

Ellerston Fixed Income Target Return Fund

Monthly Report as at 31 October 2024

APIR Code: ECL4489AU



Fixed Income Target Return strategy with strong focus on generating returns throughout the market cycle.



Targets a low correlation to growth assets (and credit returns) though the cycle, but aims to increase protection during times of market weakness.



Dynamic risk allocation framework balances trade-offs between alpha sources and defensiveness.

Performance Summary

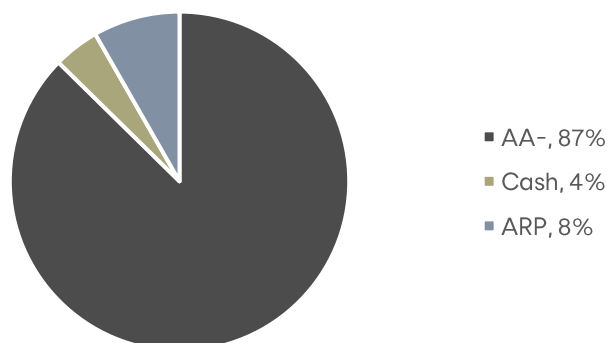
Performance	1 Month	Since Inception ^^
Gross	-0.49%	-0.15%
Net ^	-0.52%	-0.22%
Benchmark*	0.29%	0.60%
Alpha **	-0.81%	-0.82%

^The net return figure is calculated after fees & expenses, assuming all distributions are reinvested. Past performance is not a reliable indication of future performance.
*Benchmark: RBA 6m TD Index. ^^Inception date 31 August 2024 **Alpha is return generated from Net returns comparatively to the Benchmark

Key Information

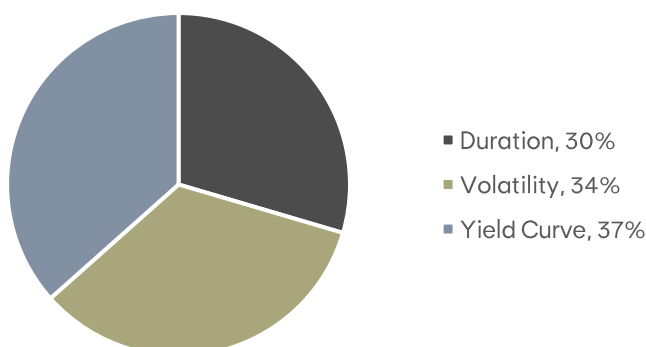
Portfolio Manager(s)	Vimal Gor & Thomas Ciszewski
Investment Objective	The investment objective of the Fund is to generate a 2.5% (net) return over the Reserve Bank of Australia (RBA) 6m Term Deposit (TD) Index over the medium to long term.
Benchmark	RBA 6m TD Index
Liquidity	Daily
Minimum Investment	Initial investment - \$50,000 Additional investment - \$10,000
Distribution Frequency	Aims to distribute quarterly.
Management Fee	0.45% p.a. of the Net Asset Value of the relevant class of the Fund.
Buy/Sell Spread	0.10%/0.10%

Fund Positioning of Portfolio



Source: Ellerston Capital.

Fund Positioning of ARP Overlays



Source: Ellerston Capital.

Portfolio Characteristics

Yield to Maturity/Call	4.77%
Running Yield	5.19%
Modified Duration	0.23
Weighted Average Maturity (Years)	3.06
S&P Credit Rating	AA-
Number of Securities	12

Source: Ellerston Capital.

COMMENTARY

Portfolio changes

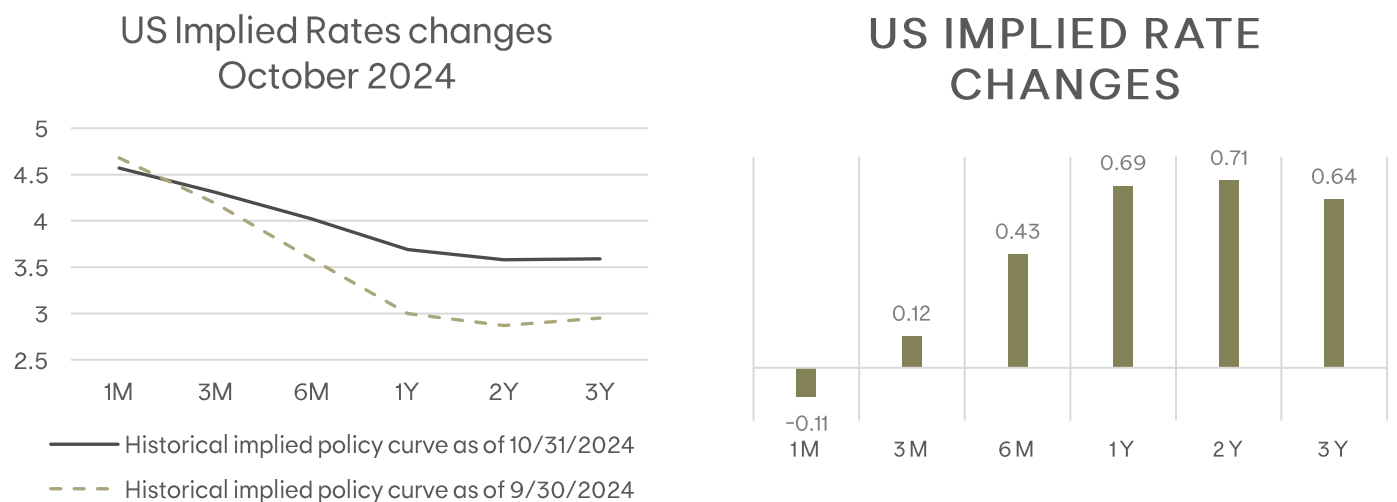
The Ellerston Fixed Income Target Return Fund base portfolio is made up of Australian major bank Senior ranked FRNs maturing in 2-5 years, rated AA-. The base portfolio had minor changes over October as the investment team believes the base portfolio current yield of ~5.2% offers the most attractive risk adjusted return for investors.

Additional sleeves of quantitative fixed income investment strategies were implemented early in the month. The risk premia portfolio is designed to manage the portfolio's duration risk, rate movements in the easing cycle, movements across the yield curve and hedge against sudden changes in central bank policy through long volatility strategies.

Interest Rate movements

In October, both US and global interest rates surged significantly, undoing the rate cuts that markets had anticipated since early August. The outlook for future US rate cuts became uncertain early in the month, following a stronger-than-expected unemployment report that halted the rise in US unemployment figures. This upward trend in yields persisted as Trump's election odds improved, raising concerns over the potential inflationary effects of his policies. The Federal Reserve is likely to take these inflationary pressures from fiscal stimulus into account, leading to a more cautious approach to rate cuts, at least in the initial phase of a Trump administration.

The changes in US implied policy rates over October are shown below.

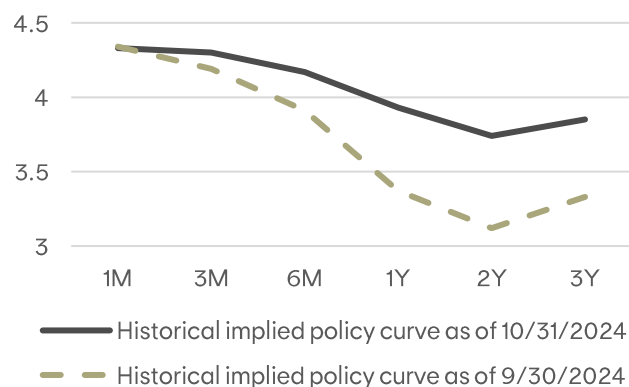


Source: Bloomberg, Ellerston Capital

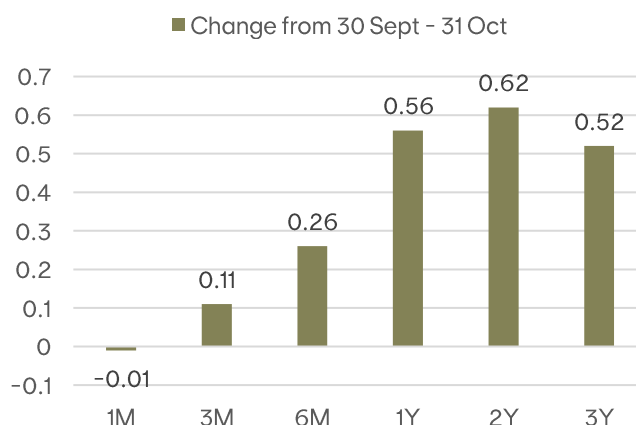
The speed and the size of the absolute changes in yield were significant. The move higher in 12-month and 2-year yields over a 1-day (or 1-week) ranked among the top 0.5% of moves over the past 20 years. Data showed CTA and trend-following strategies in rate markets were positioned for yields to decline. This swift reversal triggered stop-losses, intensifying the upward momentum in yields.

Global interest rate markets echoed the moves in the US. Projections for the first RBA rate cut are now pushed out beyond six months, with fewer than two cuts expected within the next year. Australian bond indices declined in response to these rate shifts, with the Bloomberg AusBond Credit Index (BACR0) down 0.88% and the Bloomberg AusBond Composite Index (BACM0) down 1.88% in October. Below are the changes in Australia's implied rates surface for the month.

AU Implied Rates changes October 2024



AU IMPLIED RATE CHANGES



Source: Bloomberg, Ellerston Capital

Portfolio Profile

The uncertainty surrounding the US election outcome and upcoming central bank policy decisions suggests a cautious approach in the coming months. While risk-on asset pricing has been buoyed by rising market liquidity throughout 2024, higher rates and pre-election de-risking have recently stalled this liquidity growth. Any reduction in liquidity could prompt an overdue correction in asset prices and drive credit spreads wider from their currently narrow levels.

The investment team believes positioning the portfolio in high quality Australian IG bank FRNs offers the highest risk adjusted returns. We also prefer the high liquidity profile of these bonds versus lower ranking assets.

A curve steepening profile in G3 rates has been maintained through alternative risk premia total return swaps. These strategies are set up to perform positively in an economic downturn or if geopolitical tensions create a larger risk off environment. The overall portfolio positioning is defensive and in line with the EFIT mandate.

Find out more:

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All holding enquiries should be directed to our registry, Automic Group on 1300 101 595 or ellerstonfunds@automicgroup.com.au.

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