FIIG | The fixed income experts

FIIG Monthly Income Fund

Monthly Commentary Report - 31 October 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 31 October 2024

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.58%	-	-	-	0.58%
Benchmark Return	0.36%	-	-	-	0.36%
Excess Return	0.22%	-	-	-	0.22%

*Fund inception 1 October 2024

Distributions Paid

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
31 October 2024	0.4190	1.0058	1.0016

Fund Commentary

The FIIG Monthly Income Fund returned 0.58% net of fees in October, outperforming the AusBond Bank Bill Benchmark by 0.22%. Performance was generated by tightening credit spreads, particularly in certain newly issued bonds and notes. There was a small offset due to interest rates selling off during the month – October saw the largest rise in global yields in two years – after the US Federal Reserve cut rates by 50 basis points.

As far as first months go, we were very satisfied with the deployment of capital into suitable investments. The primary market afforded a few opportunities, but we also scrapped in secondary markets in order to build allocations to core positions that will serve us well over the medium term.

As at month end, the Fund totalled cAUD25m in size, and we populated the portfolio with 40 distinct issuers, bringing suitable diversification in a short amount of time. The Fund yielded >5.8% with an interest rate duration of c0.6 years. All portfolio holdings are currently AUD-denominated.

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
  Megan Romeo - Head of MIPS, Portfolio Manager FIIG Australian Bond Fund
- Index: Bloomberg AusBond Bank Bill Index

Fund Characteristics

No. of holdings: 41

Fund Duration: 0.6320 years

Benchmark Duration: 0.1284 years

Running Yield: 5.90%

Average Coupon: 5.59%

The portfolio composition is skewed towards high-quality holdings, with close to 40% of the Fund invested in bonds and notes rated higher than AA-. The reasons for this are twofold: 1) in the early days of a new fund liquidity is very important, and 2) credit spreads are tight at the moment. US credit spreads are trading around pre-GFC tights and while Australia looks slightly cheap in comparison, credit curves are still compressed. In an otherwise expensive market, we are looking to 'barbell' the portfolio with a high-quality base in addition to a growing allocation to idiosyncratic relative value opportunities as the Fund scales.

The bulk of the portfolio is invested in floating rate notes with c20% allocated to Residential Mortgage Backed Securities and Asset Backed Securities. 15% of the Fund is allocated to fixed-coupon notes, which offer modest interest rate exposure, but, more importantly, industry diversification (defensive utilities, infrastructure and REITs). After the selloff in interest rates, we are looking more closely at timing an increase in portfolio duration and locking in higher rates.

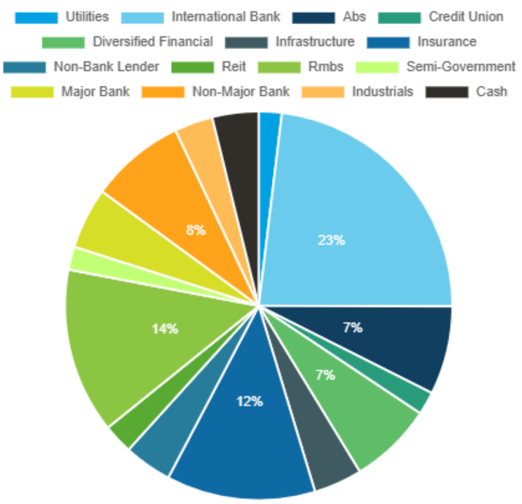
Outlook

There are considerable risk events that cloud the near-term outlook, including the US presidential election and the debt ceiling extension requirement, as well as the escalating situation in the Middle East, which brings asymmetric risk to oil prices and global economic growth/inflation. Aussie interest rates will be heavily influenced by these global factors, most acutely at the long end of the yield curve.

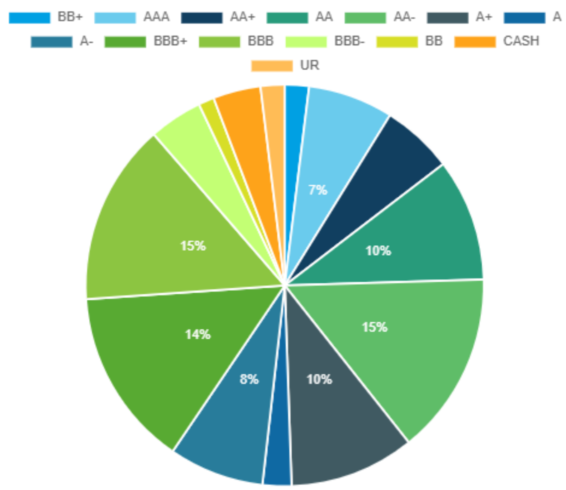
On a medium-term basis, the market is focused on US growth 'exceptionalism' driven by the consumer; however, we see growing evidence of a slowdown in the labour market and falling personal savings buffers that could otherwise sustain the positive trajectory. The expected productivity gains on account of the Artificial Intelligence revolution have 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 are barely above 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 at face value, the bank bill (benchmark) yield should remain high for the foreseeable future.
We will look to continue scaling the Fund and increasing diversification, as well as introducing some more duration when the technical setup allows.

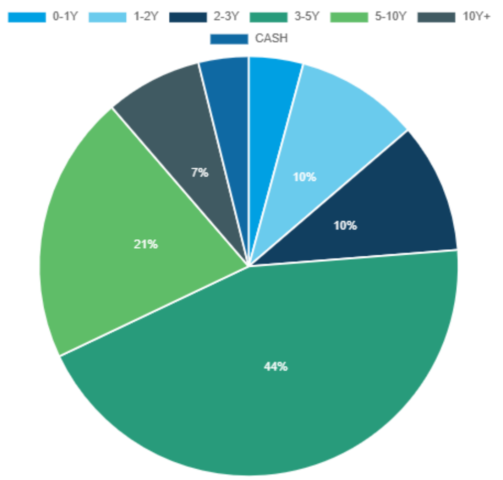
Sector Allocation as at 31 October 2024



Credit Quality as at 31 October 2024



Portfolio Maturity as at 31 October 2024



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