FIIG | The fixed income experts

FIIG Australian Bond Fund

Monthly Commentary Report - 31 May 2025

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 May 2025

Return Type	1 Month	3 Months	6 Months	12 Months	Since Inception*
Net Fund Return	0.38%	2.04%	3.80%	7.03%	6.30%
Benchmark Return	0.16%	2.04%	3.71%	6.84%	6.01%
Excess Return	0.22%	0.00%	0.09%	0.19%	0.29%

*Fund inception 29 September 2023

Distributions Paid in the Past 12 Months

Date	Distribution (Cents/Unit)	Cum Distribution Price	Ex-Distribution Price
31 March 2025	1.1936	1.0458	1.0339
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

Fund commentary

The FIIG Australian Bond Fund returned (net of fees) +0.38% for the month of May, delivering performance above the benchmark index which returned +0.16%. The excess performance of +0.22% is attributable to investment strategy application through both tenor (duration) and credit exposure positioning. Duration was reduced in early May, in advance of general market profit taking post the end of April release of 1st Quarter CPI that saw bond yields rise moderately. Credit exposure, under pressure throughout most of April, was maintained in advance of an expected recovery in credit margins (CMs) post the negative volatility of the Trump trade policy implementation.

Benchmark 10-year Commonwealth Government Bonds, opened the month at 4.155%, and rose as high as 4.585%, before closed the month of May at 4.250%. CMs rallied across the board, recovering some, but not all, of the slippage attributable to 'Trumpanomics'. As an example, benchmark^ (near) 5-year term (floating rate) subordinated bank CMs opened the month at +177, rose no higher, and closed the month on lows at +156. The manager additionally continues to maintain ~10% exposure to subordinate debt within the ~27% of total credit exposure held within the fund.

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: 5.0309 years

Benchmark Duration: 5.0050 years

Running Yield: 3.72%

Average Coupon: 3.65%

The RBA, as expected, eased the official cash rate (OCR) from 4.10% to 3.85% and, within their accompanying monetary policy statement, was notably dovish. They expressed confidence in having beaten inflation and both the first quarter figures (2.40% annualized and falling) and the April month (released in May evidencing stability at 2.40% annualized) attest to that confidence being well founded. The manager continues to predict, as it has since October 2023 at the launch of the fund, that the OCR will be eased to 3.25% by CYE 2025.

^Westpac Jan 2030 Call Benchmark Issue.

Market commentary

We repeat the messaging of the prior monthly reports. The influence of US tariff economic policy upon markets should not be understated, for global free trade is being eroded, global growth will fall, and fears of a recessionary period are well founded. Bond yields have rallied, and will likely continually rally in response. The environment does not promote confidence in credit and given margins had, before the weakness of April, rallied to post Covid-19 pandemic lows, managers will likely be looking at the bid rather than the offer. Maintaining a conservative credit exposure is a logical course of action.

The analysis of US monetary policy is unchanged. The US Federal Reserve has repeated messaging to the market, indicating a capacity to ease in response to impending lower growth, but equally tempering bulls by noting the potential of government economic policy to derail hard fought inflationary gains (via price rises as a function of tariffs). US Federal commentary on US economic outcomes is important, but perhaps not as important as the US economic policy impact upon China and therefore Australian growth.

Fund positioning

The manager anticipates a continuation of the same long duration strategy applied successfully in the prior quarters, and since late 2023. May saw a pause in the rally in bond yields, with the market profit taking early in the month immediately following an extremely strong April. The manager was a profit taker. The market has once again provided an opportunity for advantageous yield entry opportunity. We expect opportunistic volatility to continue, but will always be looking to be 'longer' duration in the current environment.

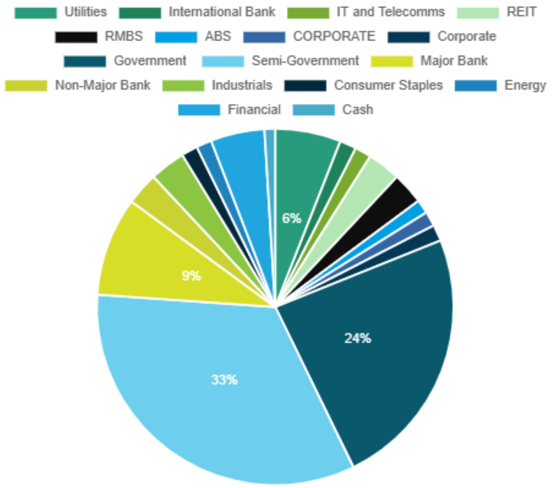
We expect the official cash rate to fall to 3.25% by 2025 CYE but determine that the capacity for long dated bonds to rally below 4.00% would appear less optimistic. The heady days of globalization, peak scale economy and subsequent competitive price pressure are likely behind us (and definitely within the US). Inflation has fallen into ranges tolerable for most (ex US) central banks to ease the monetary policy brakes, yet the probability of a repetition of the extended period of near zero inflation of the 2000's, is low. The US may eventually ease as well, as soon as the fog of 'Trumpanomics' is lifted and a more certain pathway toward improved global trade is paved.

We believe the yield curve, between 3 years and 10-year Commonwealth Bonds will continue to steepen because global economic uncertainty is elevated. We will await an advantageous yield curve entry opportunity to position exposure weightings higher in the middle of the yield curve, whilst maintaining a variable, but in most cases 'long' duration target.

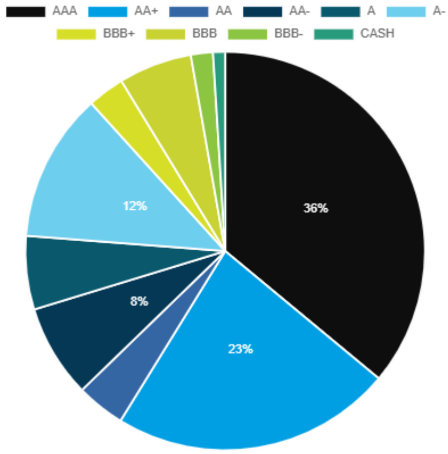
As stated last month, because corporate credit margins, above commonwealth debt yields, are trading at near (post Covid-19 pandemic) historic lows, the manager is cautious. The Fund will continue to position future credit exposure conservatively, investing primarily in tenors of less than 5 years and amongst credit grades rated higher than BBB+ (S&P rated). We are especially cautious given the pace of change in the geopolitical economic environment and the potential macro and micro economic impact impeding credit margins holding.

The Fund awaits primary issuance opportunities in fixed rate corporate debt and is constantly placing bids for many targeted assets in the secondary market.

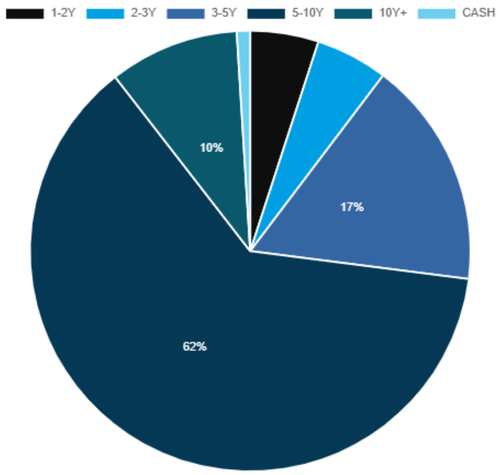
Sector Allocation as at 31 May 2025



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 Commonwealth of Australia	ACG_310621_1.5	5.18
The Commonwealth of Australia	ACG_330421_4.500	4.55
The Commonwealth of Australia	ACG_321121_1.75	4.38
Queensland Treasury Corp	QTC_300821_3.50	4.33
South Australian Government Financing Authority	SAFA_320524_1.75	4.31
The Commonwealth of Australia	ACG_370421_3.750	4.24
New South Wales Treasury Corp	NSW_310320_2.000	3.92
The Commonwealth of Australia	ACG_350621_2.750	3.90
Western Australian Treasury Corp	WATC_311022_1.75	3.81
Commonwealth Bank of Australia	CBA_290822_4.500	3.00

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