COOLABAH CAPITAL INVESTMENTS™
THE INTELLECTUAL EDGE: MAKING EVERY BASIS POINT COUNT

Fund: **Coolabah Active Sovereign Bond Fund - Long Duration Class**

Strategy: **Government Bond**

Return (since Dec. 2023): **5.87% pa gross (4.97% pa net)**

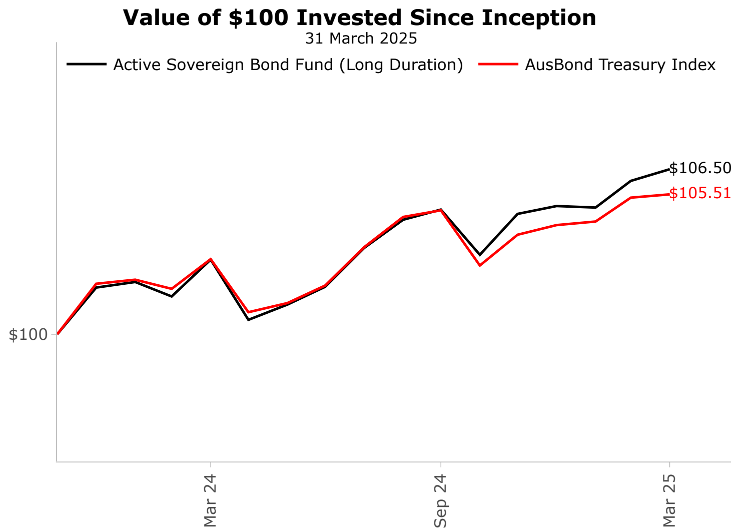
Net return volatility (since Dec. 2023): **4.46% pa**

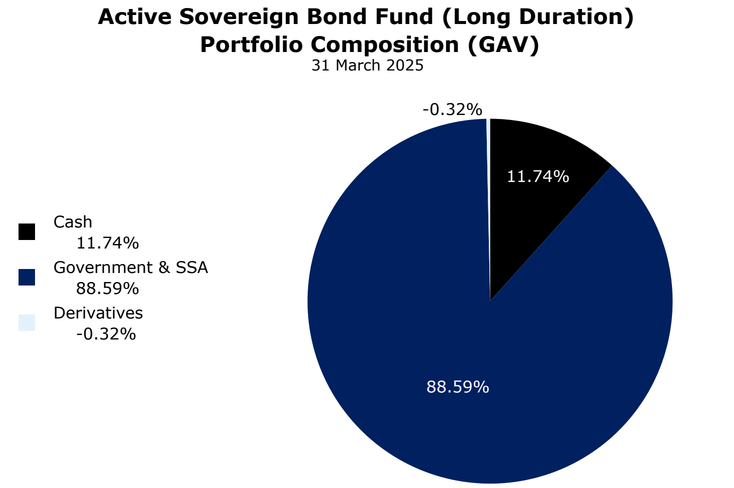
March 2025

Objective: The Active Sovereign Bond Fund - Long Duration Class targets returns in excess of its Benchmark, the Bloomberg AusBond Treasury 0+ Yr Index (BATY0) after management costs, by 3.0% to 5.0% per annum over rolling 3 year periods.

Strategy: The Fund aims to generate diversifying excess returns above the Benchmark for each Class through exploiting relative value mis-pricings in high quality government bonds and related Derivatives that have a low correlation to equity and credit markets and the level of interest rates. The Long Duration Class aims to deliver the Fund's investment strategy over its Benchmark, the Bloomberg AusBond Treasury 0+ Yr Index (BATY0). It offers fixed-rate bond exposure by matching its interest rate duration to that of the Index, which may be a source of interest-rate risk.

Period Ending 2025-03-31	Gross Return	Net Return	AusBond Treasury 0+Yr Index	Gross Excess Return†	Net Excess Return†
1 month	0.57%	0.43%	0.12%	0.45%	0.31%
3 months	1.62%	1.38%	1.16%	0.46%	0.22%
6 months	2.05%	1.51%	0.60%	1.45%	0.91%
1 year	**4.39%**	**3.46%**	**2.47%**	**1.92%**	**0.99%**
Inception pa Dec. 2023	**5.87%**	**4.97%**	**4.21%**	**1.65%**	**0.75%**





Data Source: Coolabah Capital Investments

† The Excess Return column represents the gross and net return above the Bloomberg AusBond Treasury 0+ Yr Index

Note: all portfolio statistics other than yields and duration are reported on gross asset value

Av. Portfolio Credit Rating	AAA	Gross Portfolio Weight to Govt. Bonds	88.60%
Portfolio MSCI ESG Rating	AA	Gearing Permitted?	Yes
No. Cash Accounts	11	Net Annual Volatility (since incep.)	4.46%
No. Notes and Bonds	13	Modified Interest Rate Duration	5.1 years
		Ratings: Recommended (Zenith)	

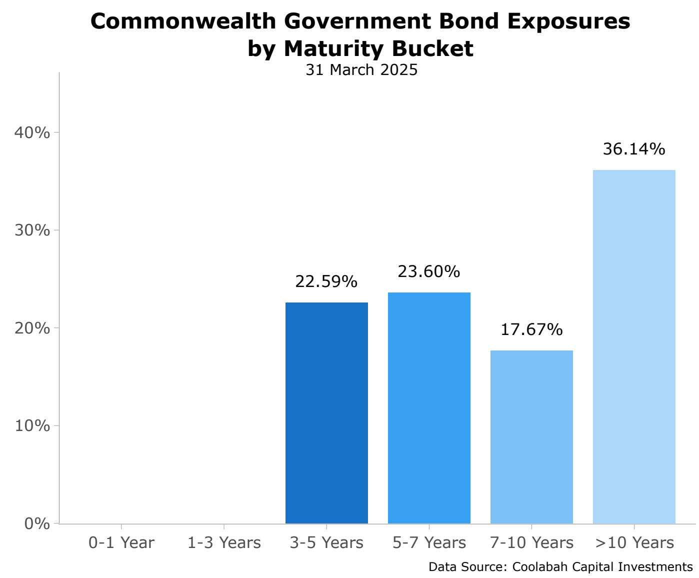
Signatory of: PRI Principles for Responsible Investment

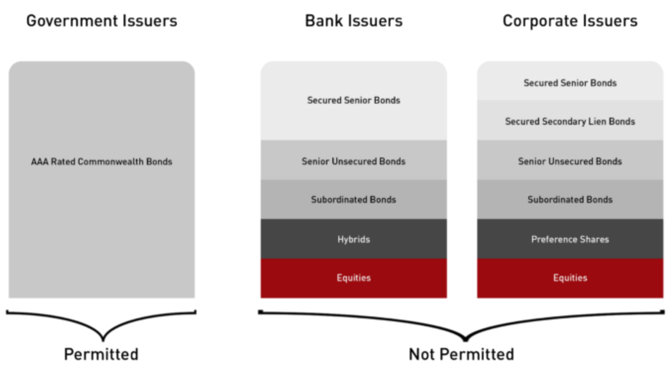
Zenith RECOMMENDED

MSCI ESG RATINGS AA

CCC B BB BBB A AA AAA

Asset weighted average rating





The since inception gross (net) return of 5.87% pa gross (4.97% pa net) is the total annual return earned by the fund since Dec. 2023, including interest income and movements in the price of the bond portfolio after all fund fees (assuming net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement). The net return quoted applies to the Coolabah Active Sovereign Bond Fund - Long Duration Class, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 4.46% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Active Sovereign Bond Fund - Long Duration Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Matt Johnson (Coolabah Capital Investments)		
APIR Code	ETL5578AU	Fund Inception	13-Dec-23
ISIN	AU60ETL55786	Distributions	Quarterly
Benchmark	AusBond Treasury 0+Yr Index	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Government Bond	Mgt. & Admin Fee	0.65% pa
Target Return	3-5% pa above Benchmark after mgt. fee and costs	Perf. Fee	20% of excess outperformance above the benchmark after mgt. fees
Investment Manager	Coolabah Capital Investments (Retail)	Custodian	Citigroup

Signatory of: PRI Principles for Responsible Investment

Zenith RECOMMENDED

MSCI ESG RATINGS AA
CCC B BB BBB A AA AAA
Asset weighted average rating

Portfolio commentary: **In March, Coolabah's Active Sovereign Bond Strategy returned 0.57% gross (0.43% net) in a month where relative value monetisation was strong.**

Over the last 6 months, the Strategy returned 2.05% gross (1.51% net). Over the last 12 months, the Strategy returned 4.39% gross (3.46% net), outperforming the AusBond Treasury Index (2.47%).

March was an eventful month, with the bond futures roll creating opportunity in the domestic time-zone and changes to German fiscal rules having global ramifications for bond curves. The Australian budget in late March also created some trading opportunities. The strategy generated strong returns from bonds in the belly of the curve (between the 3-year and 10-year baskets) with additional contributions from YM (3-year) basket bonds.

During the March futures roll period, the portfolio rolled bond futures from the March expiry contracts into June expiry contracts, achieving a modest improvement in bond/futures basis against the June contract (YM basis improved ~0.5bps to 0.85bps, and ~XM basis improved ~0.2bps to ~0.25bps). The mid curve bonds performed particularly well in the roll, partly helped by developments offshore.

In particular, the decision of Germany to loosen deficit rules led to a tightening of bond/swap spreads in Europe. Australian bond/swap spreads tightened in sympathy with the moves in EUR spreads. The tightening of swap spreads made Australian mid-curve bonds historically cheap relative to BBSW swaps, which created a fresh wave of demand for mid curve bonds. The strategy benefited from this via long positions in the 5-year to 8-year part of the curve.

Anticipation of increased bond supply in the Australian FY25/26 budget, which was released on 25 March, led to some steepening of the 10x15 part of the curve. We experienced modest losses on bonds longer than 10 years to maturity because of that cheapening.

Strategy commentary: Coolabah has consistently presented several contrarian macro projections, which really came to the fore in March 2025. This was a month characterised by extreme volatility and risk-off dynamics accented by large drawdowns in equities.

Our first idea has been that President Donald Trump is dead serious about imposing very harsh tariffs on China and her proxies. Contrary to the view held by almost all other participants, Coolabah has argued that Trump has no interest in negotiating with China and its vassal states. Trump believes China has stolen the US industrial base over the last 30-40 years and wants it back.

The goal is to create huge trade barriers around a Fortress America and to thereby compel US industry to return its supply chains home. The thinking is that this will eventually precipitate a massive manufacturing investment boom. It is the Space X'ing or Tesla'ing of the US economy, which is now possible given the advent of automation, digital printing, robotics and AI, all of which reduce the reliance of manufacturing processes on expensive human capital. Trump wants to create an autonomous "autarky" or self-sufficient economy that is powered by internal demand and supply and not reliant on trading partners that pose existential national security threats.

A second key theme has been that most risky asset-classes have been heinously overvalued. We have repeatedly presented analysis showing that irrespective of whether you value US equities using an equity risk premium model or via heuristics such as steady-state cyclically-adjusted price/earnings multiples, the stage was set for a very significant mean-reversion of at least 20-30%.

Strategy commentary cont'd: In particular, Coolabah has argued that there are parallels with the 1998 and 1999 period, which were two years in succession that produced S&P500 equity returns north of 20 percentage points, just like we saw in 2023 and 2024. The late 1990s "tech boom" was also powered by a productivity miracle predicated on technological innovation, much like the AI revolution of today. Yet in 2000 and 2001, the S&P500 tanked 37% as the US lurched into recession following interest rate increases. The similarities between now and then are uncanny.

Coolabah has long forecast that a US recession will end the current cycle, and it seems like we will belatedly get one in the first half of 2025 care of Elon Musk's destruction of government demand via the DOGE initiative. This will be amplified by the shock to consumer confidence and business sentiment inflicted by extreme tariffs, policy uncertainty, and the worst trade war in over 100 years.

This is clearly bad news for stocks and cyclically vulnerable borrowers, which could be hit by a more severe insolvency cycle. Since late 2021, Coolabah has asserted that bankruptcies across Australia, the UK, US and New Zealand would be the worst seen since the 2008 crisis, and this has played out.

The trade war will, however, have very different consequences for different countries. While the US will experience a sharp reacceleration in inflation, as Coolabah has expected since mid 2024, Australia could be subject to disinflationary pressures as China and her acolytes dump cheap goods on small open economies that do not have the gumption to retaliate with their own tariffs.

Coolabah originated this idea of a sudden deflationary wave in Australia due to dumping, which has since attracted currency. And now it seems like the RBA will cut rates with certainty by at least 25bps in May with a total of four more cuts priced in by the end of 2025.

Our modelling also points to the Fed holding interest rates much higher than would otherwise be the case given the inflationary shock induced by the Trumpian regime. The Fed has thus far signalled that it is very comfortable sitting on the sidelines for the foreseeable future, sheeting home blame for the inflation and growth shocks to the new administration.

The aggressive decoupling of the US economy from China will also have highly negative economic consequences for the Middle Kingdom unless it replaces the enormous US consumer market with other targets. This will be no easy task as most countries are leery about having their local producers hammered by Chinese firms backed by artificially cheap state funding.

In this extraordinarily volatile world, we have advised clients to move up the capital structure into the safest and most liquid bonds, which will outperform during a major risk-off shock. And this is exactly what happened in March.

The S&P500 slumped 5.8% in March while the Nasdaq fell 7.7% as concerns grew around the preparedness of President Trump to impose far-reaching tariffs. Yet as the month passed, almost all investors remained convinced that Trump was just seeking to do deals. That he was negotiating and all would be eventually well.

The nascent trade war nevertheless slowly started to reverberate with stocks also declining in Europe (Eurostoxx 50 down 3.94%), the UK (the FTSE 100 off 2.58%), Australia (ASX200 down 3.39%), and New Zealand (NZX50 off 2.63%).

One beneficiary from all of this global volatility was gold, which appreciated by an impressive 9.30%.

Credit spreads were universally higher in March, taxing the performance of bonds. (Spreads represent the extra interest rate margin investors demand from borrowers above the risk-free cash rate.)

In Europe and the US, synthetic investment grade CDS index spreads were wider by 6-7bps while riskier high yield CDS spreads blew 29-54bps higher. European and US cash corporate bond spreads also increased by 7bps.

In other markets like Australia and the UK, cash credit spreads were 7bps and 16bps higher respectively. Within the Aussie bond market, 5-year major bank senior bond spreads were 6bps wider while Tier 2 subordinated bond spreads jumped 13bps.

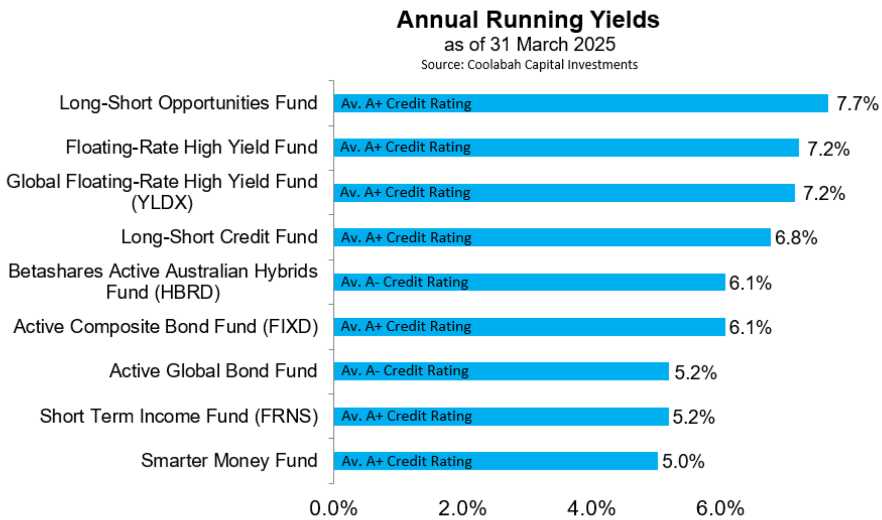
Strategy commentary cont'd: Despite plunging equity values and wider credit spreads, 10-year government bond yields did not behave in their normal risk-off fashion and decline in lock-step. In the US, yields were unchanged. And in the UK, Germany, France and Italy, they increased noticeably as investors reacted to the prospect of a surge of government debt issuance to fund greater investments in national security. This is another Trumpian legacy: countries are being forced to look after themselves.

The standout performer for Coolabah was our daily liquidity, AAA rated Active Sovereign Bond Fund, which returned 0.76% net (0.91% gross) in March in what was an exceptionally uncorrelated outcome in a month where most assets suffered losses via their equity correlations.

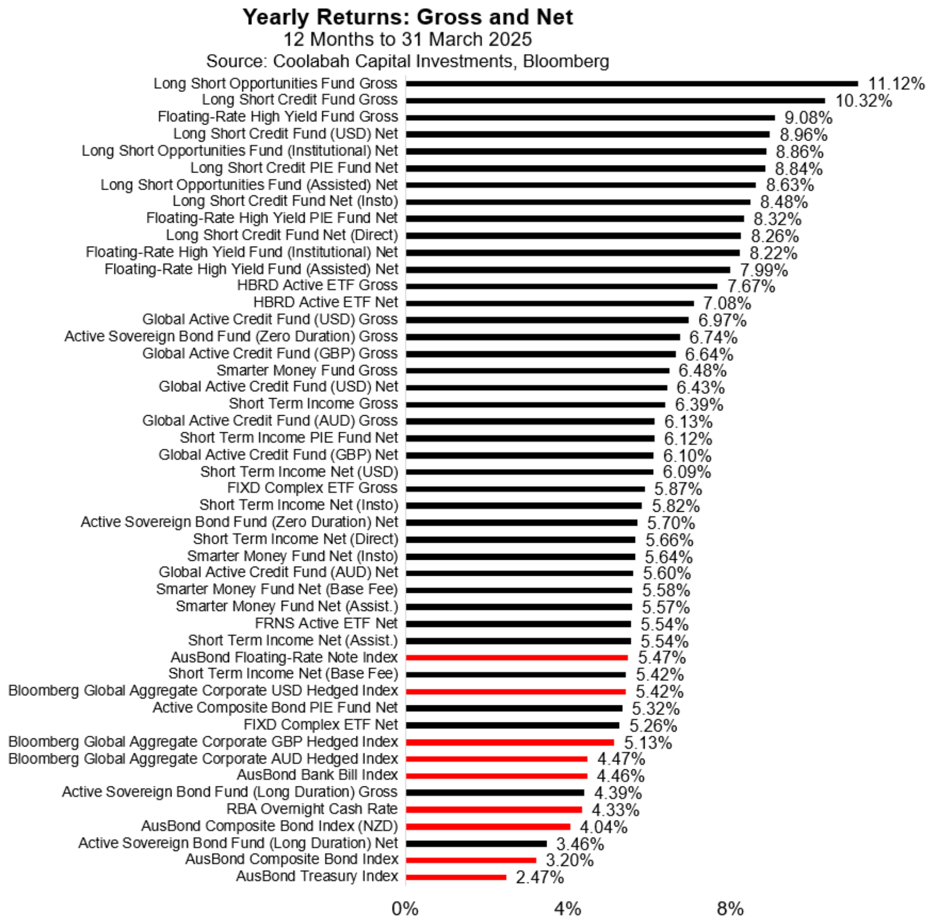
Coolabah's Active Sovereign Bond Fund only invests in the safest, AAA rated Commonwealth Government Bonds and hedges out all interest rate risk. It has been designed as a very liquid diversifier that will not be particularly correlated to movements in equities, floating-rate credit or fixed-rate bonds. Over the last 12 months, the sovereign strategy has returned 5.70% net of fees (6.74% gross) compared to its benchmark, which is the RBA cash rate (4.33%). Since inception, the strategy has outperformed key government bond peers.

In March, Coolabah's lowest volatility strategies, the Smarter Money Fund and Short Term Income Fund, also delivered clients positive total returns after fees. Our more aggressive levered credit strategies, such as the Long-Short Credit Fund and Floating-Rate High Yield Fund, endured very modest valuation declines of between 0.1% and 0.3% due to the impact of widening credit spreads. This does, however, improve these funds' forward-looking returns through the benefit of higher overall running yields.

Enclosed below is a summary of current gross running yields and rolling 12 month returns. Please note that past performance is no guide to future returns. Investors should always read the product PDS and consult an independent adviser.



Strategy commentary cont'd:



The US economy could contract in Q1 as spending broadly stalls

There is a higher risk of US GDP contracting in Q1 as consumer spending broadly stalls on higher actual and expected tariff-driven inflation, fears of rising unemployment, and extreme uncertainty about government policy.

US government policy continues to wreak havoc on the economy, as reflected in the final March reading for the University of Michigan survey of consumers showing a slight upward revision to already-high short- and medium-term inflation expectations, with households deeply pessimistic about higher consumer prices and a recession-like proportion of them worrying about rising unemployment in the year ahead.

The survey results have been discounted by some investors because of a sharp divergence between responses from Democrats and Republicans, but the university points out that, "aggregate trends [in sentiment and inflation expectations] are driven by, and align closely with, the views of [political] independents, and thus are not being swung by [the] polarisation [of responses] across the two major parties".

For his part, Fed Chair Powell recently described the preliminary rise in the Michigan measure of medium-inflation expectations in March to the highest level since the early 1990s as an outlier, but it seems likely that the New York Fed survey of consumers will show a similar pick-up when March data are released later next month.

Perhaps, though, the FOMC will remain somewhat sceptical about the risk that higher inflation expectations become embedded in higher ongoing inflation unless the point is reached where consumer fears of higher inflation start to be reflected in market pricing of breakeven inflation.

Strategy commentary cont'd: As for the hard data on consumer prices, the core PCE deflator – which is the Fed's preferred measure of underlying inflation – posted another strong rise in February, up 0.4% in the month after a 0.3% increase in January. The February outcome was marginally above market forecasts, so that annual inflation ticked up from 2.7% to 2.8%.

While it is possible that some of this strength reflects a lingering difficulty that the Bureau of Labor Statistics has in seasonally adjusting consumer prices in the wake of COVID, the February result suggests that price pressures are greater than the Fed anticipated when it recently raised its end-year forecast for annual core PCE inflation from 2.5% to 2.8%.

The Fed's upward revision to forecast inflation for the end of 2025 reflected the impact of the first round of Trump tariffs, which the Fed is treating as transitory in that the FOMC left its median end-2026 and end-2027 forecasts for core inflation unchanged at 2.2% and 2%, respectively.

Fed Chair Powell has acknowledged the extreme uncertainty around the FOMC's central case for inflation and nearly every member of the FOMC believes the risk is that inflation will come in higher than forecast.

That seems very likely in that last week the US administration confirmed a 25% tariff on automobiles and motor vehicle parts and the president plans another round of tariffs this week.

The detail of the core PCE deflator suggests that tariffs are starting to show up in prices paid by households, with core goods prices picking up after a long post-pandemic period over which they were little changed, at a time when services inflation are still growing at a solid rate.

Manufacturing surveys report a large increase in both input prices and selling prices, so goods prices are likely to surge over coming months as more tariffs are imposed.

As already reflected in sentiment surveys, consumers are expected to bear the brunt of higher costs, in line with historical and cross-country experiences with tariffs, but contrary to the president's mistaken belief that tariffs are paid by other countries.

Higher prices, combined with extreme uncertainty about economic policy and disruptions to supply chains, are likely to reduce economic activity and there is an increased risk that GDP contracts in Q1 as consumers defer spending and businesses defer investment and inevitably delay hiring.

This risk is already apparent in the well-regarded Atlanta Fed nowcast of economic growth, which currently estimates that GDP is contracting at an annualised rate of 0.5% in Q1, after excluding imports of gold bars from the calculation (imported gold is counted in the US trade statistics, but the Atlanta Fed excludes it when estimating GDP because it has nothing to do with domestic production).

The sudden weakness in activity is already apparent in figures on monthly consumer spending, where consumption accounts for about two-thirds of GDP.

The monthly figures are volatile and some of the recent weakness probably reflects bad weather in parts of the US, but spending fell by 0.6% in real terms in January and only rebounded by 0.1% in February, such that the estimated monthly trend suggests that consumption is likely flat to down in Q1 after an annualised increase of 4% in Q4.

If realised, such an outcome is historically associated with the US entering a recession, which is why many investors still lean towards the Fed cutting rates despite higher inflation, believing that economic weakness will ultimately bring inflation under control once the impact of tariffs washes through the economy.

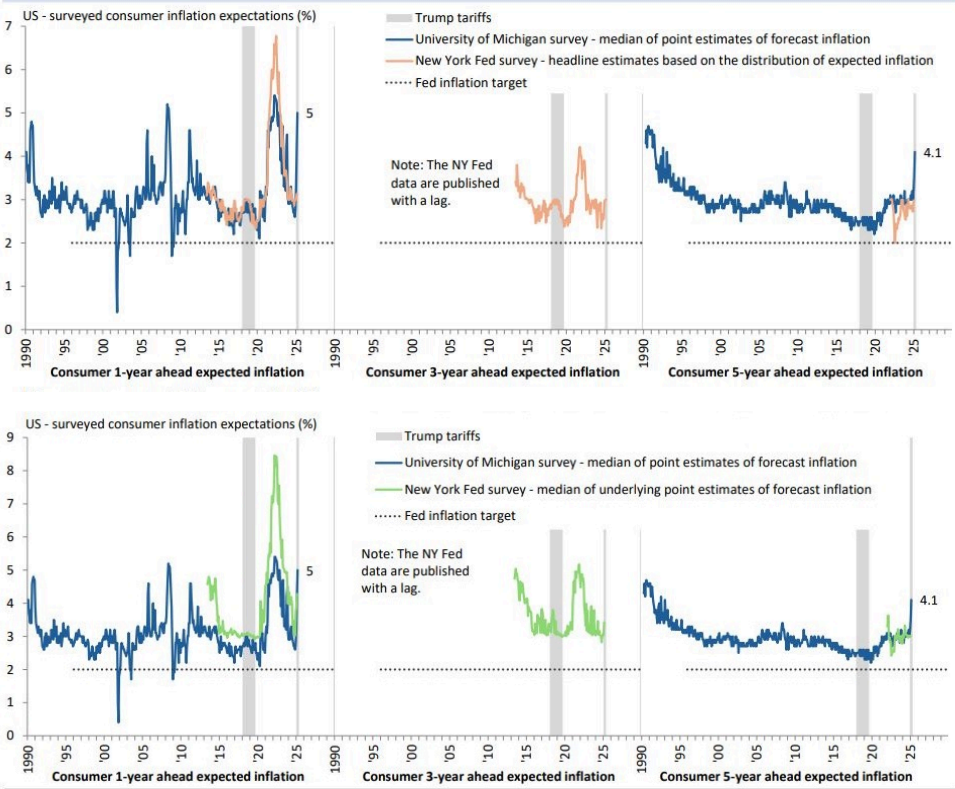
This view rests on the critical assumption that tariffs have only a one-off impact on prices, whereas the sharp increase in the Michigan measures of inflation expectations points in the direction of the Fed holding rates steady for longer to avoid inflation becoming entrenched at a time when actual inflation is yet to return to the 2% target.

Strategy commentary cont'd: In the latter, seemingly more realistic scenario, the US administration would likely place the Fed under immense pressure to cut interest rates.

President Trump has already called for the Fed to cut rates and his recent actions with other agencies that are similarly independent of the presidency suggest that an extremely weak economy might see him threaten to either demote or replace Fed policy-makers (e.g., the president recently illegally sacked commissioners from the Federal Trade Commission, the agency responsible for antitrust law and consumer protection, where one commissioner remarked, "if I can be fired, I don't know why Jerome Powell can't be fired").

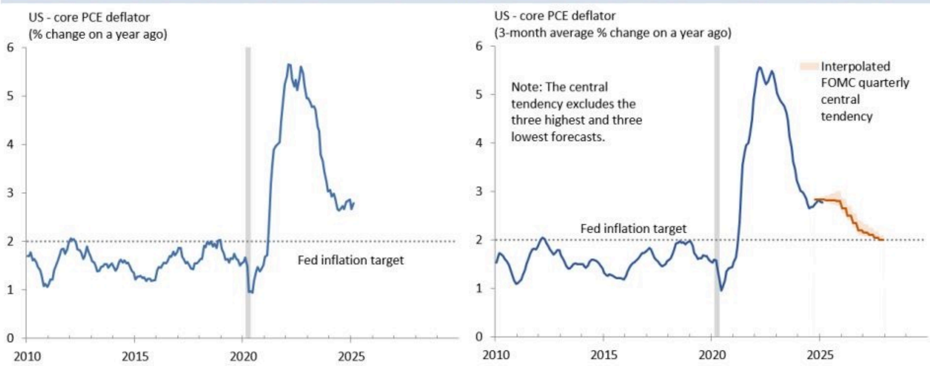
If the administration went down the path of tampering with Fed independence in an echo of the pressure President Nixon placed on Fed Chair Burns in the 1970s, Peterson Institute modelling suggests that it would be much more damaging for the US economy than either tariffs or planned large-scale deportations of migrants.

Figure 1: The final estimates of the Michigan measures of consumer inflation expectations were revised higher

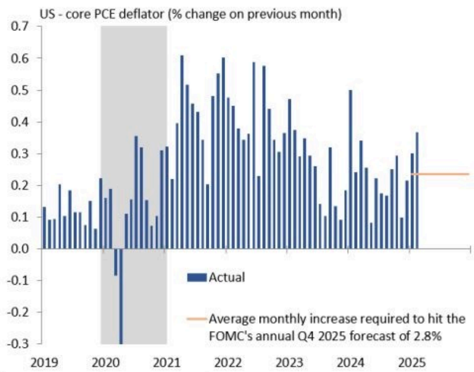


Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Federal Reserve Bank of St Louis, University of Michigan, Coolabah Capital Investments

Figure 2: 3-month annual core inflation is broadly tracking in line with interpolated end-year FOMC forecasts, but the first two months of the year show more momentum than the Fed expected heading into the tariffs

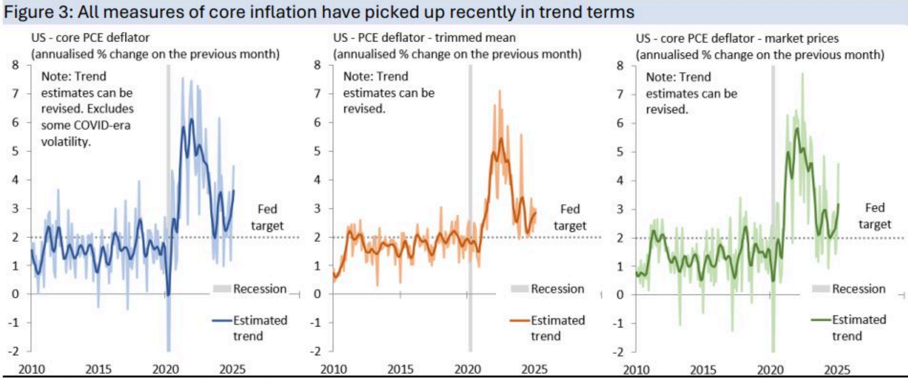


Strategy commentary cont'd:



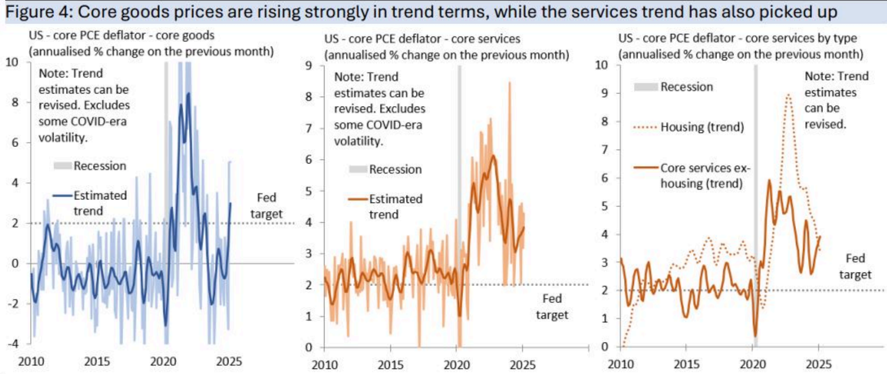
Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Federal Reserve Bank of St Louis, University of Michigan, Coolabah Capital Investments

Figure 3: All measures of core inflation have picked up recently in trend terms



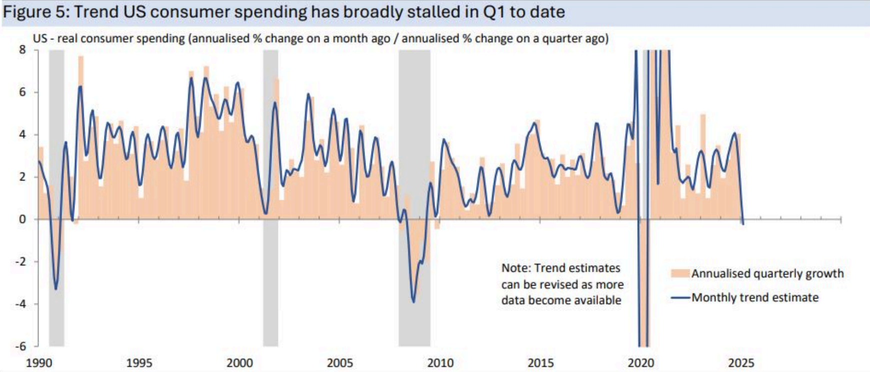
Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Federal Reserve Bank of St Louis, University of Michigan, Coolabah Capital Investments

Figure 4: Core goods prices are rising strongly in trend terms, while the services trend has also picked up



Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Federal Reserve Bank of St Louis, University of Michigan, Coolabah Capital Investments

Figure 5: Trend US consumer spending has broadly stalled in Q1 to date



Source: Board of Governors of the Federal Reserve System, Bureau of Economic Analysis, Federal Reserve Bank of St Louis, University of Michigan, Coolabah Capital Investments

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Ratings Disclaimer:

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Asset weighted average rating