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): **5.23% pa gross (4.17% pa net)**

Net return volatility (since Dec. 2023): **4.25% pa**

December 2025

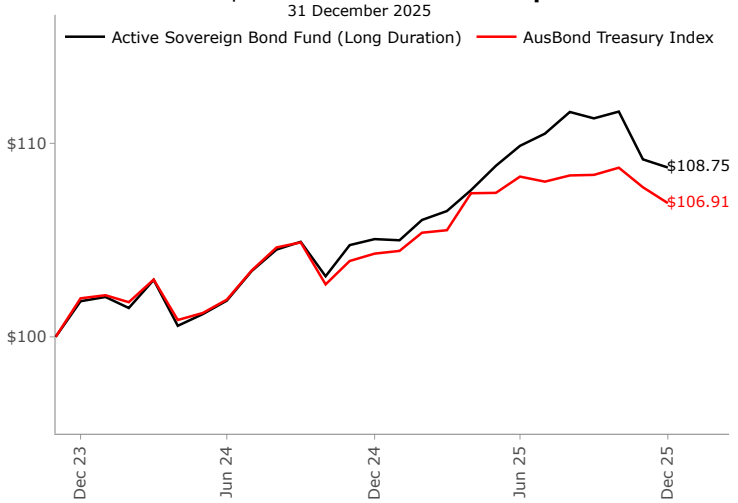
Objective: The Active Sovereign Bond Fund - Long Duration Class targets returns in excess of its Benchmark, the Bloomberg AusBond Treasury 0+ Yr Index (BATY0) after management costs, by 3.0% to 5.0% per annum over rolling 3 year periods.

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 2025-12-31	Gross Return	Net Return	Bloomberg AusBond Treasury 0+Yr Index	Gross Excess Return†	Net Excess Return†
1 month	-0.33%	-0.39%	-0.76%	0.43%	0.37%
3 months	-2.13%	-2.29%	-1.35%	-0.78%	-0.94%
6 months	-0.35%	-1.02%	-1.26%	0.91%	0.24%
1 year	**4.77%**	**3.52%**	**2.51%**	**2.26%**	**1.01%**
Inception pa Dec. 2023	**5.23%**	**4.17%**	**3.31%**	**1.92%**	**0.86%**

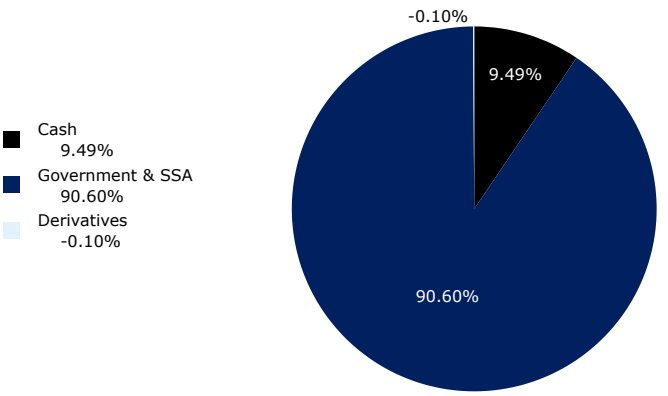
Value of $100 Invested Since Inception

31 December 2025



Active Sovereign Bond Fund (Long Duration) Portfolio Composition (GAV)

31 December 2025



Data Source: Coolabah Capital Investments

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

Disclaimer: Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. To understand Fund's risks better, please refer to the Product Disclosure Statement available at Coolabah Capital Investments' website.

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

Av. Portfolio Credit Rating	AAA	Modified Interest Rate Duration	4.0 years
Portfolio MSCI ESG Rating	AA	Gearing Permitted?	Yes
Gross Portfolio Weight to Govt. Bonds	90.6%	Net Annual Volatility (since incep.)	4.25%

Ratings: Recommended (Zenith)

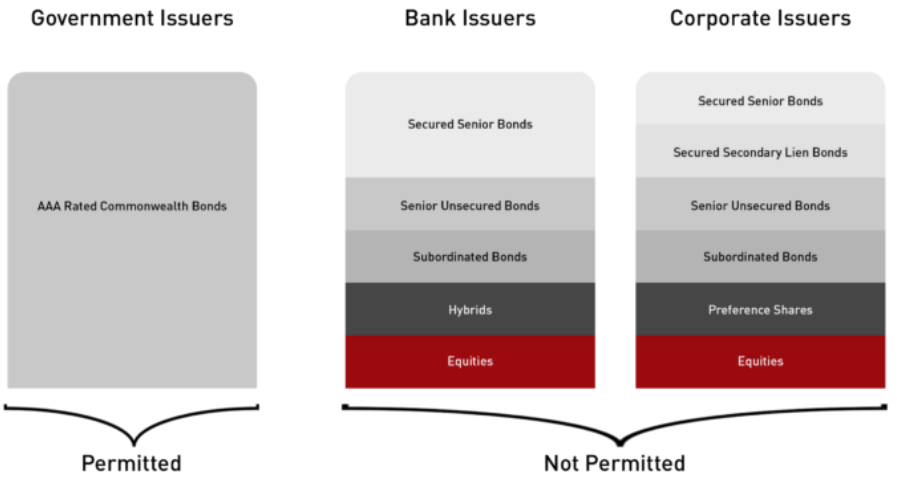
Signatory of: PRI Principles for Responsible Investment

Zenith RECOMMENDED

MSCI ESG RATINGS AA

CCC B BB BBB A AA AAA

Asset weighted average rating



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The since inception gross (net) return of 5.23% pa gross (4.17% 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 4.25% 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	Bloomberg 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

Portfolio commentary: In December, Coolabah's Active Sovereign Bond Strategy returned -0.33% gross (-0.39% net), in a month characterised by settling markets, as the both the RBA and FOMC delivered what was expected.

Over the last 12 months, the Strategy returned 4.77% gross (3.52% net), outperforming the Bloomberg AusBond Treasury Index (2.51%).

The level of yields rose across the December, as the market priced in better growth and rate hikes from the RBA. This saw 3x10 curve flatten down to ~60bps and the spread between ACGBs and peer markets widen. In particular, the spread between 10-year ACGBs and the US widened to a little over 60bps, which is the largest the spread has been since 2022. In part this was due to a divergence between the dovish December FOMC meeting, and hawkishness from the RBA.

The futures roll allowed Coolabah to replace expensive bond basis with somewhat cheaper economics. Bonds richened to futures in late December as the AOFM took their traditional issuance holiday, and the budget update cut ACGB supply by ~25bn for 25/26. The supply reduction initially widened swap spreads, though they tightened in the second half of December.

In general, it was a good month to own bonds versus futures – most things worked. Coolabah's best performing positions were at in the 10-year+ sector, where ultra flattening on account of the high and rising level of yields caused compression of longer bonds down towards the 10-year sector. There was also solid performance in the ~7-year sector. As bond basis richened we added shorts, which drew down modestly. Coolabah also drew down a little on a paid 10-year EFP position.

Bond-futures basis was generally a tailwind in December. Expensive basis was replaced with fair basis in the futures roll, which then benefited as basis richened by about 0.3bps to the end of December. This contributed to the generally good returns in the month.

Strategy commentary: In the month of December, there was a secular shift in interest rate expectations marked by a bull steepening in many global yield curves, whereby short-term interest rates declined while long-term rates climbed. This reflected several cross-currents, including the US Federal Reserve continuing to ease its policy rate lower, combined with investor anxiety about deteriorating budget deficits, ever-growing government bond issuance, and the specter of inflation rates not mean-reverting sustainably to central bank targets, amongst other things.

Coolabah's main macro ideas for 2026 are best summarized as follows:

- We believe in US economic and strategic exceptionalism and that the short- and medium-term efficacy of President Donald Trump's fiscal, trade, and geopolitical policies have been consistently underestimated by markets;
- We believe that the US economy will surprise with its strength in the years ahead, underpinned by the AI capex boom, reshoring of supply chains, a manufacturing renaissance, aggressive deregulation, reinvigorated entrepreneurial activity, political policy clarity, and renewed public support for business-friendly outcomes given the success of Texas and Florida juxtaposed against California and New York;
- We believe that the political zeitgeist globally remains focused on public spending in the name of winning short-term votes irrespective of the enduring fiscal consequences, which creates material inflation and interest rate risks in the period ahead;
- We believe that the AI revolution is more likely to be inflationary rather than disinflationary in the near-term as a consequence of resource bottlenecks, understated capex spending competition, and the likelihood that AI will generate positive rather than negative net employment demand over the next 1-2 years;
- We believe that the monetary policy easing cycle has run its course and that the risk of interest rate increases in 2026 and 2027 has been underestimated by markets, although a recent reassessment has taken place;
- We believe that government bond term premia and the long-term cost of capital are likely to remain elevated and could drift materially higher in an environment where the US economy expands at a faster-than-expected pace (and other nation-states eventually seek to emulate its policy posture);

Strategy commentary cont'd:

- We believe that the probability of stronger-than-anticipated economic outcomes is likely ahead of the midterm elections in the US;
- We believe that risk premia have shifted from corporate to public sector balance sheets, which is why credit spreads have compressed while term premia and long-term risk-free rates have increased;
- We reckon the US de-dollarization dynamic is a short-term phenomenon and re-dollarization will eventually become a new normal once Trump's policies are better understood;
- We believe that the geopolitical environment is being overhauled by the "America First" mantra, which is predicated on a realpolitik logic that prizes unilateral actions to protect American (and capitalist) interests ahead of failed Western liberal-democratic virtue signalling that hoped to incentivize responsible behaviors from non-democratic actors, which has never played out in practice; and
- We believe that there are many latent inefficiencies in global bond markets that Coolabah is uniquely positioned to capitalize on.

In 2025, Coolabah traded AUD$129bn of bonds and CDS (USD$82bn). This was split by approximately A$71bn of credit trades combined with A$57bn of government and sub-sovereign trades.

In December, 10-year government bond yields rose around the world, led by Japan (+26bps), Australia (+23bps), Germany (+17bps), New Zealand (+15bps), France (+16bps), Italy (+15bps), and the US (+15bps). There were more modest moves in the UK, where 10-year gilt yields appreciated only 4bps.

A seasonal dip in new financial and corporate bond issuance, coupled with higher risk-free rates, helped physical and synthetic credit spreads perform in December. In derivative markets, the benchmark US and European investment-grade credit default swap indices, known as CDX IG and Main, compressed by 1.1bps and 2.1bps, respectively. This was echoed by the US and European high-yield indices, denoted by CDX HY and Xover, which also moved 6bps and 11bps tighter in the month.

In physical (or cash) bonds, investment-grade credit spreads across the US, UK, and European markets similarly drifted 3bps tighter in December. French and Italian government bond spreads to Bunds, which are another risk proxy, also contracted by about 1bp over the month.

In the Antipodes, spread moves were mixed: whereas benchmark 5-year Aussie major bank senior bond spreads climbed 2bps in December, subordinated major bank bond spreads declined 2bps. In the retail-centric ASX-listed hybrid market, 5-year major bank hybrid spreads plunged from 207bps to 171bps over the quarterly bank bill swap rate, albeit on diminishing turnover. This was a seasonally predictable dynamic amplified by scarcity into year-end as bank-issued hybrids are phased out by the regulator.

December USD IG issuance slowed sharply from November to US$38bn (YTD US$1.69trn), with muted supply across both financials and corporates. Coolabah selectively participated in attractively priced transactions, notably ANZ's 3-year FRN, multiple tranches of Merck's US$7.25bn multi-tranche deal, and S&P Global's 5-year tranche. These transactions saw strong demand (approximately 5-7x covered) and post-pricing spread tightening.

In EUR investment-grade credit, supply rebounded to €17.5bn (approximately €9.5bn financials), compared with no issuance in December 2024. Despite seasonally light conditions, demand remained healthy, with deals averaging a 2.6x subscription rate. The standout transaction was Goldman Sachs' dual-tranche HoldCo deal, which was well received following a long absence from the EUR market, complemented by solid demand for issues from BFCM and Deutsche Bank.

Strategy commentary cont'd: The rates sell-off hurt the performance of long-duration, or fixed-rate, bond indices. In USD, the Bloomberg Global Aggregate Corporate Index lost 0.10% in December as higher yields taxed fixed-rate bond prices. In contrast, the interest rate-hedged version of this index performed robustly, gaining 0.64%.

Given the relatively aggressive rise in Aussie government bond yields, the AusBond Composite Bond Index underperformed its Global Aggregate equivalent, losing 0.63% in December. The duration-hedged AusBond Floating-Rate Note Index performed better, offering a 0.37% return in the month.

Other risk markets were mixed. In the US, equities struggled to generate positive total returns: the S&P 500 was unchanged (0.06%) while the Nasdaq lost 0.67%. Japanese equities also lost ground, with the Nikkei 225 falling 0.37%. Other equity markets fared better, led by the UK (FTSE 100 up 2.26%), Europe (Euro Stoxx 50 up 2.25%), Australia (ASX 200 up 1.30%), and New Zealand (NZX 50 up 0.44%).

Brent Crude oil prices declined 3.72% in December, which is one disinflationary force in the global economy that could be accentuated by Trumpian interventions in Venezuela. That ultimate inflation hedge, gold, continued its record ascent, rising 1.89% over the month. Bitcoin's slump persisted, dropping 3.59% to USD 87,648.

In 2025, there were several big market thematics, including the advent of the trade war, the AI revolution and related hyperscaler capex boom, the emergence of further Fed cuts, and then burgeoning investor insouciance with President Donald Trump's otherwise radical economic and geopolitical ideas.

The trade-weighted US dollar depreciated by 7-8% as a result of de-dollarization diversification and the impact of the Fed's cuts, although the damage was done in the first half of the year (in the second half, the trade-weighted USD index tracked sideways).

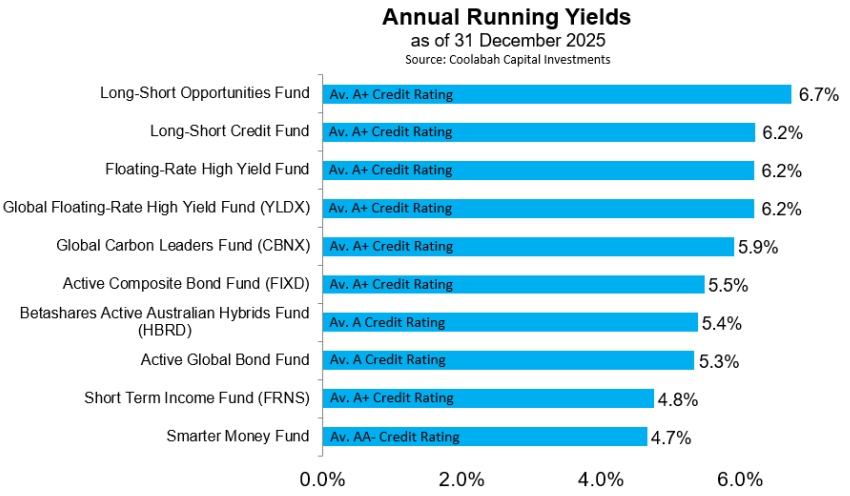
In bond markets, one of the best-performing assets in 2025 was global duration. The 5.9-year duration Bloomberg Global Aggregate Corporate Index returned between 6.62% (AUD) and 7.08% (USD). This exceeded the cash rate in AUD (3.88%) and USD (4.24%), and the duration-hedged version of the Global Aggregate Corporate benchmark, which returned between 5.47% (AUD) and 5.89% (USD).

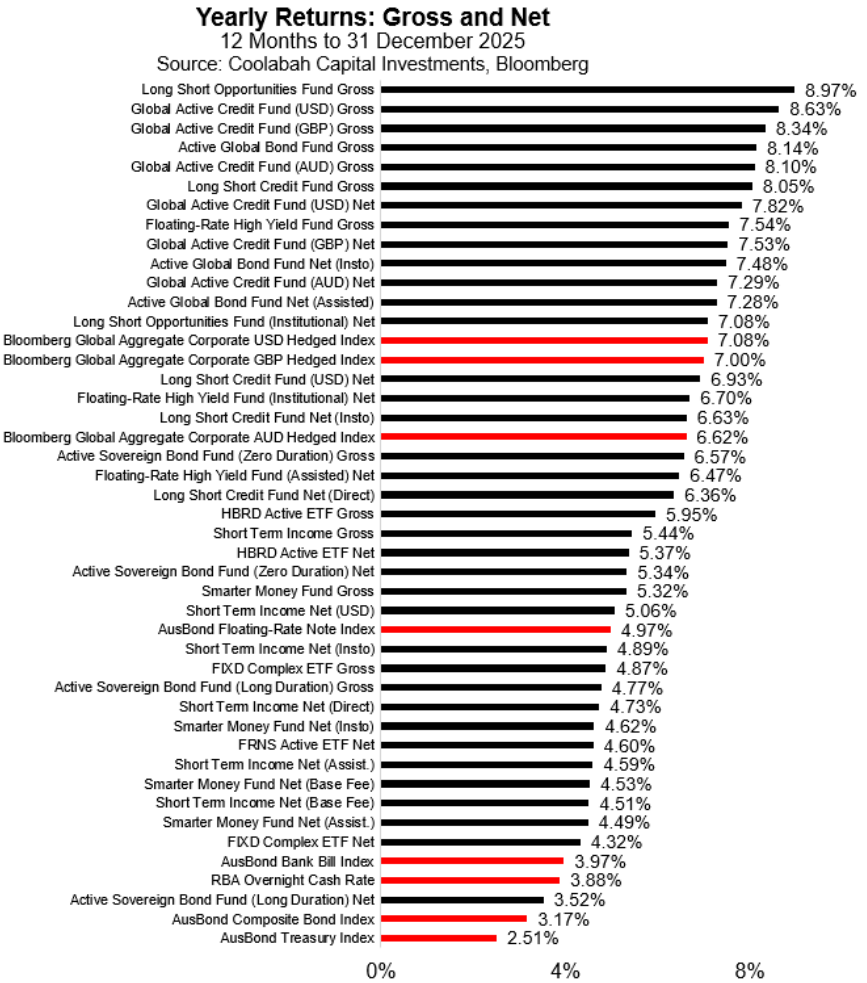
In the Aussie market, both long-duration and floating-rate indices delivered inferior outcomes to their global counterparts: the 4.8-year duration AusBond Composite Bond Index returned only 3.17%, while the AusBond FRN Index rose 4.97%.

Coolabah's best-performing strategies in 2025 were our long-duration funds benchmarked against the Bloomberg Global Aggregate Corporate Index. After fees, the Pacific Coolabah Global Active Credit Fund returned 7.82% in USD compared to the index's 7.08%. The AUD version of this strategy, called the Coolabah Active Global Bond Fund, returned 7.28% net compared to the AUD index's 6.62%.

Not far behind was Coolabah's A+ rated, daily liquidity, and floating-rate Long Short Opportunities Fund, which returned 7.08% after fees. Similar strategies, like the Long Short Credit Fund and the Floating-Rate High Yield Fund, offered comparable outcomes. Please note that past performance is no guide to future returns and investors should read the fund's PDS to better understand its risks.

Strategy commentary cont'd:





Don't forget to listen to Coolabah Capital's popular Complexity Premia podcast. You can listen on your favourite podcast app, or you can find it on Apple Podcasts or Podbean.

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Asset weighted average rating