Fixed Income Fund

Report | February 2022

SharePrices

1300 123 345
members@shareprices.com.au

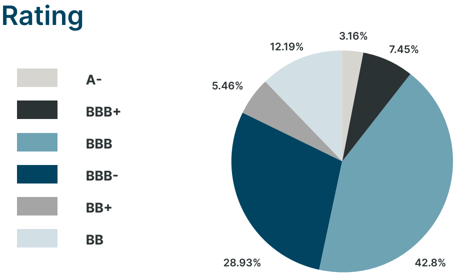
Fund Overview

The Fixed Income fund's point of difference is the variety of return sources it uses to deliver its investment objective. It seeks to protect investors against inflation risk by using specialised techniques, which enable the hedging of inflation. The fund also utilises the skill set of the manager, Fortlake Asset Management, to run overlay, arbitrage and offer short-term credit strategies.

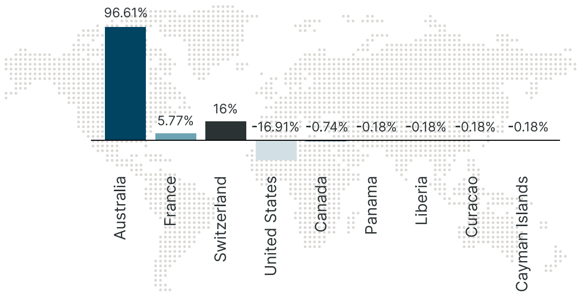
5% p.a	**0.41%**	**100%**	**Diversified**	**BBB**	**224 - 298**
Targeted Distribution of Income to Investors*	Income Distribution Each Month Since Inception^	Positive Months Since Fund Inception	Portfolio of Investment Grade Bonds	Average Credit Rating	Number of Exposures

Gleneagle Investment Trust | Retail Offer	
Name of Class	Fixed Income Fund
Asset Class	Short Term Fixed Income
Target Returns	Targets a return for investors to receive a consistent distribution of income of 5% p.a*
Investment Manager	Fortlake Asset Management
Responsible Entity	Gleneagle Asset Management Limited
Administrator	Apex Fund Services Pty Ltd
Custodian	J.P.Morgan & Gleneagle Securities (Aust) Pty Ltd
Withdrawals	Monthly applications & withdrawal requests
Distributions	Monthly
Reinvestment	Monthly distribution can be reinvested
Unit Pricing	Monthly
Minimum Investment	$50,000 (no maximum)
Establishment Fee	Nil
Contribution Fee	Nil
Withdrawal Fee	Nil
Termination Fee	Nil
Management Fee and Costs	2.2%
Manager Performance Fee	Nil
Buy / Sell Spread	0.00% / 0.15%
Investments	Bank Deposits & Term Deposits High-Grade & Investment-Grade Bonds Asset Backed Securities
Risk	Refer to PDS
Reporting	Confirmation statement upon account opening, transaction statements, annual distribution, holding and tax statements, online account statements.

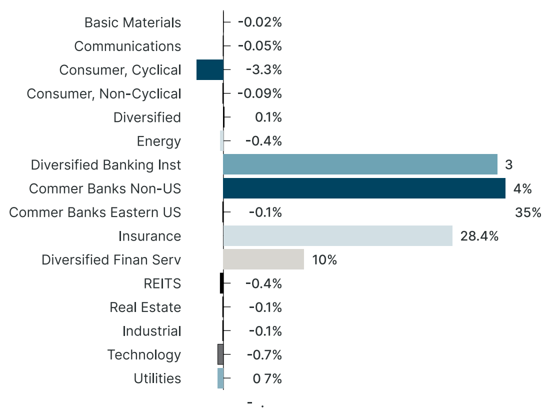
Credit Rating



Market Exposure by Country



Market Exposure by Sector



*^Past performance is not indicative of future performance. *Targeted return provides an indication of what the fund aims to achieve. There is no guarantee this target return will be achieved. Fund inception is 18th May 2021.*

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February 22 Update

Markets

February began with calls for the Federal Reserve to move aggressively to curb inflation risk. Market pricing at the beginning of the month was implying a 50 basis point (bp) increase for the March FOMC meeting, however by end of month pricing had settled to be more in line with a 25bp increase. As news relating to the Russian invasion of Ukraine unfolded cross-market volatility became a feature, with the VIX low touching 19.98 per cent before finishing the month at 30.15 per cent.

Inflation-linked bonds and real yields moved significantly over the month, with the US 10-year real yield rallying 8bp to close the month at -0.80 per cent. Across the capital structure, in the 5-year part of the curve, spreads widened throughout February. On the top side of the capital structure, Senior EUR financials widened +14.4bps, our preferred proxy for senior preferred. High yield widened significantly, increasing by +26bps with at-the-money (atm) volatility of 55 per cent. Investment-grade (IG) widened by +7.5bps with atm volatility of 62 per cent. AUS ITRX widened +17.5bps. Similarly, in Europe, the ITRX Crossover widened by +59bps with atm volatility of 66 per cent, whereas European IG increased +12bps with atm volatility of 65 per cent. Likewise, EUR Financials SUB widened +25.3bps. Russian spreads widened significantly, increasing +330bps, reflecting an increased likelihood of default. Across bond ETFs, IBOXX (Corporate Investment Grade) and HYG (Corporate High Yield) both fell 2.3 per cent and 1.9 per cent.

Government bonds also saw significant changes, entrenching the market's rate hike expectations. From 31 January to 28 February, Australian government bond yields sold off: the 3-year yield increased+23bps (from 1.31 per cent to 1.54 per cent), and the 10-year yield increased +24bps (from 1.90 per cent to 2.14 per cent). The US yield curve has flattened. The 2-year yield increased 25bps (from 1.18 per cent to 1.43 per cent). By contrast, the 10-year yield increased 4.9bps (from 1.78 per cent to 1.83 per cent). This led to higher implied volatility across the global yield curves in February. In Australia, interest rate volatility in the 1-year part of the curve increased to 84bps (up 10.22bps); 3Y was 98bps (up 13bps), and 10Y was 99bps (up 5.8bps). Similarly, in the United States, interest rate volatility increased. In the 1- year part of the curve, volatility was 86bps (up 16bps); 3Y was 114bps (up 25.51bps), and 10Y was 87bps (up 8.7bps).

Economy

There has been a significant reshaping of expectations regarding the economic outlook, primarily due to the confluence of uncertainty about inflation, the Federal Reserve's (and other central banks') policy decisions, earnings results, and the impact of the Russia-Ukraine conflict.

Russia – Ukraine conflict

With raw materials becoming a foreign policy weapon, this political risk premium is now being priced into commodities. Commodity prices directly impact various aspects of consumer price indices, thus influencing inflation and growth. What is also apparent is the indirect effects – with the example of oil prices not only impacting petrol prices direct to the consumer, but also production costs for companies which impact final prices of goods and services. With Russia being the third-largest oil producer in the world: supplying around 40 per cent of Europe's natural gas; 27 per cent of Europe's oil; and around 40 per cent of Europe's coal, the mounting political risk and rising energy costs have had important ripple effects in other commodity-based economies. Whilst sanctions on Russia's key export commodities are only just beginning to be imposed, the sanctions on Russia's banking system have acted as a catalyst for broader disruption in commodity financing markets. The near-term price rises in commodities that Russia is a major producer of will result in further significant upside to inflation. This creates clear stagflationary risks, a combination of low growth and high inflation, to the broader economy. Depending on demand, growth could slow due to the higher input costs not being associated with productivity gains, the limited extent to which companies can pass on costs to consumers, and the impact this will have on consumer and corporate expenditure.

RBA

In February, Australia reported relatively strong growth figures. Australia's GDP is now 3.4 per cent higher than before the pandemic. Furthermore, GDP growth year-on-year was 4.2 per cent higher, compared with consensus expectations of around 3.5 per cent. The balance of risks continues to be tilted to the upside, with critical economic data all coming in above consensus expectations.

Despite the rapid escalation of geopolitical risk, Australia is well placed for several reasons. Australia indirectly benefits from Russian sanctions due to the terms of trade boost from commodities. While the RBA has called out the Russian-Ukraine conflict as an additional source of uncertainty, the tentative signs show that the terms of trade boost will be accretive to growth. Australian companies rely relatively less on Russia as either an input market or an export market. Finally. assuming the conflict does not lead to a global slow down, this may further tilt the balance of risks to the upside on inflation and growth despite occurring at a point in time the economy is living through "sticky" labour capacity issues, derived from pandemic induced migration restrictions.

March FOMC Meeting

The highly anticipated Federal Reserve meeting will commence mid-March with all indications pointing to a 25bp hike in the Fed Funds Rate (FFR). Chair Powell has acknowledged the Fed's misreading of the pandemic-induced supply chain issues, albeit the Russia-Ukraine crisis has increased the dispersion of more extreme outcomes. The option to use this as a stalking horse to delay any action on unwinding the balance sheet or increasing the FFR would only increase the chance of policy error. An apparent "flight to safety" is a complicating factor in government bonds and high-grade issuers. However, the evidence is tentatively settling on this becoming a highly inflationary event, bringing a renewed focus onto real yields and, most importantly, the real FFR, which is now at circa -7.5 per cent.