Fixed Income Fund

Report | March 2022

SharePrices

1300 123 345
members@shareprices.com.au

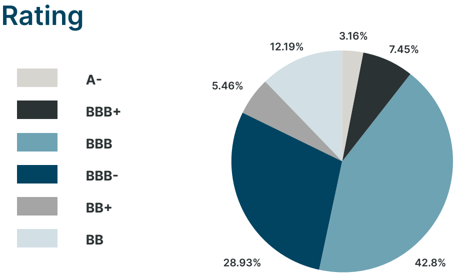
Fund Overview

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.

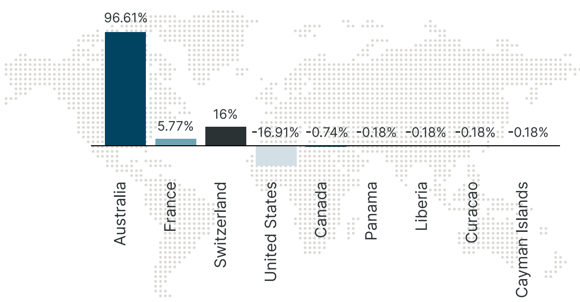
5% p.a	0.41%	100%	Diversified	BBB	224 - 298
Targeted Distribution of Income to Investors*	Income Distribution Each Month Since Inception^	Positive Months Since Fund Inception	Portfolio of Investment Grade Bonds	Average Credit Rating	Number of Exposures

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.

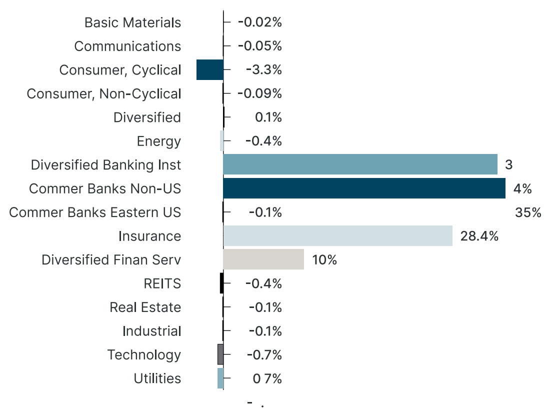
Credit Rating



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.

March 22 Update

Markets - Russian Roulette

Bonds over the month extended the losses of prior months, one of the worst starts to the year on record. The beginning of March saw European high yield spreads widen out 100bps over 5 days as the Russian-Ukraine crisis unfolded. In the US, Higher yields, inverting yield curves and spread pressure also caused heightened levels of anxiety across markets as volatility across all silos of the fixed income universe lifted to crisis-era levels. In the US, market pricing suggests another six quarter per cent hikes over the next 12 months. Australian interest rate markets are now pricing five hikes despite the RBA's best efforts to jaw-bone market pricing lower. The RBA remains of the view that Asia's lower inflation experience is the more appropriate reference point compared to G7 economies, which has typically been a strong proxy for Australian inflation.

In the US, the Federal Reserve is now moving quickly to curb inflation, with the March FOMC meeting leading to a 25bp hike. Markets are now expecting 50bp hikes at the next two meetings in May and June. The fallout of the Russian invasion of Ukraine was reflected in heightened cross-market volatility, with the VIX reaching a high for 2022 of 36.45 per cent earlier in March and then subsequently reverting to 2022 lows for the year at 20.24 per cent.

Inflation-linked bonds and real yields moved significantly higher over the month, with the US 10-year real yield increasing 25bps to close the month at -0.55 per cent. Despite the poor start to the month, we saw a significant recovery across the capital structure. On the top side of the capital structure, Senior EUR financials tightened -7bps, our preferred proxy for senior preferred. European High yield tightened by -6.5bps with at-the-money (atm) volatility of 58 per cent. European Investment-grade (IG) tightened by -5.5bps with atm volatility of 55 per cent. AUS ITRX tightened -13bps. Similarly, in the US, investment grade tightened by -6bps with atm volatility of 49 per cent, whereas US HY tightened -19bps with atm volatility of 47 per cent. Likewise, EUR Financials SUB tightened -12bps. Across bond ETFs, IBOXX (Corporate Investment Grade) and HYG (Corporate High Yield) both fell 3.10 per cent and 1.65 per cent.

Australian government bond yields were significantly higher over the month: the 3-year yield increased +79.5bps (from 1.54 per cent to 2.34 per cent), and the 10-year yield increased +70bps (from 2.14 percent to 2.84 per cent). The US yield curve has flattened, with the 2-year yield increasing +90bps (from 1.43 per cent to 2.33 per cent). The 10-year yield lagged the front end of the curve, increasing +51bps (from 1.83 per cent to 2.34 per cent.

The evolution of uncertainty continues to play out along the yield curves. This led to sustained higher implied volatility across the global yield curves in March. In Australia, interest rate volatility in the 1-year part of the curve increased to 119bps (up 41bps); 3Y was 128bps (up 30bps), and 10Y was 117bps (up 18bps). Similarly, in the United States, interest rate volatility increased. In the 1-year part of the curve, volatility was 131bps (up 45bps); 3Y was 127bps (up 14bps), and 10Y was 112bps (up 25bps).

Economy - Breaking Bad

Bad data in the context of CPI is rarely discussed or publicly acknowledged, yet the difficulties in attaining accurate data are well understood within the relevant statutory bodies. The calculation of compositional changes that we see in the substitution from one good to another is fraught with timing effects and estimation issues. In light of this, knowing what we don't know and the fallacy of over- dependence on central estimates are inconvenient realities in the world of monetary policy communication. Rarely accepted, the ability of policymakers to control any "real" variable is ephemeral. There is an assumed stable trade-off between inflation and unemployment, but this is potentially unattainable without a range of accompanying cooling measures from fiscal intervention or indeed from the lay-luck of behavioural change. The fact is that success in monetary policy is as much to do with the environment outside of the policymaker's control as it is within.

The balance of risks has unfolded in an unkind way for inflation-targeting central banks; war, demand- pull, cost-push, energy costs, deglobalisation, and expansionary budgets - all coalescing to entrench structurally higher inflation. Many of these are controllable, some not. Nevertheless, we find many parallels between today's inflationary experience and those similar periods past. The most concerning differences though are at the starting point of the current episode. We now commence this inflationary battle with central banks having positioned themselves deliberately behind the curve to gain a clearer vantage point on the future inflationary path.

A narrative adopted by central bankers which involves displacing forecast dependence with data dependence comes with a cost. With more certainty comes a greater cost; we have to pay for more assured outcomes. The central banking community bought protection against an uncertain future, and the public will pay the price via an inflation tax. To think that the public could somehow sidestep the cost of more certain outcomes was always going to look foolhardy with the benefit of hindsight. As the saying goes, If "every battle is won before it's fought" then central banks have some fighting to do.

So it goes, we now see the advent of budgets accommodating and acknowledging this inflation tax via the use of transfer payments to lessen the load. The government, otherwise acting on behalf of the taxpayer, ultimately pays the price and reallocates resources away from highly productive infrastructure assets to lower multiplier, cost of living grants, like those we are now familiar with. This will not be an Australian phenomenon but surely a global one. So long as the public demands help with this newfound inflation tax, the cost will come in the form of opportunity cost and direct subsidisation. The Inflation tax era is upon us, and it will fundamentally reshape resource allocation. Notably, the highest cost to the taxpayer of this inflation gamble will come in the form of opportunity cost. The intergenerational cost will be significant as younger taxpayers ultimately fund these much-needed infrastructure assets in the decades to come. Not only will the earlier years of productivity be foregone, importantly, but the replacement cost of such assets will also be inflated at ever-increasing compounded inflation rates coupled with the inevitable higher cost of capital from higher after-tax real interest rates.

The Russia - Ukraine War

The Russia-Ukraine war and its economic impact continue to influence markets. Financial market volatility remains elevated across all asset classes. Persistent supply chain disruptions, the recalibration of energy supply, and the broader effect on commodity markets have all exacerbated near-term inflation concerns. US CPI inflation hit another 40 year high of 7.9% without the full impact of the Russia-Ukraine crisis, which occurred towards month-end. The Federal Reserve's preferred core PCE measure hit 5.2%, lessening the account of more volatile items. The balance of risks has now firmly tilted toward more significant upside scenarios. Consequently, we would expect near-term inflation outcomes over and above the current experienced run rates of inflation.

Unsurprisingly, the war itself has directly affected Russian and Ukrainian export items through anti- Russian sentiment, direct and de facto embargos, and the inability to produce in the case of Ukraine. Unique commodities such as Neon, Krypton, and the broader bulk items within the cropping industry of Ukraine will be the relevant areas for supply chain disruption and the flow on to global inflation. The gamut of Russian supply will be displaced and repatriated in many cases. With this will come skill shortages, scale differences, and a pricing environment that reflects the comparative disadvantage of many economies adopting new or more significant roles in the supply of these export items.