

Torica Absolute Return Income Fund

Performance Report 28th March 2024

Torica
CAPITAL

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		Total Returns ¹	1m	3m	6m	1yr (pa)	3yr (pa)	5yr (pa)	Incept. (pa)
Interest Duration	0.75 Years	Fund (Net)	0.76%	2.14%	4.70%	8.55%	3.96%	4.17%	5.13%
Spread Duration	3.28 Years	RBA Cash Rate	0.36%	1.08%	2.15%	4.18%	2.08%	1.45%	1.72%
Yield to Maturity	6.59% (pa)	Excess Return (Net)	0.40%	1.06%	2.54%	4.37%	1.89%	2.72%	3.41%

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	31 st 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

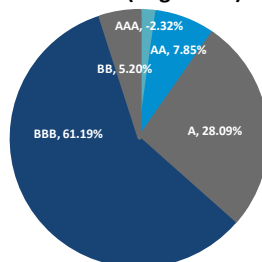
Portfolio Commentary

In March, the Fund produced a net monthly return of 0.76%, resulting in a net quarterly return of 2.14% and a 1-year net return of 8.55%. The Fund exceeded its benchmark by 4.37% over the last 12 months. Key contributors were the portfolio's coupon carry strategy, tightening of credit spreads and active portfolio positioning.

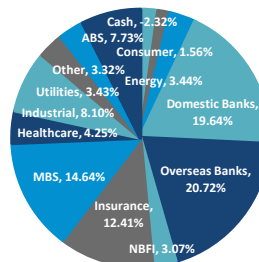
By being fully invested across the month, the Fund was able to anchor returns via robust coupon carry. A high allocation of the Fund's risk budget towards credit enabled it to take advantage of the general spread tightening in investment grade credit. The high levels of new issuance volumes continued into March and the Fund was able to generate additional returns through an active rotation of the portfolio and capitalising on new issuance premiums. New issuance was diversified across Big 4 banks, other domestic financials, overseas banks, RMBS/ABS and, global and domestic corporates.

The Fund prudently increased its interest rate duration position and, in part, benefited from the fall in Australian interest rates experienced over the month. The Fund maintains a curve steepening strategy in US interest rates as we believe large coupon Treasury bond issuances to fund the US deficit will put upward pressure on long-end yields relative to short-end yields.

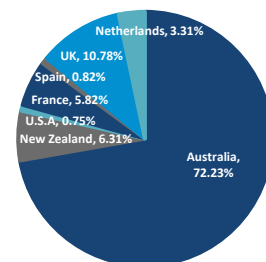
RATINGS (Avg. BBB+)



INDUSTRY



GEOGRAPHY



Market Commentary

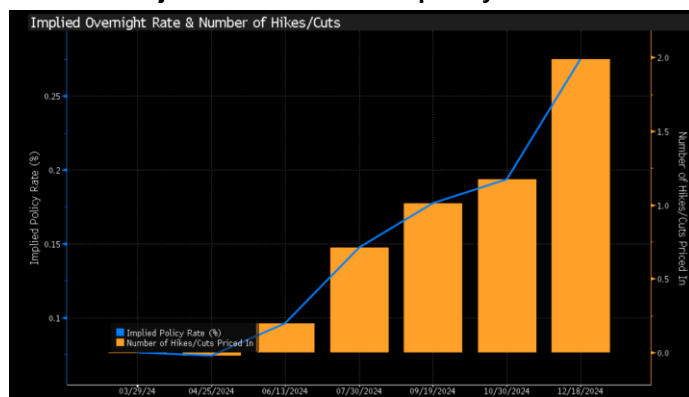
US fixed income markets were subdued in March with Treasury bond yields remaining relatively unchanged across the curve. US yields took a breather after rising materially in February off the back of stronger than expected economic data. The trend of stronger data continued in March, which saw both macro-economic indicators and corporate earnings across most industries remaining constructive. This provided further evidence of a resilient US economy, which supported a broad rally in risk assets, with the S&P500 reaching another all-time high. Risk assets have had a good run year-to-date, and we would not be surprised to see this continue, albeit with some potential consolidation and volatility along the way. The backdrop remains relatively supportive for markets given the expected large fiscal spending in 2024 (particularly in an election year), potential for interest rate cuts in 2H 2024, and positive global liquidity conditions.

In the March FOMC, the Fed decided to leave rates unchanged for the fifth consecutive meeting. The Fed reaffirmed it will not be appropriate to reduce the Fed Funds rate until it gains greater confidence that inflation is moving towards 2%. However, from the March Dot Plot, the Fed also maintained their projection for 3 interest rate cuts by the end of the year. While the Fed did not elaborate on timing, market pricing suggests the first interest rate cut will likely occur in July 2024. Also worth noting is that the median dot for year-end 2024 remained relatively unchanged at 4.6%, despite growth and inflation projections being revised higher by the Fed. By year-end 2024, Fed members project PCE inflation and US GDP growth to be 2.4% and 2.1% respectively, materially higher than the forecast provided by the Fed in December 2023.

While the Fed expects, and markets are pricing, 3 interest rate cuts this year, we believe there is some risk of divergence to the downside (less cuts) given the recent string of better-than-expected economic data. We believe the Fed will be cautious, patient and maintain a high bar related to moves to cut interest rates to avoid the risk of easing monetary policy prematurely in what is currently a strong economy that hasn't shown much signs of slowing down. The Fed also has a narrower window to cut rates in 2024 due to the upcoming US elections. The September meeting might be too close to the election, and any rate cuts may need to happen mid-year (June or July FOMC meeting), or in the November FOMC meeting scheduled 2 days after the election.

In Asia, Japan ended its 8-year period of negative interest rates when the Bank of Japan (BoJ) announced a rise in its official policy rate to a range of 0% to 0.1% (from -0.1%) at its March Monetary Policy meeting. This also marks Japan's first interest rate hike in 17 years. The BoJ took the opportunity to announce a number of key policy changes, which included exiting negative interest rate policy, removing yield curve control and a staged process to reduce its quantitative easing program to just purchases of Japanese government bonds. The changes pave the way for the BoJ to revert to more conventional monetary policy, whereby the central bank will primarily use short-term interest rates as its primary policy tool. The removal of these monetary-easing measures is significant and marks a strategic acknowledgement by the BoJ that both economic and inflation conditions have shifted and the central bank needs

Chart 1 – Projected Rate Hikes in Japan by Dec 2024



Source: Bloomberg

monetary policy to be more adaptive to these shifts. Inflation continues to print well above the central bank's 2% target, and wage growth remains strong as a result of sustained tight labour markets. Unemployment continues to be low at 2.6%, resulting in favourable wage negotiations for workers. Given these dynamics, the market is pricing in almost 2 interest rate hikes by the BoJ by year-end 2024 (Chart 1). This is in contrast to the other large central banks of the Fed, ECB and BOE which are all pricing in multiple rate cuts by December 2024.

In Australia, the RBA left the cash rate on hold at 4.35% during its March meeting for the third consecutive time. The noteworthy change in the RBA statement was removing the reference to "a further increase in interest rates cannot be ruled out" and replacing this with "the board is not ruling anything in or out". While some may interrupt this change as the RBA potentially dropping their tightening bias, the new language reflects similar comments from the Governor's prior (February) policy meeting press conference stating "We're not ruling in or out anything".

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We believe the RBA will want to maintain a neutral basis, and give itself full flexibility, particularly given the recent conflicting economic data. While recent GDP data showed growth slowing to below trend and increasing only 0.2% QoQ in 1Q 2024, the labour market remains robust. In February Australia added 116k jobs, blasting through consensus of 40k, and reducing the unemployment rate to 3.7%. In addition, house prices continue to rise, and inflation remains high despite the progress made thus far. We believe the RBA will keep interest rates unchanged for the coming months, and await further data to obtain enough assurance on the direction of the economy and inflation to justify a move, either way, in monetary policy.

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