

Watershed Income Portfolio

Investment Profile

The Watershed Income SMA is a concentrated portfolio of listed debt, hybrid securities and ETF's or LIT's aiming to generate an income return of 2% above the UBS Bank Bill Index net of fees.

A separately managed account, or SMA, is a professionally managed portfolio whereby the investor receives beneficial ownership of the underlying securities.

The Watershed Income portfolio has a bias towards floating or variable rate fixed interest securities to minimise interest rate risk.

The portfolio should be viewed as defensive with minimal capital volatility and is not expected to generate any long-term capital growth.

Key Portfolio Features	
Inception	30 Aug 2010
Benchmark	UBS Bank Bill Index
Authorised Investments	Listed Bonds Hybrid Securities Listed Debt
Number of Securities	10-20
Cash Allocation	2-20%
Management Fee	0.44% (inc GST)
Investment Horizon	At least 2 years

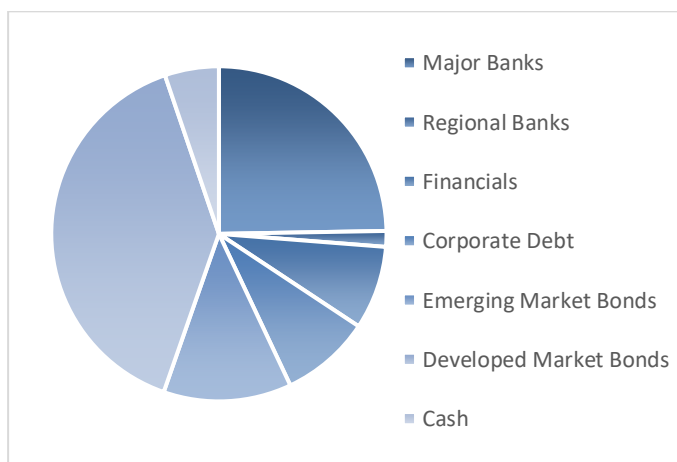
The Portfolio is designed for investors who...

- Seek higher than market, stable, tax-efficient income returns
- Have a medium-term investment horizon and are not expecting any capital gains from their investment

Portfolio Structure

No.	Company Name	ASX Code
1	BetaShares Aus Gov't Bond ETF	AGVT
2	Global X US Treasury ETF	USTB
3	Vaneck Emerging Income Fund	EBND
4	KKC Credit Income Fund	KKC
5	ANZ Capital Note 7	AN3PJ

GICS Sector by Issuer	
Major Banks	24.64%
Regional Banks	1.52%
Financials	7.99%
Corporate Debt	8.89%
Emerging Market Bonds	12.61%
Developed Market Bonds	39.18%
CASH	5.18%
TOTAL	100%



Performance

Net Performance (%)	1m	3m	6m	1yr	3yr	5yr	7yr	10yr	Inception *
WFM Income Portfolio	0.30%	1.79%	3.51%	4.48%	6.60%	4.18%	3.62%	4.40%	4.66%
WFM Including Franking	-	-	-	5.38%	7.85%	5.54%	4.97%	5.75%	6.01%
UBS Bank Bill Index	0.29%	0.91%	1.94%	4.18%	4.04%	2.52%	2.13%	2.07%	2.58%
Relative Performance	0.01%	0.88%	1.57%	1.20%	3.80%	3.02%	2.84%	3.68%	3.43%

*Inception - August 2010

Performance Fee Disclosure The table above sets out the investment performance returns (AFTER investment management fees, but BEFORE administration fees and taxes) for the portfolio. The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise.



Quarter in Review

The Watershed Income SMA was up over the September quarter outperforming the Bank Bill Index by 0.88%.

The RBA continued to cut rates in September, another 25 and its third cut of the year.

Portfolio Adjustments

There were no changes to the portfolio during the quarter

Quarterly Performance Attribution

Top Contributors	Key Detractors
USTB	MQGPD
EBND	MQGPG

Market View

Fixed interest markets in the US and Australia showed cautious optimism over the September 2025 quarter, shaped by central bank policy shifts, inflation dynamics, and evolving credit conditions.

The US Federal Reserve cut rates this past quarter as it tries to kickstart a faltering labour market, its first cut in 9 months, reducing the federal funds rate to a range of 4.00%–4.25%, the lowest in almost three years. The cut signals a dovish pivot amid signs of a soft landing, with Q2 GDP growth at a robust 3.8% annualized pace.

A narrow majority of Fed officials projected at least two additional rate cuts before year-end, implying potential consecutive moves at the October and December meetings. The shift underscores a broader transition in policy focus, from containing inflation to safeguarding economic momentum amid early signs of labour-market weakness.

The bond market response has been upbeat as the easing trajectory supported bond markets. Expectations of further rate cuts have lifted government bond prices, pushing the 10-year U.S. Treasury yield down to 4.15%, its lowest level since June. Corporate bonds have rallied as well, narrowing credit spreads to multi-decade lows reflecting improved investor sentiment and a return to risk assets, although downside risks remain with sticky

inflation and geopolitical uncertainty.

In Australia the Reserve Bank of Australia left the official cash rate unchanged at 3.60% at its September meeting following an earlier cut, emphasizing the need for continued caution amid stubborn inflation and a still-tight labour market. The decision was unanimous. In its statement, the central bank noted that while domestic economic activity is showing signs of recovery, the outlook remains uncertain, and the decline in underlying inflation has slowed.

Since February, the RBA has cut interest rates three times, mindful that although consumer spending is gradually improving, housing prices are once again trending higher. The central bank currently views the economy as being in a “sweet spot,” with inflation largely contained within the 2–3% target range and the unemployment rate steady near 4.2%, which the RBA considers consistent with full employment.

Looking ahead, the RBA appears to be nearing the end of its easing cycle. Financial markets are pricing in the possibility of one more rate cut in November, contingent on the outcome of third-quarter consumer inflation data, due for release at the end of October.

Overall, central bank caution and soft-landing expectations have buoyed fixed interest assets, with bonds and credit instruments outperforming cash, and hybrids gaining from income stability and improving macro conditions. Investors remain vigilant, balancing yield opportunities against inflation and policy uncertainty

Portfolio Positioning

There were no changes to the portfolio over the September quarter. With margins on hybrid securities continuing to tighten, the Investment Committee is currently reviewing its exposure to this asset class. We anticipate that shorter-term hybrids will be held to maturity, while positions in larger and longer-dated issues may be progressively reduced as we rotate capital into other areas of the fixed income market.

Hybrid exposure remains below 35% after starting the year at 42%. Developed market duration is nearly 40%, corporate debt is 9%, emerging market bonds 12% and cash 5%.