FIIG Monthly Income Fund

Monthly Commentary Report – 31 May 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 May 2025

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.97%	1.11%	3.16%		4.56%
Benchmark Return	0.34%	1.05%	2.16%		2.91%
Excess Return	0.62%	0.06%	1.00%		1.64%

*Fund inception 1 October 2024

Distributions Paid

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
31 May 2025	0.4649	1.0143	1.0097
30 April 2025	0.4626	1.0093	1.0047
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

Fund and Market Commentary

The FIIG Monthly Income Fund returned +0.97% net of fees in May, significantly outperforming the AusBond Bank Bill Benchmark by 0.62%. Excess income, credit spread tightening and a rally in duration all contributed positively to performance. Always nice when that happens! Despite a second cut to the RBA cash rate, the fund's monthly distribution rate was maintained at 5.5%. It is also worth mentioning that any excess income generated in the portfolio since inception and realised capital gains will be distributed to unitholders at the end of the financial year (i.e. July).

Since inception in October 2024, the fund has returned 4.56%, outperforming its benchmark by 1.64% after fees.

Those following the old trading adage 'sell in May and go away' would be rather upset right now as risk assets such as equities and credit staged a strong comeback after April's wobbles. With Trump 'playing nice' (for now, at least) and adopting a more constructive approach to trade negotiations, the S&P 500 posted its largest gain in around 18 months (+6%) while global credit spreads tightened to levels last enjoyed around Liberation Day.

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: 66

Fund Duration: 1.0590 years

Benchmark Duration: 0.1233 years

Running Yield: 5.70%

Average Coupon: 5.93%

Technology companies led gains as President Trump visited the Middle East and facilitated a bunch of agreements between US companies (OpenAI, Nvidia, AMD, Cisco, Oracle etc.) and the United Arab Emirates & Saudi Arabia related to data centre construction and chip supplies, creating what will become the largest Artificial Intelligence campus outside of the US. In return for this favour, Saudi Arabia led OPEC to a third consecutive monthly boost in oil output, with Brent crude contracts falling from around USD75/bbl to USD60/bbl over the month. Oil prices are a key component in global inflation dynamics, and Trump's recent campaign was dominated by promises to address the cost of living for US citizens. Oil prices have now halved since Russia's invasion of Ukraine in 2022.

In a world of slowing economic growth, the AI thematic is one of very few growth themes out there at the moment – in fact, it accounted for c1% of US Q1 GDP. Data centre and small-scale modular nuclear reactor construction is driving demand for workers and materials. However, at the same time, May delivered further indications of the disruptive impact of AI on future employment, with projections of a wipeout of up to 50% of entry level white-collar jobs (leading to an overall US unemployment rate of up to 20%) within the next 5 years. Whilst this prognostication came from the CEO of an AI company (Anthropic), even if it is only partially correct it will have profound impacts on the economy, government finances, taxation and society as a whole. During the month, Microsoft announced a 3% ('efficiency-related') reduction in its workforce and even a company like Walmart - a large US retailer - announced 1,500 job cuts from its internal Technology team.

The RBA cut the cash rate to 3.85% at its May meeting, but the associated downbeat economic commentary from the Board grabbed the headlines and moved the market. At the time of writing, the market is pricing in an additional 3 cuts by the end of 2025. With the RBA having joined other global central banks in cutting cycles, around 75% of global public bonds are now trading at a yield of less than 5%.

Positioning

The Monthly Income Fund remained exposed to the positive market dynamics in risk assets after taking advantage of wider credit spreads on offer in April. Due to prior flurry of buying secondary market parcels at wide spreads, we largely sat out of the new issuance market during May. Most of our trading activity related to the shape of the yield curve, taking advantage of the relative steepness by buying longer-dated fixed coupon bonds in the highest-quality names such as Air Services Australia (AAA rated), State of Victoria (AA-rated) and the Aussie government itself (AAA rated).

After the USD weakened, the fund bought into its first USD-denominated exposure (MINAU 27's) in small size. These offered a yield north of 8% on entry with a relative short term to maturity and the capacity of an equity raise to strengthen the balance sheet. Late in May, we sold down positions to create extra liquidity for likely supply in June. Specifically, we took profit on Worley 28's due to OPEC's decision to increase oil output for a third successive month (likely pressuring prices and Worley's forward contracting book) and we sold Mizuho 28's on account of the aggressive steepening in the Japanese Government bond market (heightened potential for unrealised losses in on the balance sheet).

The portfolio yielded c5.65% at the end of May, compared with the index yielding c3.75%. The index yield has fallen as the market prices the recent as well as additional cuts from the RBA. At the time of writing, the market is pricing a cash rate of around 3% by the end of this year and the highest 5-year term deposit rate from a big 4 bank is 3.45% (CBA).

We retain around 1 year of interest rate duration in the fund, focused on the 10-year part of the curve. If yields continue to fall (or the curve simply flattens), we stand to benefit – and vice versa.

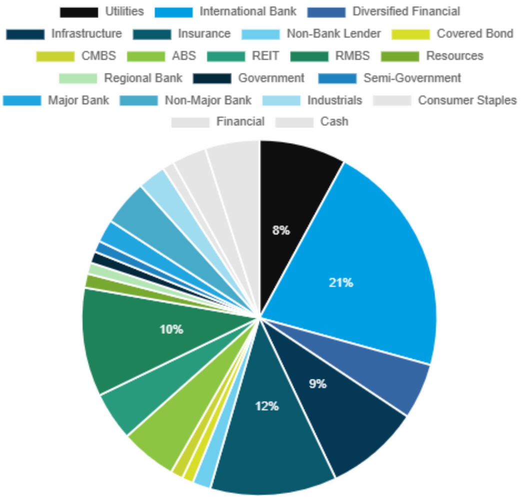
Outlook

Given the rally in credit spreads in May, as well as the uncertain outlook for geopolitics and economic growth, we are currently happy with an increased allocation to cash. We also envisage holding onto recently acquired longer-dated, fixed coupon bonds that will deliver coupons in the 5-6% level for years to come. This should partially offset the inevitable fall in the yields on floating rate bonds in the portfolio.

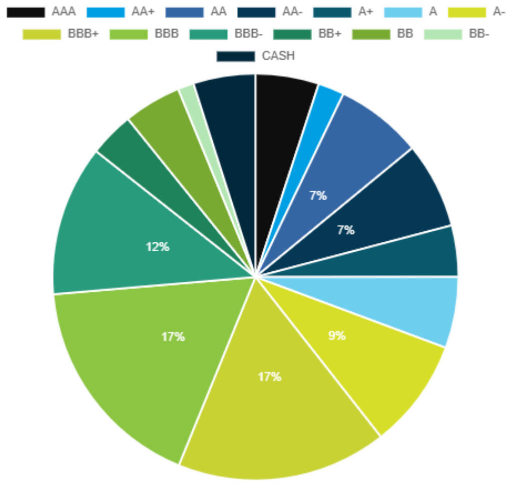
There is heightened consternation about the profile of government finances, most acute in the US but this drags Aussie long-end government bond yields with it. Elon Musk departing DOGE was taken by the market that there is very little prospect of seriously addressing the fiscal deficit in the US, with heightened bond issuance as far as the eye can see. There have also been lots of high-profile investors essentially saying they won't touch the long end of the yield curve. When sentiment and positioning is as one-sided as this, it usually pays to have a look at the other side of the argument. We know that the Treasury Secretary can skew issuance to the front-end of the yield curve (remember all that Treasury Bill issuance a few years ago?) and if the growth outlook is as cloudy as it seems, there may be value in unloved long-dated duration.

FIIG The fixed income experts

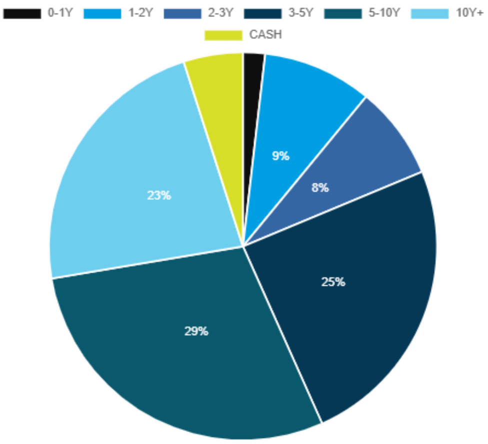
Sector Allocation as at 31 May 2025



Credit Quality as at 31 May 2025



Portfolio Maturity as at 31 May 2025



Top 10 Holdings as at 31 May 2025

Security Name	Security Number	Allocation (%)
The Hollard Insurance Co Pty Ltd	HOLLR_390101_FRN	2.84
NSW Electricity Networks Finance Pty Ltd	TRGRI_550311_FRN	2.69
Qube Holdings Ltd	QUB_341211_5.900	2.67
Bank of Montreal	BMO_290627_FRN	2.48
Aurizon Network Pty Ltd	0838562D_341221_	2.19
EnBW International Finance BV	7207_341030_6.04	2.13
Scentre Group Trust 1	SCW_540910_FR2	2.11
OWL Rock Core Income Corp	1857_271023_6.50	2.09
ClearView Wealth Ltd/Australia	CVW_350327_FRN	2.09
Metropolitan Life Global Funding I	1437_290711_FRN	2.08