FIIG | The fixed income experts

FIIG Monthly Income Fund

Monthly Commentary Report – 31 March 2025

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 31 March 2025

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.16%	1.41%	3.58%		3.58%
Benchmark Return	0.35%	1.07%	2.20%		2.20%
Excess Return	-0.19%	0.34%	1.38%		1.38%

*Fund inception 1 October 2024

Distributions Paid

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
31 March 2025	0.4436	1.0140	1.0096
28 February 2025	0.4449	1.0169	1.0125
31 January 2025	0.4435	1.0137	1.0093
31 December 2024	0.4221	1.0129	1.0087
30 November 2024	0.4206	1.0094	1.0052
31 October 2024	0.4190	1.0058	1.0016

Fund and Market Commentary

The FIIG Monthly Income Fund returned 0.16% net of fees in March, underperforming the AusBond Bank Bill Benchmark by 0.19%. Still, a positive absolute return in a month where global stock indices fell between 4 - 8% would be a comfort for investors diversified across asset classes. Additionally, the fund monthly distribution modestly increased. Since inception in October 2024, the fund has outperformed its benchmark by 1.38% after fees.

Intensifying concerns about the economic growth outlook and the lead up to Trump's 'Liberation Day' (the unveiling of global tariffs) led to a repricing in global risk assets. Equities led the way, with US indices such as the tech-heavy Nasdaq falling around 8%. Aussie stocks fared better but were still down more than 4% in March, on top of February's 4% decline.

Credit was not immune to the weakening sentiment with credit spreads widening across the board. US Investment Grade (IG) led the way with a 10 basis point widening at the index level, around twice the degree of spread widening on Australian IG spreads.

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: 62

Fund Duration: 0.9579 years

Benchmark Duration: 0.1183 years

Running Yield: 6.04%

Average Coupon: 6.15%

Interestingly, a number of new deals were still being issued, but one could tell that the manic buying fervour of January and February was waning. This culminated in the deferment of a slated Worley 7-year deal at the end of the month, with the issuer citing a desire for 'more stable market conditions'.

Policy-sensitive, short-dated government bond yields fell on account of the slowing growth narrative and priced in additional easing from central banks. Interestingly, longer-term government bond yields were stable, which is at odds with the normal expectation for periods with risk-off market moves. This is partially due to the market's digestion of potential increased fiscal deficits as the US backtracks from its role as the 'Ally of Last Resort', leaving the EU and Australia to increase their defence spend (presumably debt-funded). In early March, the new German government proposed an amendment to its fiscal rules such that defence spending above 1% of GDP would be excluded from the rest of its long-held government spending limits – essentially meaning defence spend in Germany is now uncapped. The potential for meaningful longer-term bond supply distorted the usual price correlations between government bonds and equity. There has also been an upward trend in the spread of US treasuries over the pure risk-free rate as the US government is no longer as predictable as it was.

Positioning and Outlook

During March, we increased the defensiveness of the portfolio by adding a number of low-beta, monopolistic utilities such as Australian Gas Networks and ENBW, as well as the new Nestle 10-year bond. All of these bonds were fixed-coupon and long-dated, meaning that we were also adding increased duration (interest rate sensitivity) to the portfolio. We partially funded these purchases with sales of Bendigo Bank and Scentre Group Bonds. This skew towards quality (in terms of both business profile and credit ratings) and higher duration is in line with the uncertainty caused by the unprecedented level of brinkmanship emanating from the White House and the likely impact on corporate and household confidence to go out and spend.

In terms of rating splits, around one-quarter of the fund is in cash or AA (or better) rated bonds. A further 20% is in the 'A'-rated bucket (i.e. c50% in A- to AAA-rated bonds). A little over 40% is in the BBB band, with just 9% in sub-investment grade. Overall we have a fairly high skew to quality in the portfolio coming into a period of volatility.

The portfolio yielded c5.8% at the end of March, compared with the index yielding c4.1%. We do not hold any bonds maturing in the very near-term that would require refinancing in the current market backdrop. Our next bond maturity is in July 2026.

Outlook

As Vladimir Lenin quipped, "There are decades where nothing happens; and there are weeks where decades happen".

In the week between the end of the month and sitting down to pen this commentary, the world was subjected to Liberation Day and we have now entered into unchartered territory. As of right now, nobody is certain about the ultimate timing, duration or magnitude of tariffs on major trading US partners but one thing is clear – all of the norms – diplomatic, geopolitical, supply chains - we took for granted are currently in a state of flux. When we take away these core foundations, the path forward is cloudy, to say the least.

While Trump's desire to bring manufacturing back to the USA may be laudable (if that indeed is his true ambition), it is ultimately misguided. You cannot reverse course on 40 years' worth of supply chain creation in a matter of a few years. And let's not forget that this globalisation was engineered by US corporates to benefit their margins and as a result, US consumers have benefited from cheaper products and enjoy lower levels of goods inflation for an extended period.

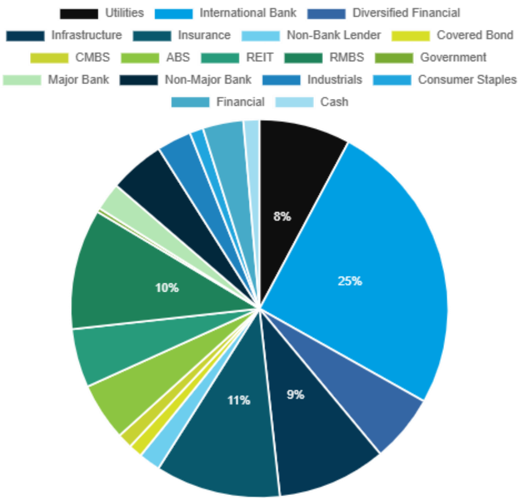
In terms of the way forward, there are some stark differences between what Trump and the US can withstand compared with China, which is probably Trump's major target. The US has a 4-year election cycle, and voters are quick to punish incumbents if their policies hurt them. Furthermore, the US is heavily reliant on the supply and flow of credit to fund its growth. Interruptions to the credit channel put a literal handbrake on the economy and hurt the man on the street the White House says it is looking out for.

China operates at a different rate. It is a long-term, three-dimensional thinker and is allowed to be due to its communist government that isn't subject to a short-term election cycle. China also has form in allowing its citizens to endure hardships unimaginable to the middle class of the USA. Our assumption is that they will happily take on a bit of pain in order to enhance their longer-term strategic priorities, such as improving trade relationships with all of the US's former allies. Let's also not forget that China and Japan hold a significant amount of US Treasuries and could easily influence the price at which the US needs to refinance its upcoming debt maturities. Beggars can't be choosers!

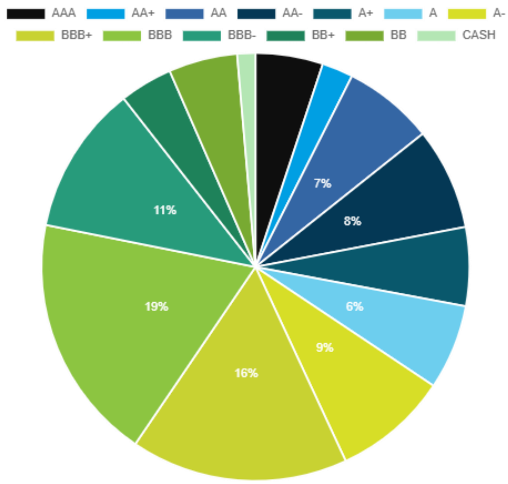
Given the hitherto disruption to markets, trade and confidence, we would guess that there is a pain point in the near future at which Trump pulls back (but publicly declares victory, no doubt). Of course, the pain threshold and the timing are very uncertain. We would caution that even if Trump drops the tariffs completely, the landscape will have changed as other countries' trust in the USA will have been eroded as will the trust that private-sector decision-makers have in the system overall. The toothpaste is out of the tube, to a large degree. There is also a chance that Trump doesn't pull back and that things get much worse before they get better. The only certainty we have right now is that volatility will likely remain elevated for the foreseeable future. This could present some longer-term buying opportunities for the fund.

Importantly, the 10% tariff levied against Australia is relatively minor compared to the pack and will not have a tangible impact on Australia's GDP. Our major regional trading partners will be hit harder and may look to Europe and Australia as a bit of a dumping ground for their products which could have a notable impact on domestic disinflation. The RBA, despite what it says publicly, is clearly in play for a cut or two at its next meeting.

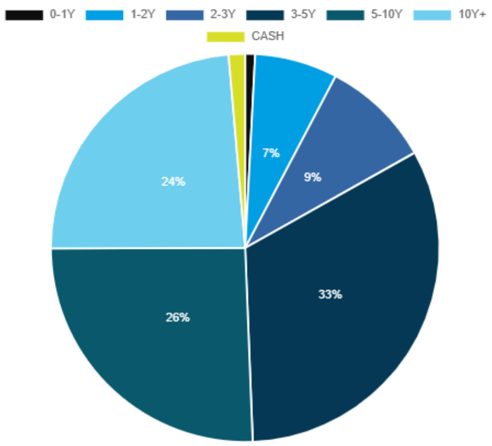
Sector Allocation as at 31 March 2025



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 Hollard Insurance Co Pty Ltd	HOLLR_390101_FRN	3.23
NSW Electricity Networks Finance Pty Ltd	TRGRI_550311_FRN	3.02
Bank of Montreal	BMO_290627_FRN	2.79
EnBW International Finance BV	7207_341030_6.04	2.44
OWL Rock Core Income Corp	1857_271023_6.50	2.40
Aurizon Network Pty Ltd	0838562D_341221_	2.40
Scentre Group Trust 1	SCW_540910_FR2	2.36
AusNet Services Holdings Pty Ltd	30529_550212_FRN	2.36
New York Life Global Funding	2141_290724_FRN	2.35
Landesbank Baden-Wuerttemberg	2525_290802_FRN	2.35

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