credit, sector and region<br>» Macquarie's quarterly investment forum establishes view on duration, credit, and sectors based on the business cycle that then drive portfolio postioning<br>» The manager can have zero exposure to major duration markets e.g. Japan<br>» Risk is managed with a strong focus on tracking error – realised tracking error has been less than 2% p.a. (in line with peers) |
| Fees | 0.49% (Managed Account Share Class) |

## Pendal Government Bond Fund

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|---|---|
| Summary | A benchmark aware Australian Government Bond strategy with a relative value focus |
| Objective | Aims to outperform the Bloomberg Ausbond Govt Index by 0.75% p.a. gross of fees on a rolling 3 year basis. |
| People | Pendal are a small but experienced bond fund manager with a team of 11. The 4 PMs are all highly experienced and have been working together for 7 years. Tim Hext is the PM for the Government Bond Fund |
| Processes | » The Pendal Government Bond fund is a benchmark aware strategy that seeks to generate two-thirds of its alpha through relative value trades and the other third via duration positioning – the strategy can allocate to Semi Governments, Supra-nationals, and inflation bonds alongside Government bonds<br>» The investment process combines a proprietary quantitative model (using economic, market, and technical data), along with the qualitative assessment of the manager to derive views on relative value and duration<br>» The strategy is managed with a duration limit of +/-2 years either side of the benchmark, and a tracking error of circa 1%. A maximum of 10% in inflation linked bonds |
| Fees | 0.32% p.a. |

## Pendal Sustainable Australian Fixed Interest Fund

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|---|---|
| **Summary** | A benchmark aware Australian Fixed Interest strategy with an active tilt to Green and Social Bonds |
| **Objective** | Aims to outperform the Bloomberg Ausbond Composite by 0.75% p.a. gross of fees on a rolling 3 year basis. |
| **People** | Pendal are a small but experienced bond fund manager with a team of 11. The 4 PMs are all highly experienced and have been working together for 7 years. George Bishay is the PM for the Government Bond Fund. Regnan, an expert Responsible Investing capability, is now owned by Pendal and feeds into this strategy. |
| **Processes** | » The Pendal Government Bond fund applies a negative screen across its entire portfolio across areas such as tobacco, munitions, gaming, fossil fuels etc. creating an investable universe which includes Australian government bonds and sustainably screened corporates<br>» Additionally the manager looks to allocate typically 30-40% of the portfolio to Green or Social Bonds that have a strong alignment to the UN Sustainable Development Goals<br>» The investment process combines a proprietary quantitative model (using economic, market, and technical data), along with the qualitative assessment of the manager to derive views on relative value and duration<br>» The strategy is managed with a duration limit of +/-2 years either side of the benchmark, and a maximum in 10% non-investment grade |
| **Fees** | 0.25% |

## Pendal Short Term Income Securities Fund

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|---|---|
| **Summary** | A benchmark aware Enhanced Cash Strategy with an active approach to risk management |
| **Objective** | Aims to outperform the Bloomberg Ausbond Bank Bill Index by 0.50% p.a. gross of fees on a rolling 3 year basis. |
| **People** | Pendal are a small but experienced bond fund manager with a team of 11. The 4 PMs are all highly experienced and have been working together for 7 years. George Bishay is the PM for the Short Term Income Securities Fund. |
| **Processes** | The Pendal Short Term Income Securities fund looks to outperform the Bank Bill index through time, with a key focus on risk management and outperforming during market drawdowns.<br>The investment process utilises a proprietary macro model (using economic, market, and technical data) to provide a positive, neutral, or defensive credit view, which determines how much credit risk the strategy is taking. Overall credit risk is dynamically managed, using Aussie traxx futures as needed<br>Bottom up credit analysis is performed by the analyst team to identify the best relative value securities<br>The strategy is managed with a duration limit of +/-0.5 years either side of the benchmark, and a minimum average credit rating of AA |
| **Fees** | 0.17% (Managed Account Share Class) |

## Perpetual Active Fixed Interest Fund

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|---|---|
| **Summary** | A benchmark aware Australian Fixed Interest strategy that seeks to generate consistent alpha. |
| **Objective** | Aims to outperform the Bloomberg AusBond Composite 0+ Yr Index by 1% p.a. over rolling 3 year periods. |
| **People** | Perpetual has arguably the most experienced and cohesive team in the local market. Michael Korber, Vivek Prabhu, and Greg Stock have worked together for 20 years and are supported by an additional 6 team members. |
| **Processes** | » This is an active, benchmark aware, portfolio that is seeking to generate alpha over the cycle<br>» The manager has a Dynamic Duration Management process, positioning for compelling valuations. Curve Positioning is also implemented using steepeners and flatteners to take advantage of anticipated changes in the slope of the yield curve.<br>» A key component to their process is also their proprietary credit score tool, which identifies their overall credit risk appetite and preferred sectors, to inform the portfolio manager where the strongest risk/reward opportunities lie<br>» Duration is managed within 1 years either side of the benchmark, while the strategy typically won't have more than 10% in sub-investment grade |
| **Fees** | 0.36% p.a. (Managed Account Share Class) |

## Perpetual Diversified Income

| | |
|---|---|
| **Summary** | A diversified, floating rate credit strategy that seeks to generate alpha through its sector analysis |
| **Objective** | Aims to outperform the Bloomberg AusBond Bank Bill Index by 2% p.a. (before fees on a rolling 3 year basis) |
| **People** | Perpetual has arguably the most experienced and cohesive credit team in the local market. Michael Korber, Vivek Prabhu, and Greg Stock have worked together for 20 years and are supported by an additional 6 team members |
| **Processes** | » This strategy invests predominantly in investment grade floating rate credit, but can allocate up to 25% in High Yield<br>» A key component to their process is their proprietary credit score tool, which identifies their overall credit risk appetite and preferred sectors, to inform the portfolio manager where the strongest risk/reward opportunities lie<br>» Individual credit analysis focuses on strong balance sheets, good management, and predictable cashflows |
| **Fees** | 0.45% p.a. (managed account share class) |

## Perpetual Pure Credit Alpha

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|---|---|
| **Summary** | An absolute return credit strategy that seeks to leverage the full range of Perpetual's credit capability |
| **Objective** | Aims to deliver RBA Cash rate plus 3-5% over rolling 3 year periods |
| **People** | Perpetual has arguably the most experienced and cohesive credit team in the local market. Michael Korber, Vivek Prabhu, and Greg Stock have worked together for 20 years and are supported by an additional 6 team members |
| **Processes** | » This strategy actively manages a diversified credit portfolio which moves dynamically between a core investment grade portfolio and high yield exposures<br>» A key component to their process is their proprietary credit score tool, which identifies their overall credit risk appetite and preferred sectors, to inform the portfolio manager where the strongest risk/reward opportunities lie<br>» Additionally risk will be actively managed using iTraxx and CDX<br>» The portfolio has a maximum of 50% in sub investment grade and manages duration between -1/+4 years<br>» Redemptions are monthly |
| **Fees** | 0.85% p.a. |

## PIMCO Global Bond Fund

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|---|---|
| **Summary** | A benchmark aware Global Fixed Interest strategy that seeks to generate consistent alpha. |
| **Objective** | Aims to outperform the Bloomberg Global Agg Index (AUD Hedged) by 1% p.a. gross of fees. |
| **People** | PIMCO is one of the world's largest bond fund managers with 300 PMs worldwide. This strategy is led by Sachin Gupta, a Managing Director at PIMCO. |
| **Processes** | » The PIMCO process is driven by their top-down macro views formed via quarterly cyclical forums and an annual secular forum. All Funds must adhere to broad direction and positioning across duration, geographies and sectors.<br>» The Portfolio Manager is then responsible for specific positioning and security selection within the strategy, leveraging the deep credit analyst capability.<br>» Duration is typically managed within 1.5 years either side of the benchmark, while the strategy typically won't have more than 10% in sub-investment grade. |
| **Fees** | 0.44% (Institutional Class pricing) |

## PIMCO ESG Global Bond Fund

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|---|---|
| **Summary** | A benchmark aware Global Fixed Interest strategy that incorporates PIMCO's proprietary ESG research |
| **Objective** | Aims to outperform the Bloomberg Global Agg Index (AUD Hedged) by 1% p.a. gross of fees over the cycle. |
| **People** | PIMCO is one of the world's largest bond fund managers with 300 PMs worldwide. This strategy is led by Sachin Gupta, a Managing Director at PIMCO. |
| **Processes** | » The PIMCO process is driven by their top-down macro views formed via quarterly cyclical forums and an annual secular forum. All Funds must adhere to broad direction and positioning across duration, geographies and sectors.<br>» The Portfolio Manager is then responsible specific positioning and security selection within the strategy, leveraging the deep credit analyst capability.<br>» PIMCO's proprietary ESG research results in a portfolio that avoids the worst scoring ESG issuers in the universe and has a meaningful allocation to Green and Social bonds (at least 15%). The portfolio's carbon footprint is approximately only 15% of the benchmark<br>» Duration is typically managed within 1.5 years either side of the benchmark, while the strategy typically won't have more than 10% in sub-investment grade. |
| **Fees** | 0.52% (Institutional Class pricing) |

## Realm Short Term Income

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|---|---|
| **Summary** | A diversified, investment grade floating rate credit strategy that seeks to generate alpha through relative value |
| **Objective** | Targets RBA Cash +1.5%-2% p.a. with low levels of volatility |
| **People** | Realm have built an impressive team over the past decade and now manage circa $5bn in FUM. 3 Founders – Andrew Papageorgiou, Rob Camilleri and Ken Liow lead a team of 16. |
| **Processes** | » This actively managed credit strategy starts with the view that there is minimal actual credit risk in the Investment Grade universe (bankruptcies are minimal), and therefore wider credit spreads represent a strong reversion to the mean opportunity<br>» The process focuses on a monthly forecast of curves across all key credit sectors (circa 100), and looking to identify those trading cheaply vs history<br>» The cheapest decile narrows the universe to then do credit analysis across ESG, ratings, and technicals before allocating within the portfolio<br>» Strong risk management processes and culture. Average portfolio credit rating of A and interest rate duration between 0-1 years |
| **Fees** | 0.38% p.a. |

## Yarra Enhanced Income

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|---|---|
| Summary | A diversified Australian credit strategy with a consistent exposure to Hybrids |
| Objective | Aims to deliver RBA Cash +2.3%-2.8% through the cycle before fees |
| People | Yarra have an experienced domestic Fixed Interest team of 9 and manage circa $5bn in FUM. This strategy is led by Roy Keenan who is a highly experienced credit and hybrids manager |
| Processes | » The manager actively manages a diversified credit portfolio of 60-100 securities that includes a hybrids exposure that typically ranges between 10-30% of the portfolio<br>» Every credit reviewed by the team has it's own internal credit rating based on the teams assessment of a corporate's financials, overall business, ESG rating, and market size, which drives views on valuations an allocations<br>» The manager emphasizes the importance of detailed work on documentation and understanding covenants as part of the decision to participate or otherwise<br>» Portfolio managed in a tax aware manner for franking credits<br>» Overall portfolio has a minimum average credit rating of BBB |
| Fees | 0.55% p.a. (10bps rebate results in effective fee of 0.45% p.a.) |

## Vanguard Active Global Credit Bond Fund

| | |
|---|---|
| Summary | An actively managed investment grade corporate bond fund that looks to add value via credit analysis |
| Objective | The investment return objective is to outperform the Bloomberg Global Aggregate Credit Index |
| People | Vanguard have a large 130 people Fixed Income team and this strategy is led by Sarang Kulkarni. |
| Processes | » This actively managed credit strategy stays relatively sector and interest rate duration neutral to the benchmark and instead seeks to generate alpha via bottom-up credit analysis<br>» Fundamental credit analysis from the analysts looks at financials, business risk, country risk, industry risk, and ESG to arrive at a relative value rating – outperform, market perform, or underperform. This in turn drives<br>» While the PM and IC set the overall parameters and risk controls for the portfolio, each sector team is responsible for heir credit positions and execution – reinforcing the bottom-up nature of the process<br>» Interest rate Duration is managed within 0.5 year of the benchmark |
| Fees | 0.40% p.a. |

Source: Mason Stevens OCIO

* Rebates are payable with respect to holdings in Managed Accounts only, exclusively for Mason Stevens OCIO clients. Some rebates may vary based on FUM hurdles negotiated with each product issuer.

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