Ellerston Fixed Income Target Return Fund – Class A Units

Ellerston Capital

Monthly Report as at 30 June 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) through 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	0.52%	1.13%	2.38%	2.92%
Net ^	0.48%	1.01%	2.14%	2.53%
Benchmark*	0.25%	0.78%	1.63%	2.81%
Alpha **	0.23%	0.23%	0.51%	-0.28%

^ 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*

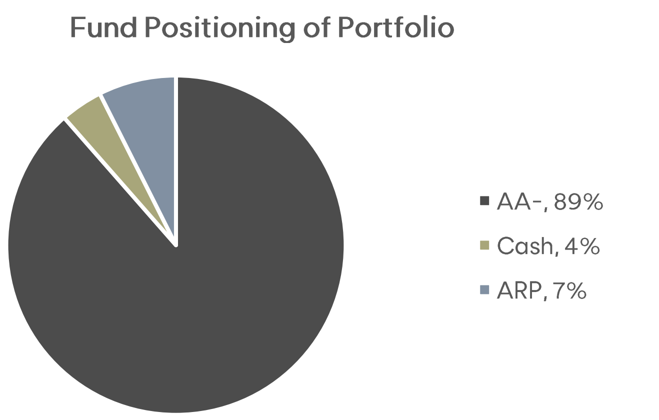
Key Information

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 – $10.0328 Net Asset Value – $10.0228 Redemption – $10.0128 Fund Size – $ 36,835,889

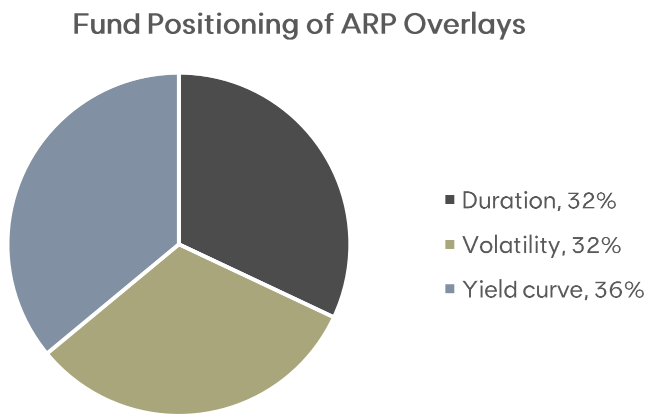
Portfolio Characteristics

Yield to Maturity/Call	3.84%
Running Yield	4.58%
Modified Duration	0.14
Weighted Average Maturity (Years)	2.59
S&P Credit Rating	AA-
Number of Securities	9
Spread Duration	2.21

Source: Ellerston Capital.



Source: Ellerston Capital.



Source: Ellerston Capital.

COMMENTARY

Portfolio changes

The Ellerston Fixed Income Target Return (EFIT) base portfolio is comprised of Australian major bank floating rate notes (FRNs_ maturing in 2-5 years, rated AA-. The base portfolio was held constant in June and its current yield is ~4.58%.

Our quantitative fixed income strategies were adjusted in June, to adapt exposure to strategies that will perform best in the current environment. The risk premia portfolio continues to manage duration exposure, anticipate rate movements during the easing cycle, navigate yield curve shifts, and hedge against abrupt central bank policy changes through long volatility strategies.

Interest Rate Movements

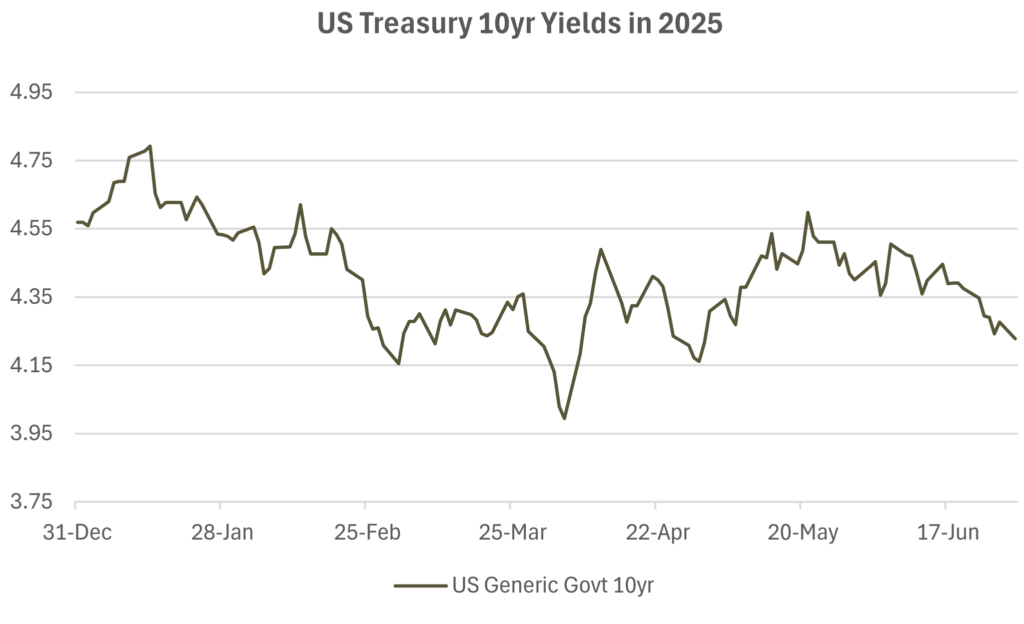
At its June 18th meeting, the Federal Reserve maintained the federal funds rate at 4.25%–4.50% for the fourth consecutive time. The decision reflects the Fed's cautious approach since President Trump's liberation day tariff announcements in early April. Forecasted higher inflation from the tariffs has not yet fed through to economic data whilst the labour market continues to show signs of weakness. US and global interest rates trended lower through the geopolitical tension of June and as economic releases were benign. Markets were pricing in three interest rate cuts by year end from the US Federal reserve.

The ECB implemented its eighth consecutive rate cut on June 5th, lowering the deposit facility rate by 25 basis points to 2.00%. The decision aims to support the economy amid rising global trade uncertainty and stabilise inflation at target levels. While some policymakers considered pausing rate reductions, the consensus favoured continued easing. ECB President Christine Lagarde highlighted the challenges posed by frequent global shocks, such as geopolitical fragmentation and the rise of artificial intelligence, which make inflation more unpredictable.

The Reserve Bank of Australia (RBA) did not have a policy meeting in June. Australian economic data releases continued to be subdued, with employment and CPI data coming in below market forecasts. Market expectations suggested a 25bp rate cut at the July RBA meeting, but the board surprised the market and held the benchmark rate unchanged at 3.85%. The RBA did signal the delayed cut should happen at their August meeting and further rate cuts are expected in the second half of 2025/ early 2026 to support economic growth.

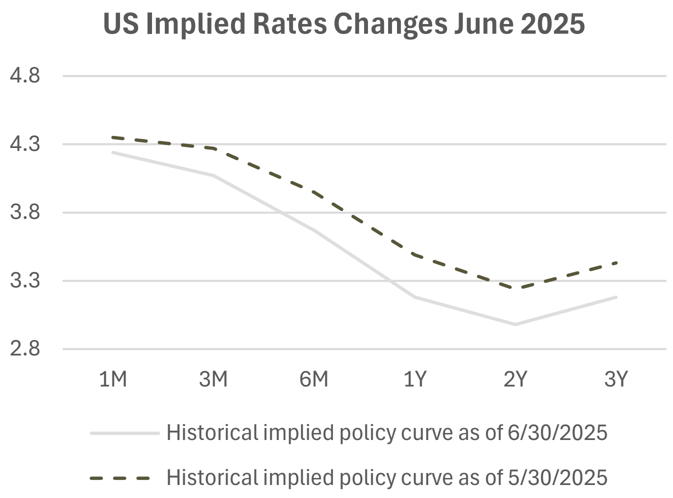
The BoE and the BoJ kept policy rates unchanged in June.

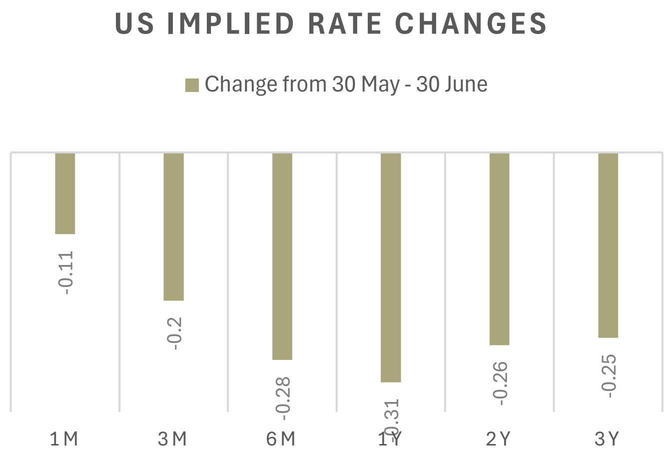
Below is a chart of U.S. 10-year Treasury yields over the first half of 2025.

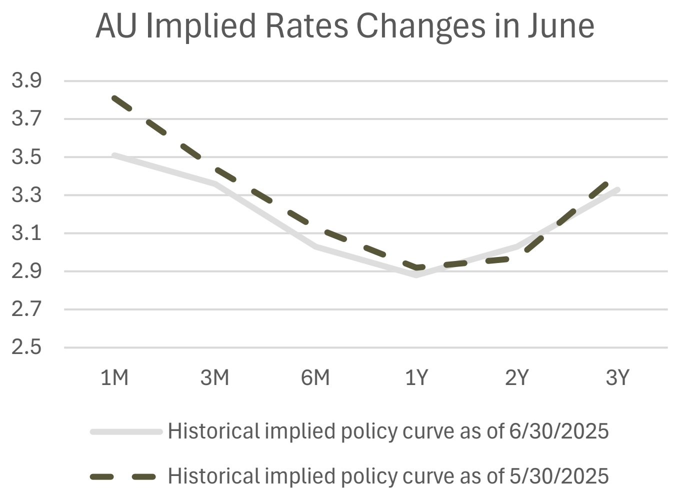


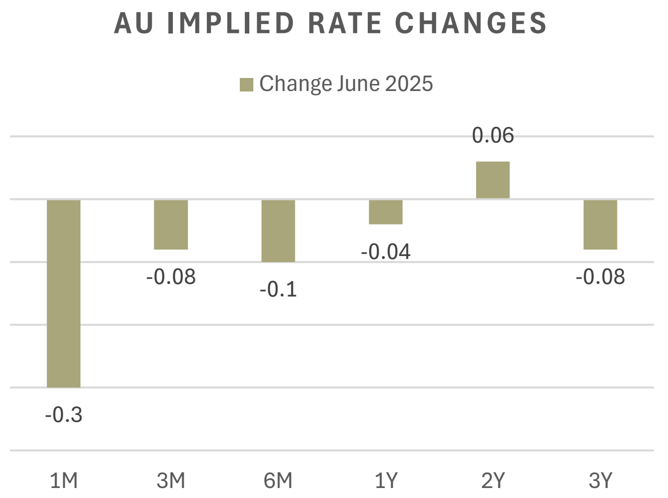
Source: Ellerston Capital, Bloomberg

US and Australian implied policy rates changes between the start and end of Jun

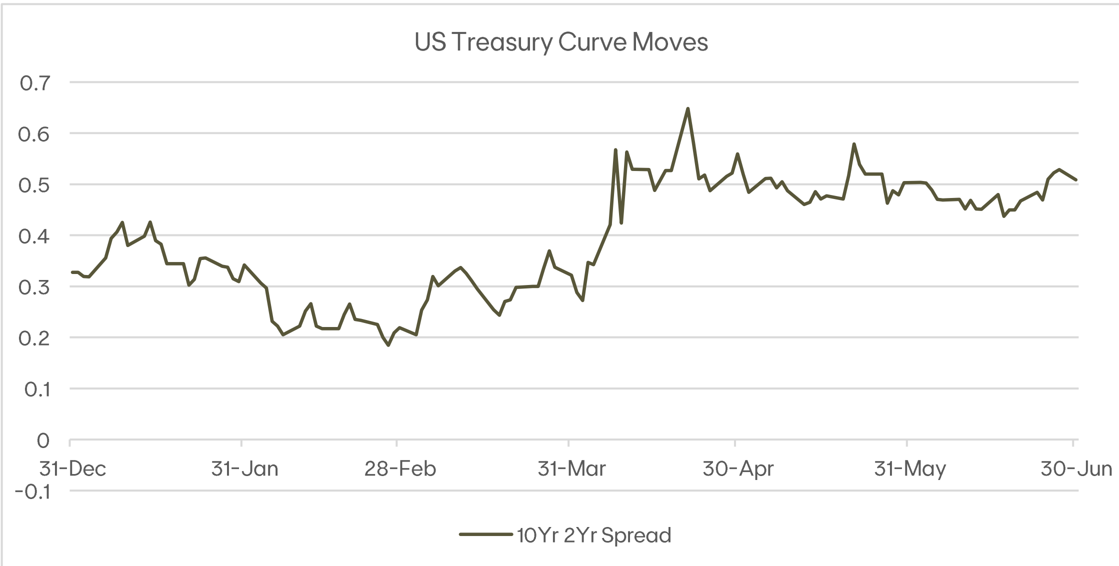








Yield Curve Movements



Source: Ellerston Capital, Bloomberg

Global curves remained in a narrow range in June. In the United States, yields across the curve declined with the 10-year Treasury closing at 4.23% (down 17 bp on the month) and the 2-year Treasury closing at 3.72 % (down 18bps for June), keeping the 10s-2s spread near unchanged at +50 bp. In Europe Bunds continued steepening, leaving the 10s-2s slope around +74bp.

In Australia, the 10-year Treasury ended the month near 4.06 % (+10bp m/m) with the 10s-3-month slope decreasing about 7bps on the month to close at +86bp.

Forward Policy Outlook

The "12day war" starting with Israel's attack on Iranian nuclear facilities on June 13th was the catalyst for energy sector volatility and additional geopolitical concerns for central bankers. The de-escalation with the ceasing of reciprocal attacks prevented a more sustained surge in energy prices. Energy inflation would have added to tariff policy inflation uncertainty.

The Fed and other global central bankers have stated they will be data driven and want to ensure inflation is headed toward their objectives before taking further action. In June, global economic data showed few signs of an unwanted inflationary impact. Markets are pricing in robust easing over the next 18 months with the US benchmark rate expected to be lower than 3% by the end of 2026.

Australia

Economic data showed continued disinflation, with May's CPI rising just 2.1 percent year on year, the lowest level since October 2024. The trimmed mean CPI also eased to 2.4 percent, comfortably within the RBA's two to three percent target range. Labour market conditions remained steady, with the unemployment rate unchanged at 4.1 percent for the fifth month in a row. Although total employment declined slightly, there was an increase in full-time positions, and the underemployment rate fell to 5.9 percent. The participation rate edged down to 67.0 percent. These indicators point to easing inflation and a stable labour market, supporting expectations that the RBA could lower interest rates further in the second half of 2025 if inflation continues to moderate and growth stays weak.

Portfolio Profile

Central banks will continue easing over the rest of the year. In the next few months data releases and the arbitrary tariff resolution dates will drive rate movements. The investment team believes that US bond yields will drop substantially if the hard data follows the deteriorating trend in the soft/survey data.

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