Ellerston Fixed Income Target Return Fund – Class A Units

Monthly Report as at 31 January 2025

APIR Code: ECL4489AU

Ellerston Capital

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

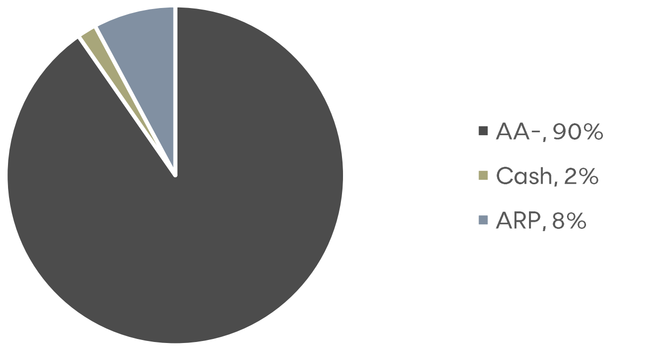
Performance	1 Month	3 Months	Since Inception ^^
Gross	0.48%	1.17%	1.02%
Net ^	0.44%	1.05%	0.82%
Benchmark*	0.29%	0.87%	1.46%
Alpha **	0.15%	0.18%	-0.64%

^ 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 30 August 2024 **Alpha is return generated from Net returns comparatively to the Benchmark*

Key Information

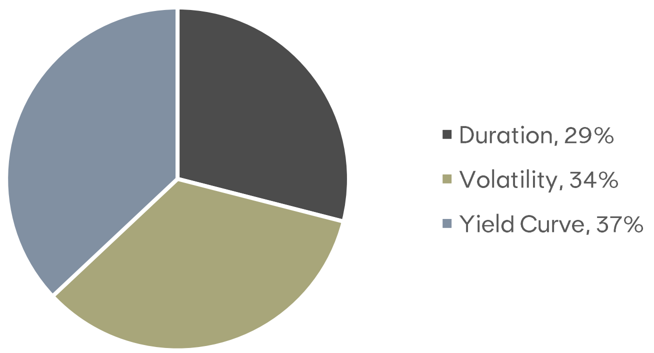
Portfolio Manager(s)	Vimal Gor & Thomas Ciszewski
Investment Objective	The investment objective of the Fund is to generate a 2.5% (net) return over the Reserve Bank of Australia (RBA) 6m Term Deposit (TD) Index over the medium to long term.
Benchmark	RBA 6m TD Index
Liquidity	Daily
Minimum Investment	Initial investment - $10,000 Additional investment - $5,000
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%
Class A Unit Prices & Fund Size	Application – 10.0062 Net Asset Value – 9.9962 Redemption –9.9862 Fund Size – $38,754,593

Fund Positioning of Portfolio



Source: Ellerston Capital.

Fund Positioning of ARP Overlays



Source: Ellerston Capital.

Portfolio Characteristics

Yield to Maturity/Call	4.46%
Running Yield	5.19%
Modified Duration	0.20
Weighted Average Maturity (Years)	2.99
S&P Credit Rating	AA-
Number of Securities	12

Source: Ellerston Capital.

COMMENTARY

Portfolio changes

The Ellerston Fixed Income Target Return Fund – Class A base portfolio is comprised of Australian major bank FRNs maturing in 2-5 years, rated AA-. The base portfolio was largely held constant in January. The base portfolio current yield is ~5.19%.

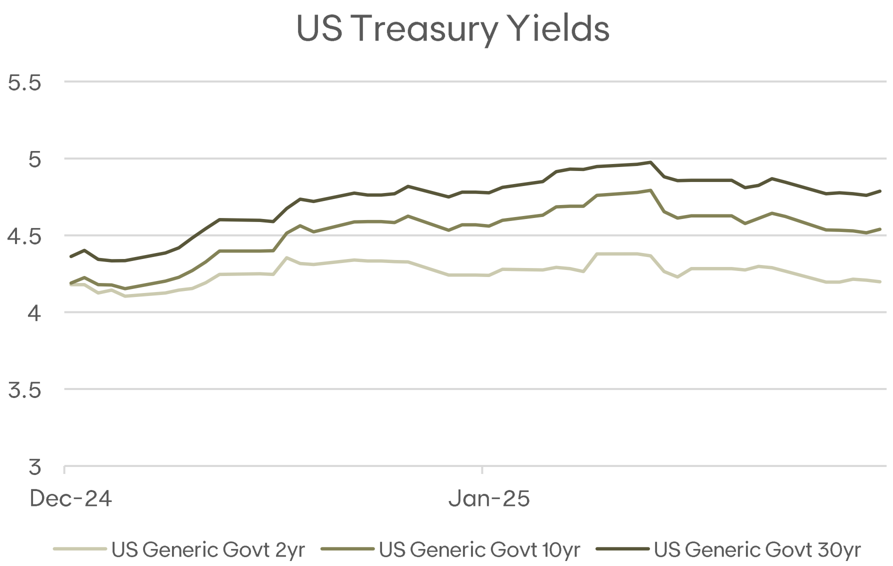
The quantitative fixed income investment strategies were unchanged over January. The risk premia portfolio is designed to manage the portfolio's duration risk, rate movements in the easing cycle, movements across the yield curve and hedge against sudden changes in central bank policy through long volatility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

Interest Rate movements

The U.S. interest rate curve saw slight changes in January. However, a mid-month reversal made the month appear more stable than the actual volatility in interest rates. Longer-dated yields, which had been rising steadily since the first rate cut in September due to an increased term premium, reversed course. The reversal of the curve steepening and subsequent flattening saw the implied yield curve shift slightly higher.

By the end of January, the U.S. yield curve implied less than a 10% chance of a rate cut in March. Economic data releases indicate that inflation is trending toward the Federal Reserve's target while employment remains robust and the unemployment rate plateaus. This scenario allows the data-dependent Fed to remain patient before making its next decision.

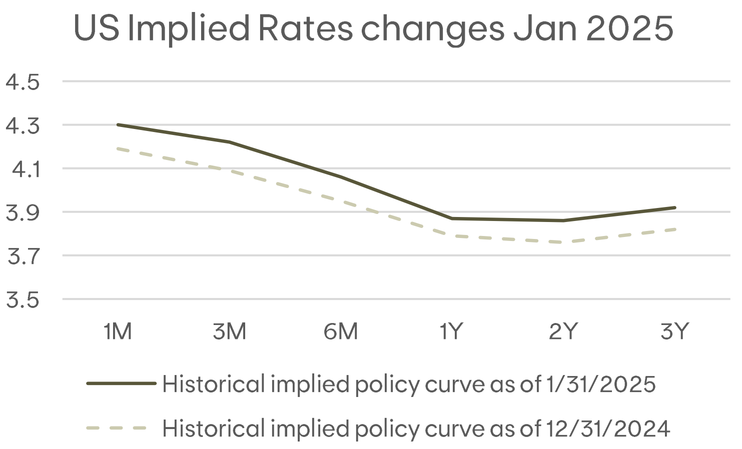
The Trump administration has been issuing executive orders and decrees at a rapid pace. New tariffs have been used both as leverage for advancing economic policies and as a precursor to foreign policy negotiations, pressuring allies into making concessions. Economists generally agree that implementing large-scale tariffs would be inflationary, though the extent and timeline remain uncertain. Promised tariffs were temporarily paused before implementation with Canada and Mexico, leading to heightened volatility in foreign exchange, equities, commodities, and interest rates. Despite this volatility, month-over-month asset price changes have been surprisingly minimal. Below is a chart of the 2-, 10-, and 30-year yields over December and January.

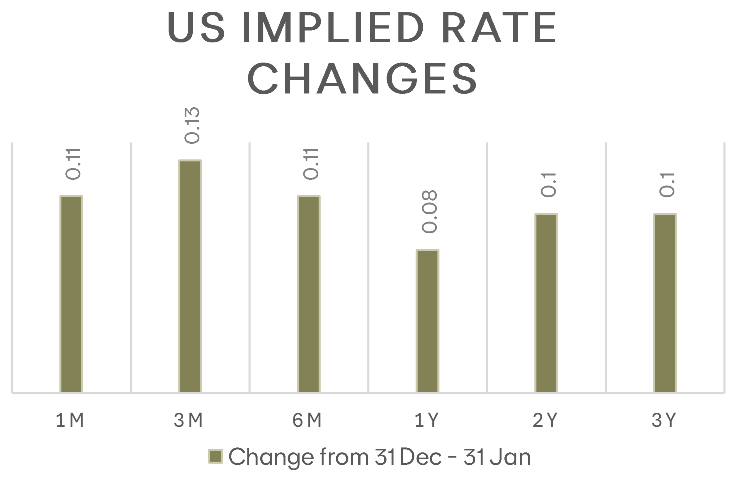


Source: Bloomberg, Ellerston Capital

The current implied yield curve is pricing in only two rate cuts in the US over the next two years. The curve remains relatively flat out to the 5-year and even 10-year tenors. A cautious Federal Reserve has signalled that it can afford to be patient as potential tariffs and the ongoing disruptions of the new administration play out. Treasury Secretary Bessent has indicated that the Trump administration prioritizes maintaining low and stable 10-year bond yields. For the Fed to resume more aggressive rate cuts, economic data would need to show significant deterioration. Given recent trends, the range-bound rates curve observed in previous months may persist until mid-year.

The changes in US implied policy rates in January are shown below.





Source: Bloomberg, Ellerston Capital

Yield Curve Movements

The U.S. yield curve reversed the steepening trend seen in early January, flattening over the course of the month. Near-term yields rose, while longer-dated yields remained largely unchanged. Estimates suggest that U.S. Treasury bond issuance will fall below previous expectations, which could help contain longer-dated yields.

A loss of investor confidence similar to what occurred during the UK's Truss government could potentially lead to bear steepening. However, a paradox exists: in times of crisis, U.S. Treasuries typically rally. This raises an important question—what would happen if a crisis of confidence in the U.S. government's ability to repay its debt were to occur?

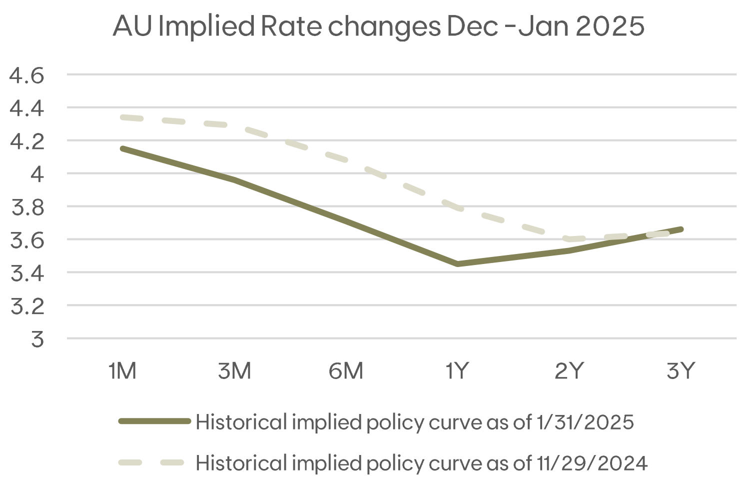
Forward Policy Outlook

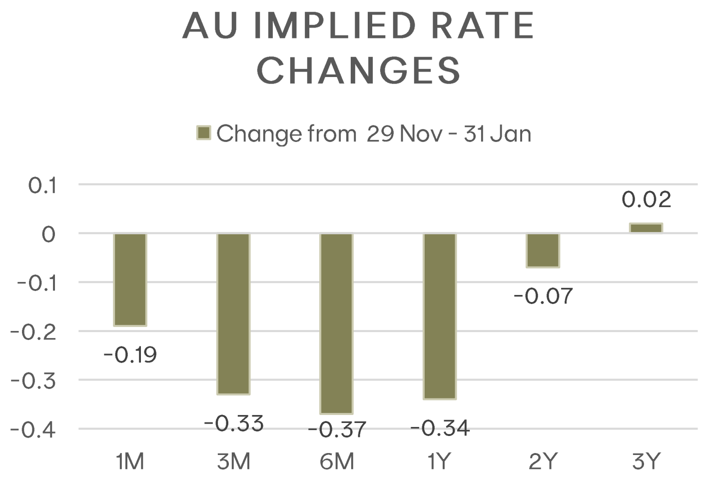
The next Federal Open Market Committee (FOMC) meeting is scheduled for mid-March. Currently, no rate changes are priced into the yield curve, nor are any expected by the market at that meeting.

Australia

Australian economic data continues to indicate inflation is slowing and the job market is softening. The biggest question is will the RBA initiate its easing cycle before the next Federal election. Markets are now pricing in a rate cut in February, and two additional cuts by year end.

Below are the changes in Australia's implied rates curve over the month.





Source: Bloomberg, Ellerston Capital

Portfolio Profile

Central banks outside the US Fed are expected to lower interest rates in the first half of 2025. A trade war is likely to complicate both growth projections and create inflationary consequences. Tariffs would be a supply-side price shock and could lead to a stagflation scenario. The investment team believes that US rates markets will remain range-bound in the first half of 2025 as other central banks ease more aggressively. Larger cross currency rate differentials should keep the US dollar elevated.

The investment team believes that positioning the portfolio in high-quality Australian investment-grade (IG) bank floating rate notes (FRNs) offers the highest risk-adjusted returns. We also value the high liquidity profile of these bonds compared to lower-ranking assets.

The curve steepening profile in G3 rates has been maintained through alternative risk premia total return swaps. These strategies are designed to perform positively in the event of an economic downturn or if rate curves continue to normalize with term premiums being priced in. The overall portfolio positioning remains defensive and aligned with the EFIT mandate.

Regulatory Guide (RG240) Fund Disclosure Benchmark – Periodic Reporting (monthly)

- **Net Asset Value of the Fund and Redemption Price of Units**

Please refer to details on page one.

- **Any changes to key service providers including any change in related party status.**

There have been no changes to key service providers, including any change in related party status.

- **Net returns after fees, costs and relevant taxes**

Please refer to details on page one.

- **Any material changes to the Fund's risk profile and strategy**

There have been no changes to the Fund's risk profile and strategy.

- **Any material changes related to the primary investment personnel responsible for managing the Fund.**

There have been no changes to the primary investment personnel responsible for managing the Fund.

Contact Us

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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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