FIIG The fixed income experts

FIIG Monthly Income Fund

Monthly Commentary Report - 30 November 2024

Fund Objective

The aim of the Fund is to preserve capital, generate regular income and deliver an income return of 2% per annum above the Bloomberg AusBond Bank Bill Index. This strategy is designed for investors who want the potential for regular monthly income and capital stability.

Fund Performance as at 30 November 2024

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.77%	-	-	-	1.35%
Benchmark Return	0.36%	-	-	-	0.72%
Excess Return	0.41%	-	-	-	0.63%

*Fund inception 1 October 2024

Distributions Paid

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
30 November 2024	0.4206	1.0094	1.0052
31 October 2024	0.4190	1.0058	1.0016

Fund Commentary

The FIIG Monthly Income Fund returned 0.77% net of fees in November, outperforming the AusBond Bank Bill Benchmark by 0.41%. Outperformance was generated via income accrual and tactical duration positioning.

The landslide election victory by Donald Trump, as well as securing Republican majorities in both the House and the Senate, kicked off the so-called 'Trump 2.0' trade. Investors dusted off chart packs to analyse how equities, bonds and FX traded in the early months after Trump's 2016 election victory and positioned accordingly. In particular, expectations of higher growth, heightened inflation and an increase in the budget deficit all lead to a large increase in government bond yields, with Australian bond yields being dragged higher by US Treasuries.

We took a slightly different view of the situation – while Trump definitely skews towards growth, there is some nuance required. Firstly, and this might sound obvious, but this is not 2016! Back then, we were in a low growth / low yield world with Treasury yields in the mid 1% area (vs. low to mid 4's now). The initial Trump victory was a massive shock to the market, so much so that many participants had not actually bothered to read and understand Trump's policies before the election.

Fund Overview

The Fund invests in a portfolio of predominantly Investment Grade rated floating rate notes to provide investors with a consistent income source. It is expected that income generated from these assets will provide a majority of the returns for the Fund. Investors can also expect select exposures to Asset Backed Securities, High Yield and Unrated Bonds, Emerging Market Debt and Loans & Collateralised Loan Obligations (CLOs).

- Inception date: 1 October 2024
- APIR ETL6333AU
- ARSN 677 324 882
- Management fee: 0.50% p.a. inc GST
- Buy/Sell: 0.05%/0.10%
- Suggested investment timeframe: At least three years
- Distribution frequency: Monthly
- Fund Managers:
  Garreth Innes - Portfolio Manager
  Kieran Quaine - Head of Investment Management, Portfolio Manager FIIG Australian Bond Fund
  Megan Romeo - Head of MIPS,
- Index: Bloomberg AusBond Bank Bill Index

Fund Characteristics

No. of holdings: 46

Fund Duration: 0.8770 years

Benchmark Duration: 0.1233 years

Running Yield: 6.14%

Average Coupon: 6.15%

His pro-growth/inflation bent was a shock to a market that was mired in economic malaise. Fast forward to 2024 and the US economy is at a very different economic starting point with its relatively strong GDP growth, low unemployment levels and falling (but still above target) inflation.

However, perhaps the starkest difference between then and now is the amount of US government debt outstanding and the size of the budget deficit, which act as constraints on the amount of economic stimulus the US can withstand without stoking renewed inflation or debt sustainability worries. We know Trump likes to look at the stock market as a guide on how he is tracking, and sustainably higher bond yields (due to the abovementioned factors) would undoubtedly challenge stock market valuations.

One of Trump's first remarks in his post-election victory speech was something along the lines of "we are going to pay back the debt". Then he hired Scott Bessent as his Treasury Secretary. Bessent is a very experienced and credentialed macro economic thinker/trader that will be able to join the dots and explain the likely consequences of policy choices. He has been open about his '3/3/3 'plan for the US economy – targeting GDP growth of 3% via deregulation, a 3% budget deficit (so basically half the current level, and that's before we mention Elon Musk overseeing the Department of Government Efficiency or 'DOGE') as well as an extra 3 million barrels of US oil production – all of that extra oil would lead to lower prices and falling inflation as oil is a key input cost into the majority of industries.

Overall, we saw the impact on US bond yields as much more two-way than the market's initial interpretation, and as a result we increased portfolio duration via long dated state government and corporate bonds.

Positioning

At its peak, interest rate duration totalled 1.1 years but this was brought back to 0.8 yrs by month-end. The fund totalled cAUD29m in size and we were able to boost the fund yield to 6%. All portfolio holdings are currently AUD-denominated.

We were able to diversify into a number of new holdings during November, including Scentre Group (owner of Australian Westfield shopping malls), Aurizon Network, Shinhan Bank and ING Bank covered bonds (which are rated AAA by both major rating agencies).

We sold out of ENBW, the German utility network, on account of German sovereign budget tensions and ongoing economic challenges as evidenced by the large capacity / job cuts across a number of German industries. We also reduced our sizing in BPCE (French Bank) senior unsecured bonds on similar thematics.

Outside of the increase in fixed-rate non-financial corporate bonds, the asset allocation of the portfolio is largely unchanged versus the prior month.

Outlook

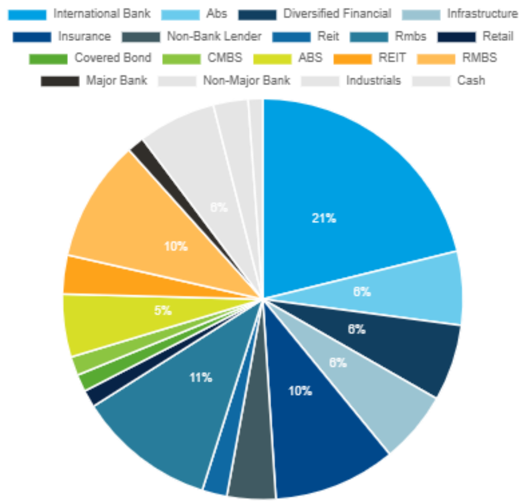
The market is currently focused on US growth 'exceptionalism' driven by the consumer however we see growing evidence of a slowdown in the labour market and falling personal savings buffers that could otherwise sustain the positive trajectory. We can now add the potential for negative growth shocks from tariffs and trade friction and potential cuts to government funding that currently support growth. The expected productivity gains on account of the Artificial Intelligence revolution has a clear offset in the labour market as evidenced by Google parent Alphabet, which revealed that one quarter of its coding is already being completed by this technology (as opposed to traditional 'human' coders).

Globally, the ECB, Bank of Canada and the RBNZ have commenced rate cuts as inflation continues to move towards target zones. China has pushed through some large monetary policy easing measures that support liquidity (and even some outright stock market boosting measures) but outright fiscal easing has been lacking as the economic model has shifted towards quality of growth rather than growth at all costs. In the 12 months to October 2024, industrial profits fell by around 4% in China, underscoring the economic challenge facing the country. Chinese 10-year bond yields have dropped below 2% at the time of writing versus the mid 4's in the US and Australia – the latter obviously being more heavily influenced by the Chinese slowdown.

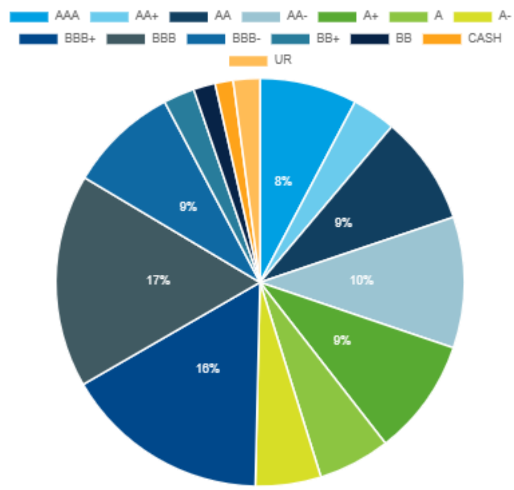
Still, as of right now, Australian economic growth and the employment market are holding up but are being increasingly driven by government (both Federal and State) spending. Stage-3 tax cuts have given a small boost to retail sales but hardly appear to be setting off a new wave of spending, rather the initial evidence is that consumers are at least partially saving the windfall.

The RBA does not see inflation falling to the mid-point of its target until 2026 – this arguably plays into the Monthly Income Fund asset class as if we take the RBA on face value, the bank bill (benchmark) yield should remain high for the foreseeable future.

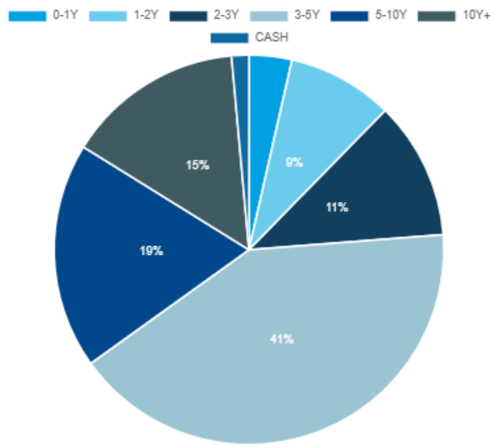
Sector Allocation as at 30 November 2024



Credit Quality as at 30 November 2024



Portfolio Maturity as at 30 November 2024



* BLOOMBERG® is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg")