Ellerston Fixed Income Target Return Fund – Class A Units

Ellerston Capital

Monthly Report as at 31 March 2025

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	3 Months	6 Months	Since Inception ^^
Gross	0.65%	1.24%	1.44%	1.78%
Net ^	0.61%	1.12%	1.20%	1.50%
Benchmark*	0.28%	0.84%	1.71%	2.01%
Alpha **	0.33%	0.28%	-0.51%	-0.51%

^ 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

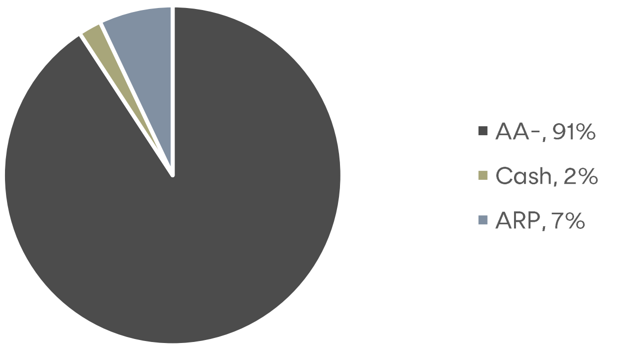
Portfolio Manager(s)	Vimal Gor & Thomas Ciszewski
Investment Objective	The investment objective of the Fund is to generate a 2.5% (net) return over the Reserve Bank of Australia (RBA) 6m Term Deposit (TD) Index over the medium to long term.
Benchmark	RBA 6m TD Index
Liquidity	Daily
Minimum Investment	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 Units.
Buy/Sell Spread	0.10%/0.10%
Class A Unit Prices & Fund Size	Application – $10.0738 Net Asset Value – $10.0637 Redemption – $10.0536 Fund Size – $38,788,931.08

Portfolio Characteristics

Yield to Maturity/Call	4.31%
Running Yield	5.00%
Modified Duration	0.21
Weighted Average Maturity (Years)	2.76
S&P Credit Rating	AA-
Number of Securities	12

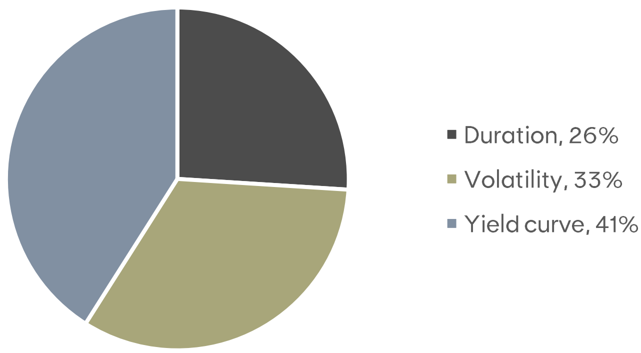
Source: Ellerston Capital.

Fund Positioning of Portfolio



Source: Ellerston Capital.

Fund Positioning of ARP Overlays



Source: Ellerston Capital.

COMMENTARY

Portfolio changes

The EFIT base portfolio is comprised of Australian major bank FRNs maturing in 2-5 years, rated AA-. The base portfolio was largely held constant in March. The base portfolio's current yield is ~5.00%.

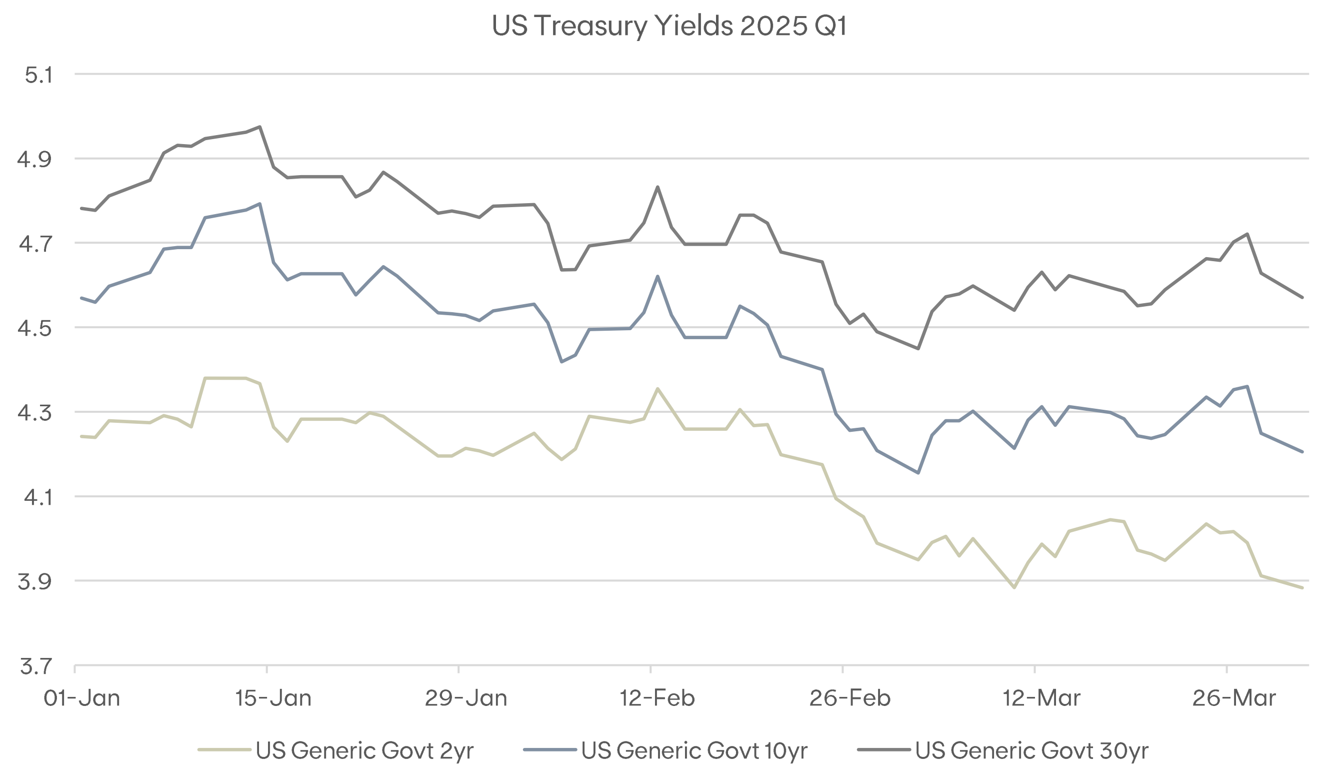
The quantitative fixed income investment strategies were unchanged over March. The risk premia portfolio is designed to manage the portfolio's duration risk, rate movements in the easing cycle, movements across the yield curve and hedge against sudden changes in central bank policy through long volatility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

Interest Rate Movements

The Federal Reserve left policy unchanged at its March meeting. However, the accompanying statement and projections were on balance dovish, reflecting increased concern over the trajectory of growth. In recent weeks, key macro data has softened: consumer confidence fell to a four-year low, labour market conditions are cooling, and business sentiment is deteriorating. The Trump administration's increasingly erratic approach to economic policy—particularly around tariffs and fiscal cuts—is exacerbating this uncertainty, weighing on both household and corporate decision-making.

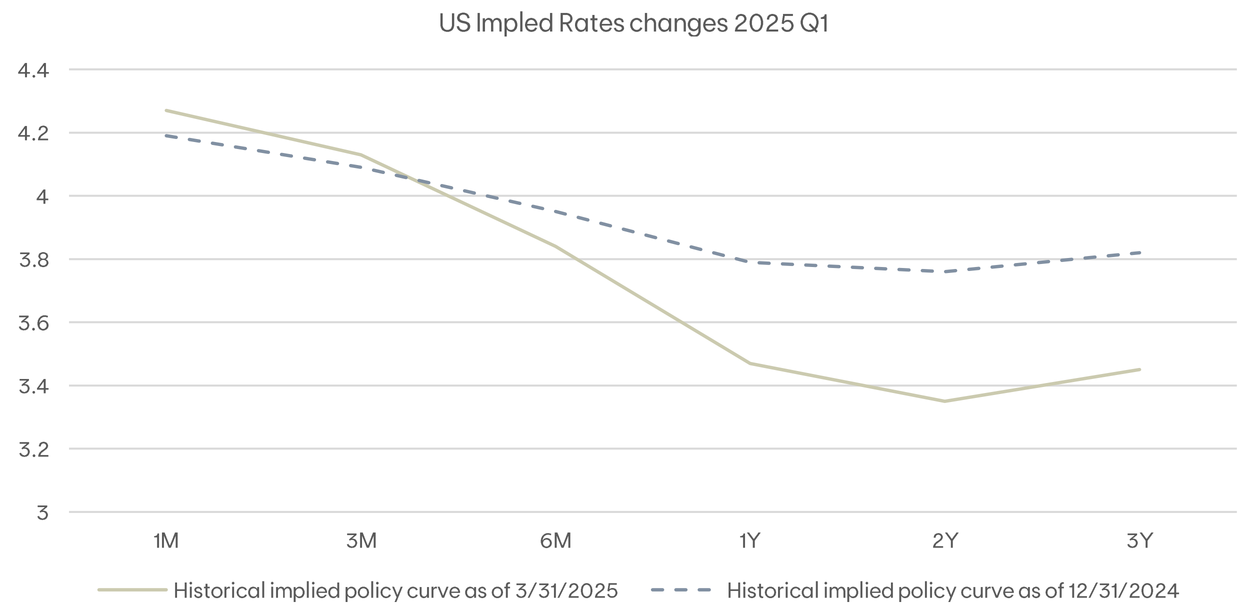
While inflation remains above target, the Fed now appears more concerned about downside risks to growth. Officials revised their 2025 GDP forecast lower and modestly increased their core PCE inflation forecast to 2.8%. The March dot plot continues to signal two cuts this year, but the broader tone suggests that the Committee is now leaning towards easing. Importantly, the Fed also announced a slowdown in quantitative tightening, reducing monthly Treasury redemptions from $25bn to $5bn beginning in April—effectively providing modest support to bond markets at a time of rising volatility.

Across developed markets, central banks are taking a similar stance. With eurozone inflation easing and growth under pressure, the ECB is also expected to cut in the coming months. The global monetary policy cycle is now clearly pivoting from normalisation to accommodation.

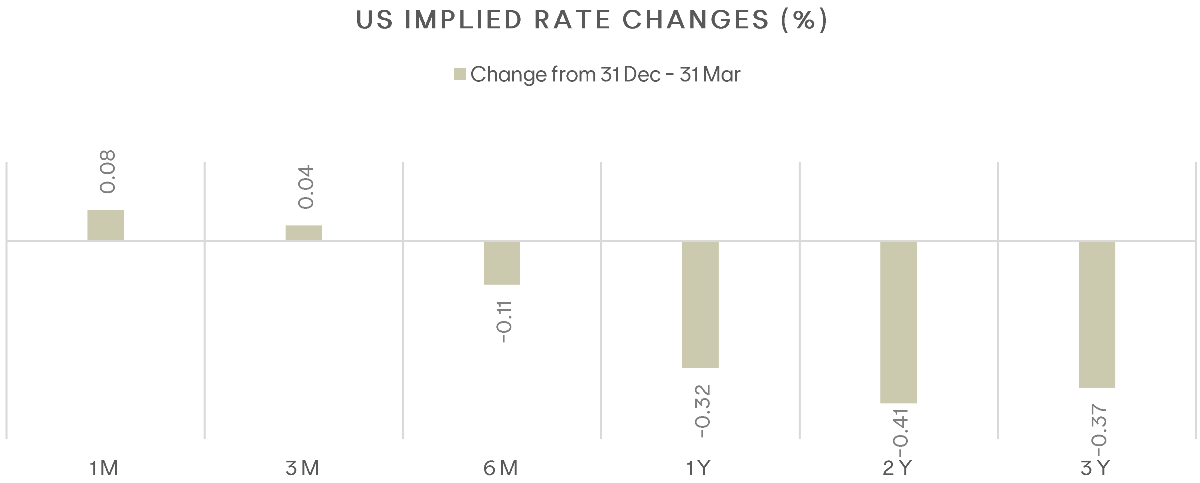


Source: Bloomberg, Ellerston Capital

The changes in US implied policy rates between 2025 Q1 are shown below:



Source: Bloomberg, Ellerston Capital



Source: Bloomberg, Ellerston Capital

Yield Curve Movements

March saw a decline in U.S. Treasury yields, driven by safe-haven flows and repricing of Fed policy expectations. The 10-year Treasury yield declined to 4.2%, down nearly 60bps from its peak in January. The 2-year yield fell more dramatically, dropping below 4.0% for the first time this year. This move has meaningfully steepened the yield curve, with the 10s–2s spread closing the month at +34bps—its most positive reading since late 2022.

The shape of the curve reflects growing investor conviction that the Fed will be forced to ease in response to weakening fundamentals. Risk assets were volatile through the month, and the dollar weakened late in the quarter—even on days when Treasuries rallied. This break from the usual correlation highlights a subtle but important shift: global investors are increasingly questioning the USD's resilience as a safe haven in the face of mounting U.S. policy uncertainty.

The administration's unpredictable tariff announcements and inconsistent fiscal signalling are beginning to feed through to market pricing. While Treasuries continue to benefit from their perceived safety, the USD is no longer attracting the same level of defensive capital—raising questions about whether a risk premium is now being embedded into U.S. assets more broadly.

Forward Policy Outlook

The Fed remains on hold for now, but the direction of future policy is towards easing. Markets are currently pricing in 50–75bps of rate cuts by year-end, with a first move possible as early as June. The Committee's statement reiterated that future policy will be driven by incoming data and evolving risks. In recent months, those risks have shifted notably to the downside.

Trump's economic programme has so far been heavy on rhetoric but light on clarity. The frequent changes in tariff policy—often floated, withdrawn, and then re-announced—are dampening investment appetite and weighing on exports. At the same time, deep cuts to discretionary spending under the DOGE initiative are filtering through to public sector employment and confidence. The result is an economy that is clearly slowing, and a Fed that is beginning to acknowledge it.

If this trajectory continues, the Fed will likely begin cutting by mid-year. Barring an upside surprise in inflation, the probability of further tightening is now extremely low. Policymakers have shifted focus from price stability to growth preservation.

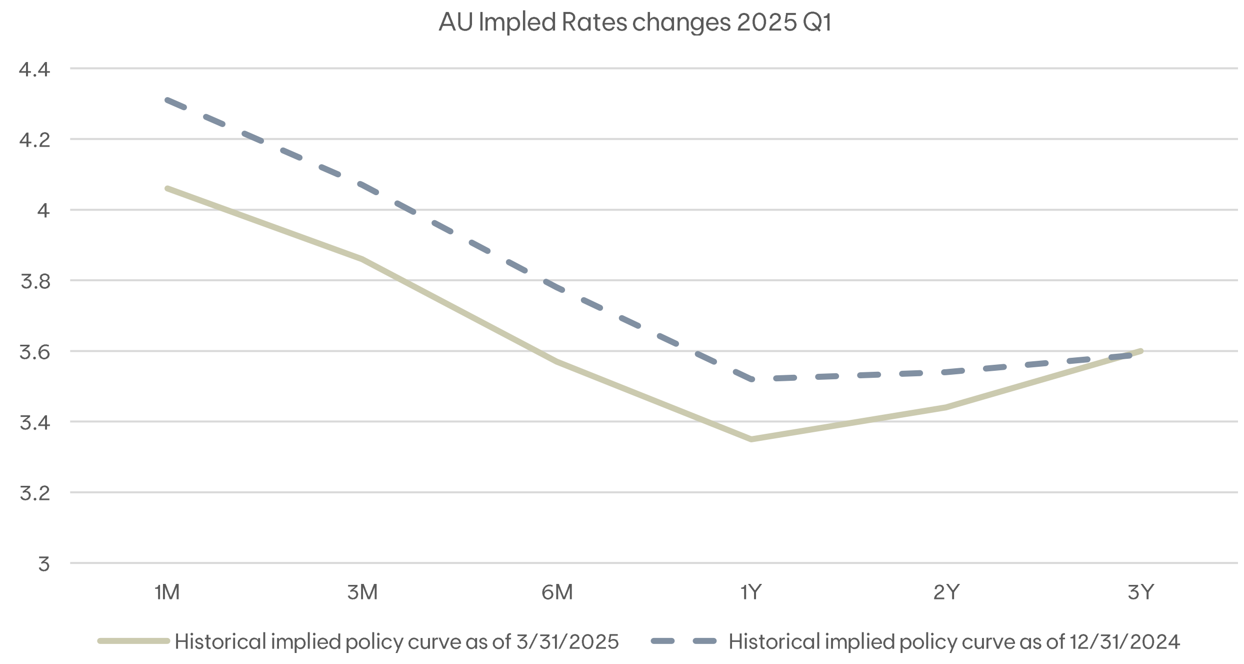
Australia

Australian economic data in March continued to show clear signs of cooling. Inflation is easing, wage growth is moderating, and the labour market is gradually softening. The unemployment rate edged higher over the month, and job advertisements remain in steady decline—pointing to reduced hiring appetite across sectors.

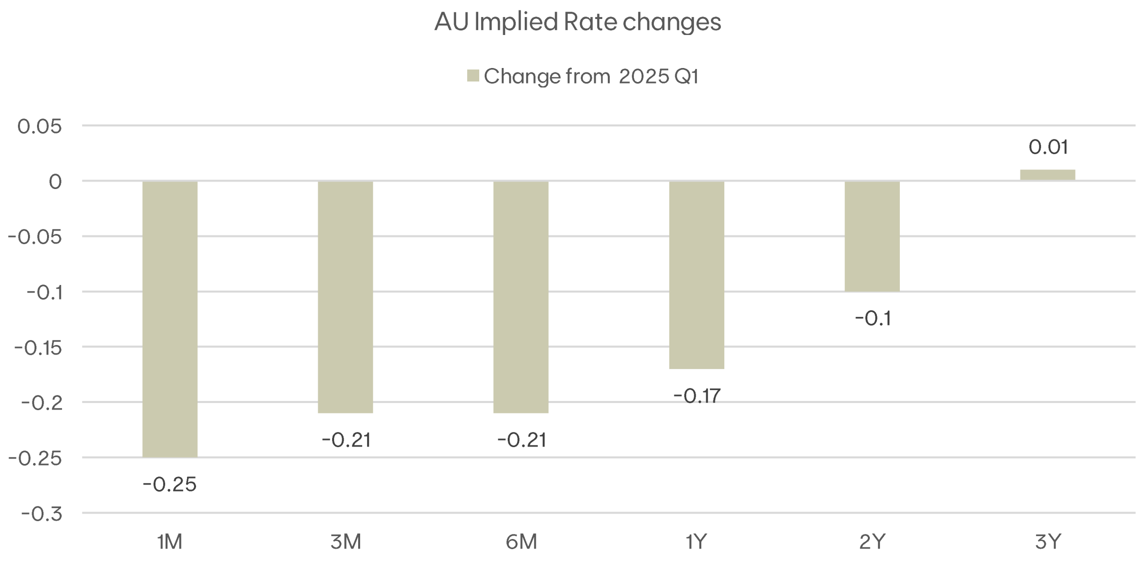
With the Federal election now officially called for May, attention is turning to whether the RBA will move ahead with rate cuts before the campaign concludes. While the RBA is likely to hold through the near term to avoid politicising its decisions, markets are firmly pricing in an easing cycle to begin mid-year. Futures are now implying 75bps of cuts by year-end, with June shaping up as the most probable starting point.

The domestic data no longer justifies a restrictive stance, and the path forward is increasingly clear. The question now is one of timing and optics—not direction.

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



Source: Bloomberg, Ellerston Capital



Source: Bloomberg, Ellerston Capital

Portfolio Profile

Central banks will continue easing over the rest of the year. Tariff policy and the ensuing trade war could cause a large growth shock that would supersede worries about their inflationary impact. The investment team believes that US rates markets could see yields drop substantially if growth falls dramatically.

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:

Should investors have any questions or queries regarding the Fund, please contact our Investor Relations team on 02 9021 7701 or info@ellerstoncapital.com or visit us at ellerstoncapital.com.

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

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