FIIG Australian Bond Fund

Monthly Commentary Report - 31 March 2025

Fund Objective

The Fund aims to provide investors with capital stability, income and returns (after fees) in excess of the Benchmark Index (Bloomberg AusBond Composite 0+Yr) over three-year rolling periods through investment in a portfolio of Investment grade rated Australian fixed interest securities that include government and corporate bonds, mortgage-backed securities, asset-backed securities, cash and enhanced cash instruments.

Fund Performance as at 31 March 2025

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.12%	1.39%	1.04%	3.21%	5.67%
Benchmark Return	0.17%	1.29%	1.03%	3.20%	5.39%
Excess Return	-0.05%	0.09%	0.01%	0.00%	0.28%

*Fund inception 29 September 2023

Distributions Paid in the Past 12 Months

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
31 March 2025	1.1936	1.0458	1.0339
31 December 2024	1.2419	1.0439	1.0315
30 September 2024	0.6468	1.0540	1.0475
30 June 2024	1.1716	1.0342	1.0225

Fund commentary

The FIIG Australian Bond Fund returned (net of fees) +0.12% for the month of March and +1.39% for quarter end March 2025, delivering minor monthly under performance of the benchmark index of -0.05%, but quarterly outperformance of +0.09%. The marginal underperformance is a function of maintaining modified duration of the fund longer than index throughout the month, at near +0.30 years, whilst benchmark Commonwealth Bond (ten year) yields rose approximately 0.10% to 4.42%. Additionally, credit margins were generally weaker, as evidenced by benchmark major bank 5- year subordinated debt margins widening in the order of 20 basis points over the month. Whilst the fund exposure is dominated by Commonwealth and State debt holdings, performance was impacted by credit margin weakness, albeit marginally. Effectively, March was a 'consolidation' month, with confidence eroded by a fragile geopolitical environment headlined by US lead trade wars. Will the 'wars' drive global economic growth lower and inflation higher? The market thinks the former, driving equity prices lower.

Fund Overview

To invest in Australian fixed interest securities including corporate bonds, government bonds and asset backed securities that provides investors with capital stability, income and returns in excess (after fees) of the benchmark index over the medium term (three to five years).

- Inception date: 29 September 2023
- APIR ETL3146AU
- ARSN 673 739 565
- Management fee: 0.58% p.a. inc GST
- Buy/Sell: 0.10%/0.10%
- Suggested investment timeframe: At least three years
- Distribution frequency: Quarterly
- Fund Managers: Kieran Quaine - Head of Investment Management and Megan Romeo Head of MIPS, Portfolio Manager - IMAs, and Garreth Innes, Portfolio Manager FIIG monthly Income Fund
- Index: Bloomberg AusBond Composite 0+Yr Index

Fund Characteristics

No. of holdings: 49

Fund Duration: 5.1876 years

Benchmark Duration: 4.9253 years

Running Yield: 3.81%

Average Coupon: 3.63%

Our long duration investment strategy, whether implemented tactically (short term) or strategically (long term), has been premised upon a continuation of the trend of inflation falling, and the subsequent expectation that both short and long-dated bonds would rally as a function. This position has been a mainstay since October 2023.

During February, Australia's headline inflation decreased slightly to 2.40%, down from 2.50% in January. Similarly, core inflation saw a reduction, falling to 2.70% from the previous month's 2.90%. This (more volatile) monthly data preceded the RBA's April policy decision, where the cash rate was left unchanged at 4.10%. The RBA meeting minutes reinforced the central bank's cautious approach to further rate cuts and therefore the likely reliance on the (more detailed) first quarter 2025 CPI release, due 30 April. As stated in last month's report, we think the caution is unwarranted and our long duration strategy is set given inflation has fallen sufficiently, is stable at low levels, domestic growth is tepid and employment and (discretionary) expenditure statistics are clearly weak. And now, domestic growth may be set for further decline given US economic policy influence.

Market commentary

The influence of US economic policy upon markets cannot be understated. Global equity indices have fallen dramatically in response to impending trade wars. Forward global growth forecasts have been lowered and under various iterations of US lead tariff policy, fears of a recessionary period are gathering momentum. The environment does not promote confidence and credit margins, having rallied to post Covid-19 pandemic lows, are now weakening concurrently with eroded equity market confidence.

The US Federal Reserve has repeated messaging to the market, indicating a capacity to ease in response to impending lower growth, but equally tempering bulls by noting the potential of government economic policy to derail hard fought inflationary gains. US Federal commentary on US economic outcomes is important, but perhaps not as important as the US economic policy impact upon China and therefore Australian growth.

Is a period of stagflation possible or will the consumer, their own confidence declining in the uncertain environment, simply baulk at paying higher prices? Or will the producers, exporting to the US, absorb a percentage of the tariff cost? The manager re-emphasizes the commentary of last month, noting the reason for continued caution given international influence upon the domestic yield curve, but is now more bullish than previously. A continued long duration strategy is logical. Whilst stagflation is possible in the US (some economists forecast a >2.00% shock to GDP) the more likely outcome domestically is lower growth and even lower inflation. For two reasons. US tariff policy will not only lower Australian export growth, but it will deter Chinese exports and production geared for the US market may be detoured into broader global markets, including Australia. Cheap goods may wash onto our shores.

Fund positioning

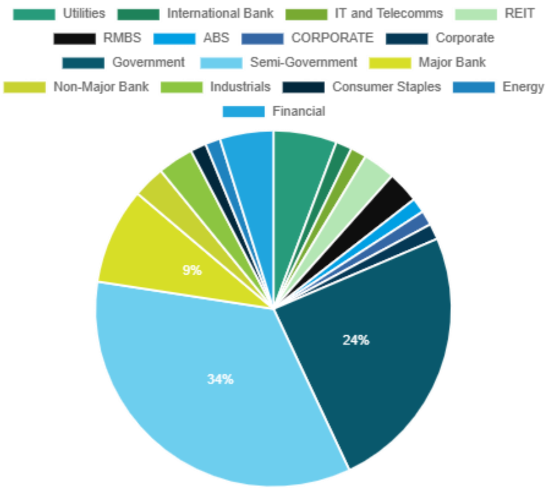
The manager anticipates a continuation of the same 'long' duration strategy applied successfully in the prior quarters, and since late 2023. We repeat our prior months messaging. The manager perceives the benchmark 3-year, and 10-year Commonwealth Government Bonds can recover and rally in the order of 50 (previously 40) basis points lower from current yields toward 3.50% and 4.00% respectively.

We repeat our messaging of the prior month. We expect the official cash rate to fall to 3.25% by 2025 CYE but determine that the capacity for long dated bonds to rally below 4.00% would appear less optimistic. We believe the yield curve, between 3 years and 10-year Commonwealth Bonds will continue to steepen because global economic uncertainty is elevated. Coinciding with month end, the Bloomberg All Composite Benchmark Index modified Duration extended 0.20 years and subsequently maintaining a 0.30 long (v index) duration requires extending the fund itself by 0.20 (to 5.30 years). Noting the managers forecast for the yield curve to steepen, the manager will await an advantageous yield curve entry opportunity to position exposure weightings higher in the middle of the yield curve, whilst maintaining that tenor target.

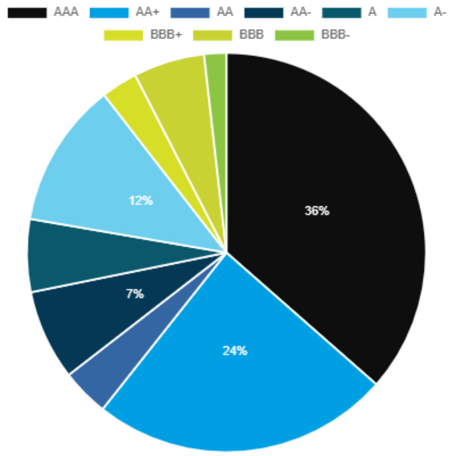
As stated last month, because corporate credit margins, above commonwealth debt yields, are trading at near (post Covid-19 pandemic) historic lows, the manager is cautious. The Fund has elected to position future credit exposure conservatively, investing primarily in tenors of less than 5 years and amongst credit grades rated higher than BBB+ (S&P rated). The Manager is especially cautious given the pace of change in the geopolitical economic environment and the potential macro and micro economic impact impeding credit margins holding. The Fund awaits primary issuance opportunities in fixed rate corporate debt and is constantly placing bids for many targeted assets in the secondary market.

The other influences of note are the impending Federal election (a hung parliament is possible) and continuing geopolitical tension in the Middle East and Ukraine, with potential to elevate and impact key commodity prices and affect supply chains.

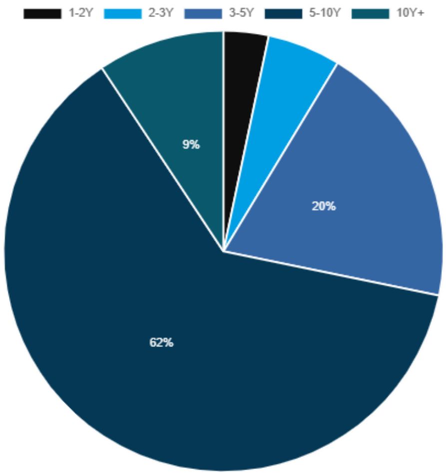
Sector Allocation as at 31 March 2025



Credit Quality as at 31 March 2025



Portfolio Maturity as at 31 March 2025



Top 10 Holdings as at 31 March 2025

Security Name	Security Number	Allocation (%)
The Commonwealth of Australia	ACG_330421_4.500	4.53
The Commonwealth of Australia	ACG_321121_1.75	4.32
South Australian Government Financing Authority	SAFA_320524_1.75	4.23
The Commonwealth of Australia	ACG_370421_3.750	4.22
Queensland Treasury Corp	QTC_300821_3.50	4.22
New South Wales Treasury Corp	NSW_310320_2.000	3.82
The Commonwealth of Australia	ACG_350621_2.750	3.81
Western Australian Treasury Corp	WATC_311022_1.75	3.74
The Commonwealth of Australia	ACG_311121_1.00	3.61
Commonwealth Bank of Australia	CBA_290822_4.500	2.92