

16 October 2023

How charitable trusts, not-for-profits & endowments are viewing fixed income investments

Higher fixed income returns are benefitting a wide range of investors, such as charitable trusts, not-for-profits and endowments, according to Equity Trustees Asset Management.

For those not-for-profit (NFPs) investors who may have a conservative risk appetite and/or shorter-term investment time horizons, fixed income can fulfil a higher allocation of their investment strategy today, notes Grant Mundell, Investment Specialist at Equity Trustees Asset Management.

Mr Mundell says: "In early 2022, we were underweighting fixed income at a time of very low interest rates. At that time, an investment in fixed income offered little upside, but larger than normal downside for a perceived defensive asset class."

Earlier this year, he said Equity Trustees Asset Management moved to a neutral allocation, and we are now looking to move overweight, given:

- Fixed income provides stability to a portfolio as volatility in equity markets rise and dividends potentially fall.
- The income from fixed income is more compelling than previously.
- The diversification benefits are more balanced today.
- The relative valuation of fixed income to equities is more compelling at present.

Mr Mundell said: "Charitable funds that are focused on income for payments to beneficiaries face potentially falling dividends from equities, with the outlook for FY24 earnings and dividends in Australian equities having been downgraded over the past six months. The resources sector, in particular, has been impacted negatively. This leaves trustees scouring for supplementary income sources.

"By contrast, a diversified portfolio of short-dated domestic bonds compares favourably to both residential investment property and domestic shares (excluding franking credits) and are currently yielding ~4%."

He added: "Investors can find appealing fixed income returns without having to increase duration (out across the interest rate curve) significantly to achieve more than 4% returns. Yields of around 6% are available from a range of investment grade securities and appear attractive when compared to other risk assets.

"An investor no longer needs to invest in sub investment grade bonds to realise an appealing return," he concluded.

Media inquiries
Guy McKanna
Honner PR
0430 355 985
guy@honner.com.au



Equity Trustees was established in 1888 for the purpose of providing independent and impartial Trustee and Executor services to help families throughout Australia protect their wealth. As Australia's leading specialist trustee company, we offer a diverse range of services to individuals, families and corporate clients including asset management, estate planning, philanthropic services and Responsible Entity (RE) services for external Fund Managers. Equity Trustees is the brand name of EQT Holdings Limited (ABN 22 607 797 615) and its subsidiary companies, publicly listed company on the Australian Securities Exchange (ASX: EQT) with offices in Melbourne, Adelaide, Sydney, Brisbane, Perth, London and Dublin. Philanthropy services are provided by Equity Trustees Wealth Services Limited (ABN 33 006 132 332) (AFSL 234528), part of the EQT group of companies.