

Ellerston Fixed Income Target Return Fund – Class A Units



Monthly Report as at 31 December 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	1 Year	Since Inception (p.a.) ^^
Net ^	0.2%	0.6%	0.7%	2.8%	2.4%
Benchmark*	0.2%	0.7%	1.5%	3.1%	3.2%
Alpha **	0.0%	-0.1%	-0.8%	-0.3%	-0.8%

[^]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

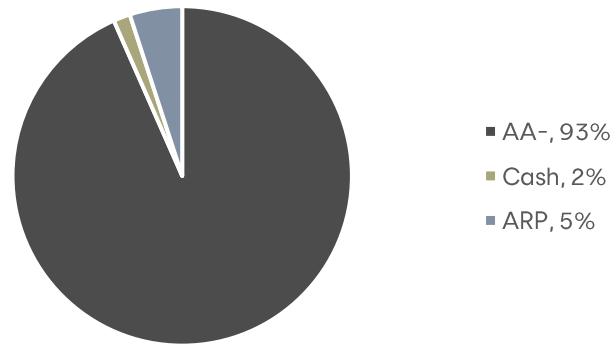
Portfolio Manager(s)	Vimal Gor & Thomas Ciszewski
Investment Objective	The investment objective of the Fund is to generate a 2.5% (net) return over the Reserve Bank of Australia (RBA) 6m Term Deposit (TD) Index over the medium to long term.
Benchmark	RBA 6m TD Index
Liquidity	Daily
Minimum Investment	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 - \$ 9.9940 Net Asset Value - \$ 9.9840 Redemption - \$ 9.9740 Fund Size - \$ 27,357,261.27

Portfolio Characteristics

Yield to Maturity/Call	4.58%
Running Yield	4.49%
Modified Duration	0.11
Weighted Average Maturity (Years)	2.32
S&P Credit Rating	AA-
Number of Securities	9
Spread Duration	2.21

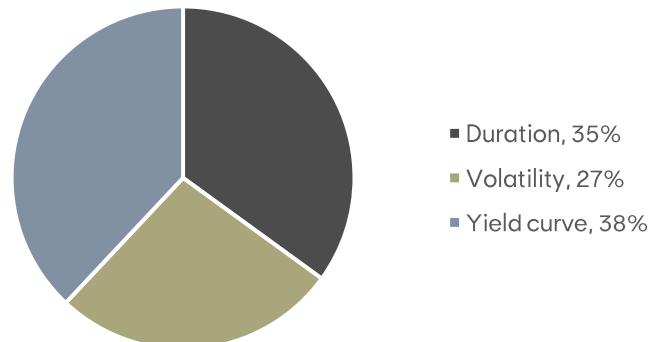
Source: Ellerston Capital.

Fund Positioning of Portfolio



Source: Ellerston Capital.

Fund Positioning of ARP Overlays



Source: Ellerston Capital.

COMMENTARY

The EFIT base portfolio is primarily composed of Australian major bank FRNs maturing in 2–5 years, rated AA-. No adjustments were made in December, with the portfolio's current yield at approximately 4.49%.

Our quantitative fixed income strategies were adjusted to emphasise those best positioned for the current environment. The risk premia portfolio continues to actively manage duration, anticipate rate moves through the easing cycle, navigate yield curve shifts, and hedge against abrupt central bank policy changes via long volatility positions.

FORWARD POLICY OUTLOOK

The Federal Reserve delivered a further 25 bp cut at their December meeting, lowering the target range for the federal funds rate to 3.50–3.75% and reiterating a data-dependent approach to the extent and timing of additional easing. QT also formally ended from December 1st, with maturing Treasuries rolled over and MBS principal reinvested into Treasury bills. The Fed decision had 9 votes in favour and 3 votes for no change, highlighting internal division and reinforcing that the next policy decision will hinge on continued labour weakness and clearer evidence of cooling services inflation and tariff-related price pressures. Data uncertainty remained a feature of the month. The 43-day government shutdown meant October CPI was cancelled, and agencies have had to bridge missing inflation inputs (including BEA using averages of surrounding CPI prints for October PCE calculations), leaving policymakers and markets relying more heavily on partial labour-market signals and high-frequency private indicators. Our base case remains for a slower, alternate-meeting pace of easing through 2026 toward a neutral range around 3%. The appointment of a new Fed chair will also dominate headlines and impact forward rate curves. While the front end is anchored by the easing cycle and balance-sheet reinvestment, longer-dated yields are likely to stay sticky as term premia remain supported by heavy Treasury issuance and lingering uncertainty around the inflation path once full data flow normalises.

AUSTRALIA

The RBA left the cash rate unchanged at 3.60% at its 9 December meeting, but leaned noticeably more hawkish, stressing it would be a mistake to assume the Board has "no appetite" to raise rates if inflation fails to moderate. With Q3 inflation having re-accelerated and the latest available monthly CPI through October still showing headline inflation around 3.8% y/y and trimmed mean near 3.3% y/y, the Board framed policy as restrictive and explicitly kept tightening on the table if demand stays resilient and services inflation remains sticky. In rates, that messaging, combined with the "hot" inflation backdrop, pushed the front-end curve to price a hike in the first half of 2026, with markets assigning a meaningful probability of a move as early as February and broader pricing implying further tightening risk through the year. Front-end yields look anchored by a tightening bias, while growth and housing sensitive sectors remain exposed to any further shift in guidance as the RBA waits for clearer confirmation that underlying inflation is durably returning to the 2–3% band. However, we still believe the RBA will be cautious to take any actions for the first half of 2026 and labour market worries will eclipse inflation fears during this period.

PORTFOLIO PROFILE

We expect the federal reserve to be most dovish continue easing into 2026, with the pace of cuts dependent on the inflationary impact of tariffs.

The investment team anticipates US bond yields will fall sharply if hard data confirms the weakening trend seen in surveys. We continue to see the best risk-adjusted returns in high-quality Australian investment-grade bank FRNs, which also provide superior liquidity compared with lower-ranking assets. Our curve-steepening exposure in G3 rates is maintained via alternative risk premia total return swaps, strategies designed to perform well in an economic downturn or if yield curves continue to normalise as term premiums are priced in. The portfolio remains defensively positioned in line 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.

Find out more:

Contact Us

Sydney

Level 11, 179 Elizabeth Street,
Sydney, NSW 2000
+612 9021 7701
info@ellerstoncapital.com

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.

This report has been prepared by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000 (Manager), as responsible entity of the Ellerston Fixed Income Target Return Fund – Class A Units (Fund) (ARSN 681431452) without taking account the objectives, financial situation or needs of individuals. Before making an investment decision about the Fund, persons should read the Fund's Product Disclosure Statement and Target Market Determination (TMD) which can be obtained from the Manager's website www.ellerstoncapital.com or by contacting info@ellerstoncapital.com and obtaining advice from an appropriate financial adviser. Units in the Fund are issued by Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000. This information is current as at the date on the first page.

This material has been prepared based on information believed to be accurate at the time of publication. Assumptions and estimates may have been made which may prove not to be accurate. Ellerston Capital undertakes no responsibility to correct any such inaccuracy. Subsequent changes in circumstances may occur at any time and may impact the accuracy of the information. To the full extent permitted by law, none of Ellerston Capital Limited ABN 34 110 397 674 AFSL 283 000, or any member of the Ellerston Capital Limited Group of companies makes any warranty as to the accuracy or completeness of the information in this newsletter and disclaims all liability that may arise due to any information contained in this newsletter being inaccurate, unreliable or incomplete. Past performance is not a reliable indicator of future performance.

