FIIG The fixed income experts

FIIG Australian Bond Fund

Quarterly Commentary Report - 31 December 2024

Fund Objective

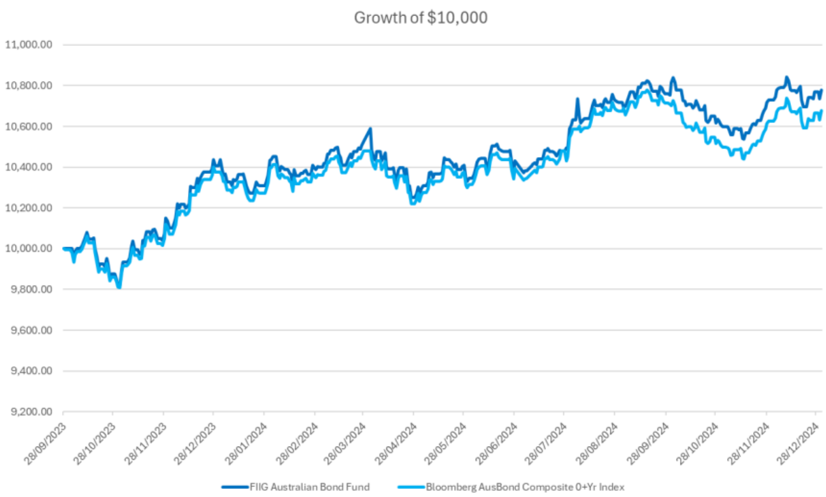
The Fund aims to provide investors with capital stability, income and returns (after fees) in excess of the Benchmark Index (Bloomberg AusBond Composite 0+Yr) over three-year rolling periods through investment in a portfolio of Investment grade rated Australian fixed interest securities that include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

Fund Performance as at 31 December 2024

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.45%	-0.34%	2.72%	2.95%	5.65%
Benchmark Return	0.51%	-0.26%	2.75%	2.93%	5.40%
Excess Return	-0.05%	-0.08%	-0.03%	0.02%	0.26%

*Fund inception 29 September 2023

Performance Chart (Daily Pricing)



Disclaimer: Growth of $10,000 is calculated at NAV and assumes that all distributions were reinvested. It does not take into account buy-sell spreads or the effect of taxes. Results are not indicative of future performance.

Distributions Paid in the Past 12 Months

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
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
31 March 2024	0.6168	1.0498	1.0436

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: 46

Fund Duration: 5.10 years

Benchmark Duration: 5.02 years

Running Yield: 3.58%

Average Coupon: 3.45%

Fund commentary

- Monthly and Quarterly marginal underperformance of the benchmark index, being respectively -0.05% and -0.08% (net of fees), is primarily a function of small duration extensions in excess of the index, as interest rates rose in the order of 35 basis points across the quarter, only recovering marginally in the December month.
- The managers Investment Strategy, whether implemented tactically (short term) or strategically (long term), has been premised upon a continuation of trend in inflation falling and the subsequent expectation that both short and long dated bonds would rally as a function.
- Whilst domestic (and international) inflation has indeed continued to fall, the domestic yield curve weakened primarily as a function of the internationally competitive yield environment. US Treasury yields rose in response to the concurrent strength of US employment and the US federal election result, itself a perceived threat to US inflationary gains as a function of Trump isolationist and nationalistic economic policies.
- The manager has extended portfolio duration marginally longer than index duration, and is prepared to extend further, and aggressively, but awaits employment and expenditure statistics that will indicate if the January 2025 release of domestic 4th quarter inflation will maintain a falling trajectory, thereby giving the RBA sufficient evidence to commence a monetary policy easing cycle.
- The manager continues to increase fund credit exposure, primarily in the bank and mortgage sectors, whilst awaiting primary issuance of fixed rate corporate debt alongside waiting for placed bids for many targeted assets in the secondary market to be satisfied.

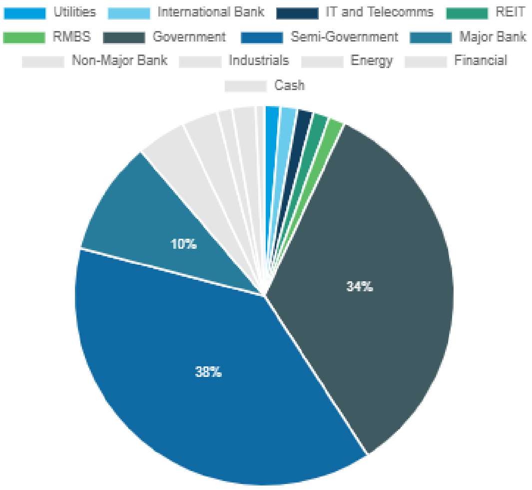
Market commentary

- Whilst the US Federal Reserve eased policy in the quarter, the Chairman has acknowledged the path to a lower US official cash rate is not as optimistic as it previously was given unexpected (4th quarter) labor strength, despite inflation continually surprising (at the margin) on the downside. Such commentary reflects the broader market analysis and yields have risen, with the bullish outlook of the prior quarter now tempered.
- The manager is being cautious given international influence upon the domestic yield curve. The manager anticipates a continuation of the same 'long' duration strategy applied successfully in the prior quarters, and since late 2023, but awaits advantageous yield entry opportunity before duration extension is again undertaken given the influence of rising US Treasury yields particularly, and the domestic inflation gains to date only just knocking on the door of the RBA required maximum tolerance range. The manager perceives the benchmark 3-year and 10-year Commonwealth Government Bonds can recover and rally in the order of 40 basis points lower from current yields toward 3.50% and 4.00% respectively.

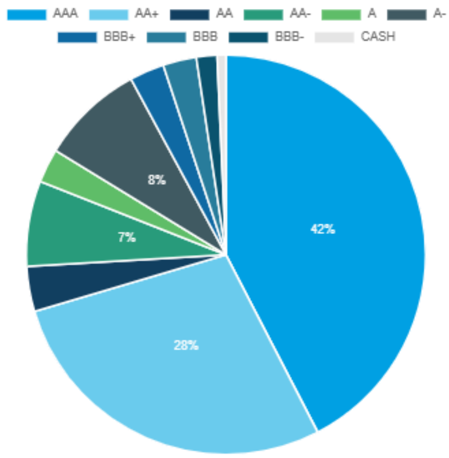
Fund positioning

- The Investment Management Team remains consistently bullish. We expect to extend duration, longer than the benchmark index, as opportunity presents. We repeat our long-held forecast that the RBA will ease the Official Cash Rate (OCR) in February 2025 because there is sufficient economic evidence - falling inflation, tepid economic growth, weak consumer demand and contracting private expenditure that will lead eventually to a marginal rise in unemployment.
- However, we equally acknowledge the reasons for continued volatility and the path forward is not expected to be straight. There is continuing geopolitical tension in the middle East and Ukraine, with potential to elevate and impact key commodity prices and affect supply chains. Doubt surrounds the potential impact of publicised US Trump led economic policies, and perhaps most importantly, the impact upon China, our largest trading partner. Markets are cautious in periods of doubt. Domestic government expenditure may remain high in the event of China demand for our private sector exports faltering.
- As the fund grows from current FUM of circa $37.5m, investment exposure will diversify more broadly beyond the current holdings dominated by federal, state, bank and mortgage debt to include a larger portion of corporate credit exposure.

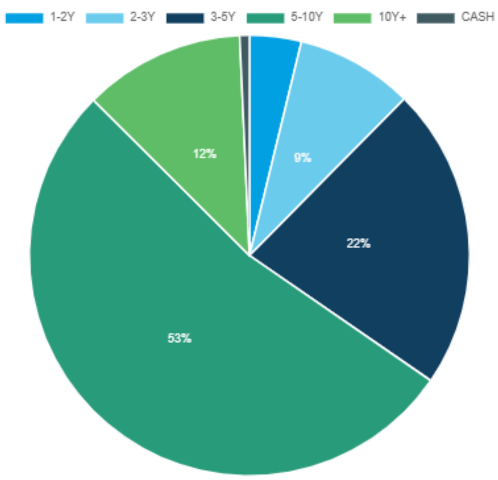
Sector Allocation as at 31 December 2024



Credit Quality as at 31 December 2024



Portfolio Maturity as at 31 December 2024



Top 10 Holdings as at 31 December 2024

Security Name	Security Number	Allocation (%)
The Commonwealth of Australia	ACG_330421_4.500	4.89
The Commonwealth of Australia	ACG_321121_1.75	3.98
Queensland Treasury Corp	QTC_300821_3.50	3.96
The Commonwealth of Australia	ACG_370421_3.750	3.92
New South Wales Treasury Corp	NSW_310320_2.000	3.56
The Commonwealth of Australia	ACG_350621_2.750	3.53
Western Australian Treasury Corp	WATC_311022_1.75	3.44
The Commonwealth of Australia	ACG_311121_1.00	3.33
The Commonwealth of Australia	ACG_310621_1.5	3.26
The Commonwealth of Australia	ACG_410521_2.75	2.99

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