Torica Absolute Return Income Fund

Performance Report 30th April 2024

Fund Objectives

The Torica Absolute Return Income Fund (the Fund) aims to provide clients with a consistent income stream by investing in a diversified portfolio of fixed income assets. The Fund aims to provide total returns (net of fees) that exceeds the RBA Cash Rate (Benchmark) by 2.5% p.a. throughout the market cycle.

Fund Strategy

The Fund is an absolute return fixed income strategy, designed to provide regular income and capital stability. The Fund is actively managed and can invest across the full spectrum of fixed income securities to capture relative-value opportunities across jurisdictions, sectors, asset-segments, companies, interest rate and credit curves. The Fund will hold 85-100% in investment grade securities.

Fund Statistics	
Interest Duration	0.88 Years
Spread Duration	2.63 Years
Yield to Maturity	6.70% (pa)

Total Returns[1]	1m	3m	6m	1yr (pa)	3yr (pa)	5yr (pa)	Incept. (pa)
Fund (Net)	0.40%	1.83%	4.42%	8.38%	3.90%	4.09%	5.13%
RBA Cash Rate	0.36%	1.08%	2.17%	4.24%	2.20%	1.50%	1.74%
Excess Return (Net)	0.04%	0.74%	2.25%	4.13%	1.70%	2.59%	3.39%

[1] Past performance is not a reliable indicator of future performance. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and investment results are never guaranteed. Fund returns are calculated using the exit price (including sell spread), net of fees, assuming reinvestment of distributions and excluding franking credits and are calculated from the Fund's inception date of 31/05/2013. Returns greater than 1 year are annualised. No allowances are made for tax when calculating Fund returns. The Benchmark is the RBA interbank overnight cash rate. Individual returns will vary depending on date of initial investment. The fee structure for the Fund last changed on 01/07/2023 and Fund returns are calculated based on this fee structure. Refer to the Fund's Product Disclosure Statement and Target Market Determination for more important information.

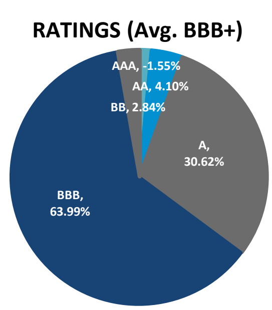
Key Features	
Fund Manager	Torica Capital
Responsible Entity	Equity Trustees Ltd
Fund Inception	31st May 2013
APIR Code	MST0002AU
Pricing	Daily
Distribution	Quarterly
Management Fees and Costs	0.64%
Performance, Entry or Exit Fee	None
Buy/Sell Spread	+0.04/-0.08%
Min. Investment	$25,000
Administrator	Apex Fund Services
Custodian	BNP Paribas
Platform Availability	- Netwealth - HUB24 - Mason Stevens - Praemium - OneVue - Australian Money Market

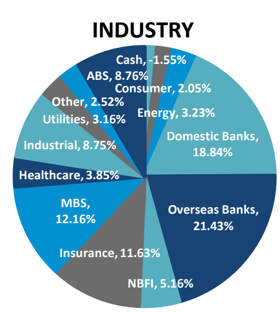
Portfolio Commentary

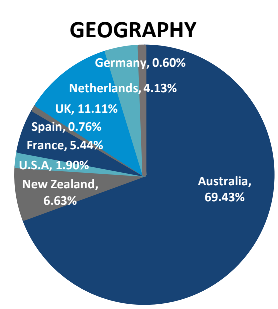
In April, the Fund produced a net monthly return of +40bpts, despite the material sell-off in rates, and general decline in risk assets. Global risk-free yields rose as it became more evident that the slowdown in the disinflation trend in various markets would push out rates cuts by central banks further into the future. This led to a decline in both equity and fixed income indices, with the S&P500 and AusBond Composite index down 4.2% and 2.0% respectively. Our overarching goal during these periods are to preserve capital, minimize volatility, and position the portfolio for higher expected returns. The back-up in rates has lifted the portfolio's yield to ~6.7% and provides, in our view, a good foundation for future returns formed on a portfolio focused towards investment grade securities.

The Fund selectively added bonds where the risk-return profile was attractive. In primary markets, we were involved in new deals of well-known, high quality companies that have not been frequent issuers in the capital markets in recent times, believing the scarcity premium will drive spreads tighter over time. In the secondary market, we added good yielding, shorter-dated bonds which have a steep roll-down to par, and took profit on positions where valuations had compressed.

During the month, the Fund incrementally increased its interest duration exposure as







Portfolio Commentary Continued…

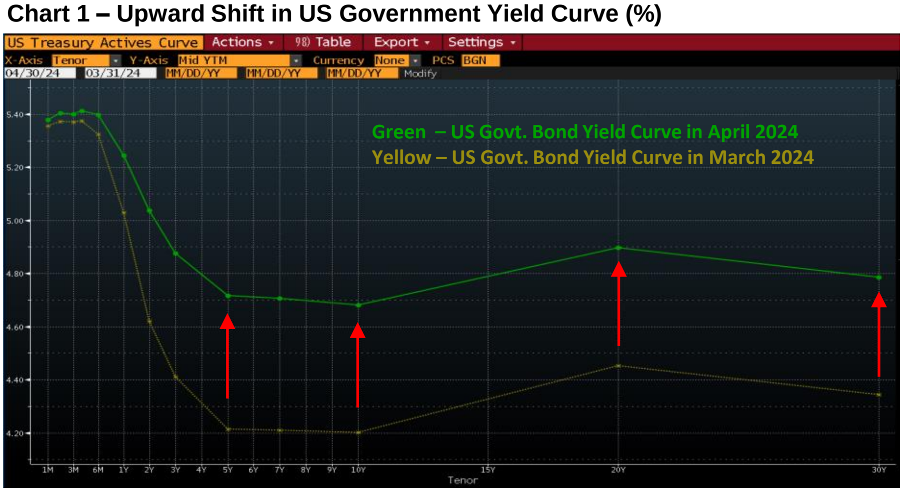
rates moved higher. We believe rates are currently more fairly and attractively priced, compared to the beginning of the year when the markets over-priced the number of rate cuts expected by central banks in CY2024. Our interest rate duration exposure is mostly expressed via both Australian and US rates, with a more prominent focus on the latter. Adding incremental exposure to interest rate duration (at more elevated absolute yield levels) also provides a neutral hedge to the portfolio's credit assets during volatile periods.

Market Commentary

In April, government bond yields in developed markets continued their ascent, following the trend experienced in Q1 CY2024 but at a faster pace. US risk-free yields rose by a significant ~40bpts to 50bpts across the curve, as the progress on disinflation had slowed or potentially stalled in recent months **(Chart 1)**. Official inflation data printed higher than expected for the second month in a row, driven by rising energy and shelter costs. US core inflation was 3.8% YoY (compared to consensus of 3.7% YoY) in both February and March, illustrating that the last mile in the inflation fight might be more challenging, and is likely to take longer than anticipated. The final leg of inflation transitioning from 4% to 2% is going to prove much more difficult than from the 9% to 4% that was experienced over the last ~18 months. Even more difficult is achieving the 2% inflation target without the economy falling into some type of economic recession. We believe this challenge is not unique to the US, with other developed economies expected to have similar experiences.

The market's expectation of the magnitude and timing of Fed interest rate cuts continued to decline. In January, six interest rate cuts were priced in for 2024. In March, this had declined to three interest rate cuts, and by the end of April, this reduced further to just around one interest rate cut by year end **(Table 1)**. Indeed, some have also raised the possibility of rate hikes given the recent economic developments. These market movements are a reminder of the difficulty in trading directional interest rate strategies over short time frames, and the importance of risk management, and having a cohesive approach in considering all scenarios in managing portfolios.

Chart 1 – Upward Shift in US Government Yield Curve (%)



Source: Bloomberg

Table 1 – Number of Rate Cuts Priced by the Market by End of 2024

Date	US (Fed)	Aus (RBA)
Dec 2023	6.5	3.0
Jan 2024	6.0	2.5
Feb 2024	3.5	2.0
Mar 2024	2.5	2.0
Apr 2024	1.5	0.0

Source: Bloomberg. To the nearest half rate cut.

In Europe, inflation continues to trend towards the ECB's target of 2%, with April headline inflation reported at 2.4% YoY and core inflation at 2.9% YoY (previously at 2.6% YoY and 3.1% YoY respectively). Despite this disinflationary trend fuelling optimism that the region is near or at the end of restrictive monetary conditions, the ECB's position on pivoting to loosening policy rates continues to be tinged with caution.

One of the key reasons for this caution is likely to do with the uptick in global inflation in recent months. Europe's progress on disinflation has not been broad based, but instead was driven by energy, food and goods components of the their CPI basket. These three components tend to be heavily influenced by global inflationary factors, which has recently been more elevated and stickier than expected. The recent rally and strength of the USD has also not helped, as oil and other energy commodities are priced in USD.

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Market Commentary Continued…

This naturally means that more domestically influenced inflation basket components, such as services, need to show more consistent signs of disinflation if the region is to reach the ECB's 2% target. If domestic components are unable to pick up the disinflationary slack, the ECB are likely to continue to remain cautious with its monetary policy decisions and policy forward guidance, to counter concerns of the region's disinflation trend stalling or even being vulnerable to a potential 'second wave' of global inflation.

In Australia, risk-free yields also rose across the curve. A high positive correlation to US rates and domestic inflation data printing above consensus were the main drivers pushing up Australian rates. Stronger than expected inflation data was reported with both March quarterly CPI and trimmed inflation rising by 1.0% QoQ, well above the consensus of 0.8% QoQ. By the end of April, the market had priced out the 2 interest rate cuts originally expected in 2024, and the market will need to see services and non-tradable inflation figures decelerate for rate cut expectations to re-emerge **(Table 1)**. We do not anticipate the RBA to make any changes to policy rates in their upcoming meeting, and expect them to maintain a flexible and nimble posture towards monitoring incoming economic data and responding accordingly.

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