

**December 2024**

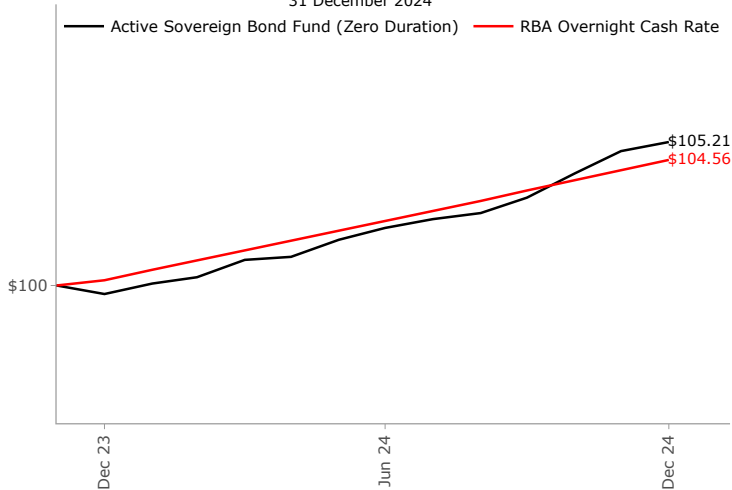
**Objective:** The Active Sovereign Bond Fund - Zero Duration Class targets returns in excess of its Benchmark, the RBA Overnight Cash Rate (RBACOR), after management costs, by 3.0% to 5.0% per annum over rolling 3 year periods.

**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 Zero Duration Class aims to deliver the Fund's investment strategy over its Benchmark, the RBA Overnight Cash Rate (RBACOR). It offers a floating interest-rate exposure resulting in low or near-zero interest rate risk.

Period Ending	Gross Return	Net Return	RBA Cash Rate	Gross Excess Return <sup>†</sup>	Net Excess Return <sup>†</sup>
<b>2024-12-31</b>					
1 month	0.36%	0.32%	0.37%	-0.01%	-0.05%
3 months	2.35%	1.96%	1.08%	1.27%	0.88%
6 months	3.62%	3.06%	2.19%	1.43%	0.87%
1 year	6.54%	5.54%	4.37%	2.17%	1.17%
<b>Inception Dec. 2023 pa</b>	<b>5.92%</b>	<b>4.95%</b>	<b>4.33%</b>	<b>1.59%</b>	<b>0.62%</b>

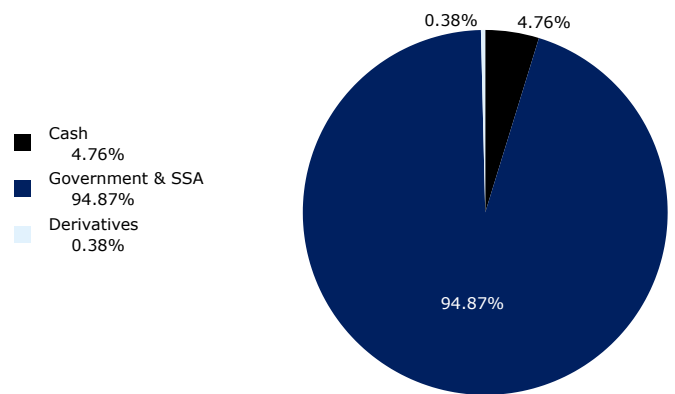
**Value of \$100 Invested since Inception**

31 December 2024



**Active Sovereign Bond Fund (Zero Duration) Portfolio Composition (GAV)**

31 December 2024



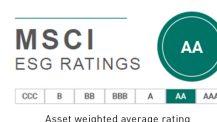
Data Source: Coolabah Capital Investments

<sup>†</sup> The Excess Return column represents the gross and net return above the RBA Overnight Cash Rate

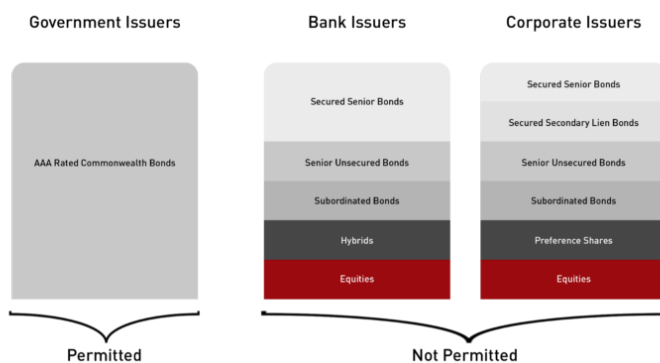
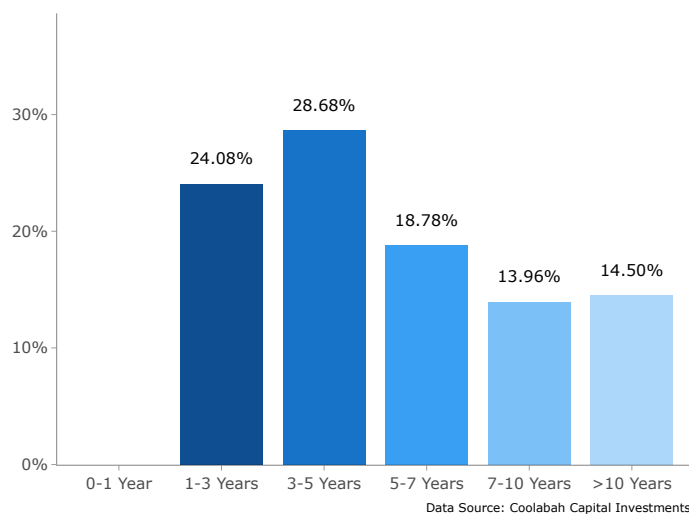
**Disclaimer:** Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. 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	Gross Portfolio Weight to Govt. Bonds	94.9%
Portfolio MSCI ESG Rating	AA	Modified Interest Rate Duration	0.48 years
No. Cash Accounts	11	Gearing Permitted?	Yes
No. Notes and Bonds	14	Net Annual Volatility (since incep.)	1.11%
		<b>Ratings: Recommended (Zenith)</b>	



**Absolute Physical Exposure by Maturity Bucket**  
31 December 2024



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**The since inception gross (net) return of 5.92% pa gross (4.95% 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 - Zero 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 1.11% 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 - Zero Duration Class.

Portfolio Managers Christopher Joye, Ashley Kabel, Roger Douglas, Matt Johnson ([Coolabah Capital Investments](#))

APIR Code	ETL9561AU	Fund Inception	13-Dec-23
ISIN	AU60ETL95618	Distributions	Quarterly
Benchmark	RBA Overnight Cash Rate	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. fees & 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 Strategy returned 0.36% gross (0.32% net), compared to the RBA Overnight Cash Rate (0.37%), in a month where macro trends reduced returns for Coolabah's relative value strategies. Over the 2024 calendar year, the Strategy returned 6.54% gross (5.54% net), outperforming the RBA Overnight Cash Rate (4.37%).

A string of important macro data, interrupted by the roll of bond futures from December 2024 to March 2025 expiry contracts, created steepening pressure that broke ranges in December. In Australia, a weak Q3 GDP report lead fairly directly to a dovish December RBA meeting. Expectations for the RBA's first cut in February 2025 caused short-end bonds to outperform and created modest steepening pressure across the yield curve. A hawkish cut at the US Federal Reserve's 18 December meeting caused an increase in US long term yields. Higher US term yields created selling pressure in Australian futures, particularly at the long end, with the upshot that the US Federal Reserve's hawkish rate cut generated strong steepening in the ACGB curve. This steepened the 3-year/10-year cash spread by ~20bps, taking it to a peak of just over 55bps (the steepest spread since October 2023).

The bond futures roll allowed Coolabah to roll from very tight implied bond basis at the end of November, into wider bond basis. XM-bond basket basis had ended November at -0.15bps and bonds hedged with XM futures were rolled at an implied basis level of approximately 0.5bps. YM bond-basket closed at around 0bps at the end of November and bonds hedged with YM futures were rolled at an implied basis level of approximately 0.5bps.

In the month of December, the strongest returns were made in the 5-year to 7-year segment of the curve. These bonds outperformed as the curve bear steepened following the hawkish US Federal Reserve meeting. There is strong demand for ~5-year ACGBs at yields exceeding 4%, and this anchored those bonds in the sell off.

**Strategy commentary:** Looking back on 2024, Coolabah's strategies furnished both high absolute returns and substantial outperformance over benchmarks. Yet it was a year accented by extreme cross-currents. While central bank-controlled short-term policy rates did eventually decline, they failed to meet aggressive market expectations at the start of 2024 for very steep cuts.

Recall that the Fed was originally priced for as much as 175 basis points (bps) of rate reductions in 2024, yet only delivered 100bps. Alongside a nascent reacceleration in US inflation and the ascendancy of Donald Trump, this contributed to higher long-term interest rates across the board as proxied by moves in 10-year government bond yields in the UK (+103bps), the US (+69bps), France (+64bps), Australia (+41bps), Germany (+34bps), and even in New Zealand (+9bps), which has been the throes of a real recession. One exception was Italy where long-term government bond yields declined by 13bps.

The higher-for-longer rate environment ostensibly created dramas in the sub-investment grade bond and private credit markets, which suffered one of the sharpest increases in defaults, restructurings and bankruptcies since the global financial crisis.

And this was a truly global phenomenon with the number of insolvencies reported in countries like the US, UK, Australia and New Zealand the worst since 2008. Despite the dramatic intensification in credit stresses in the riskier parts of debt markets, and never-ending media stories about private credit funds freezing as a consequence, spreads on both high-yield bonds and private loans remained remarkably tight.

The global risk rally in 2024 was amplified by central bank jaw-boning vis-à-vis their desire to ease the cost of capital, underscored by the unusual actions of the Fed to slash rates by 75 basis points immediately prior to, and then coincident with, a presidential election.

All of this echoed the positive influence on asset pricing that central bank communications had in late 2023 when the Fed initiated its original dovish pivot, which compelled markets to expect huge rate cuts in 2024 that would fail to materialise.

Overlay the hyperbole around the coming artificial intelligence revolution, as manifest in Nvidia's 171% total return in 2024, coupled with the market's one-eyed interpretation of Trump's policy proposals, and one had all the ingredients for yet another exuberant risk rally.

**Strategy commentary cont'd:** The Magnificent Seven accordingly soared 48% last year. Nvidia alone accounted for more than one-fifth and one-quarter of the total returns yielded by the S&P500 (+25%) and Nasdaq (+26%), respectively. Nvidia has, in fact, appreciated an astonishing 27,000% over the past decade.

The curious conjunction of persistent inflation fears, which did nothing to kibosh investor ebullience, was also potent for the performance of crypto (Bitcoin surged 123%) and gold, which appreciated a healthy 27%.

Here it is sobering to note that the US sharemarket has now returned more than 20% for two years in succession for the first time since 1998 and 1999. The late 1990s was similarly gripped by rhetoric around a tech-led "productivity miracle" that was going to completely disappear the business cycle. Hence we had the tech boom, which preceded the unexpected tech bust.

The practical reality was, therefore, far more grim: the US would plunge into recession in the early 2000s, which resulted in the S&P500 index posting total return losses of 9.1% in 2000 and 10.9% in 2001. This represented a cumulative drawdown of almost 20 per cent. The intra-year losses were a lot worse: the S&P500 sank a stunning 29% between January and September 2001.

It was a comparatively more sombre affair across the rest of the world with returns of less than half the US numbers in Europe (Eurostoxx 50 up 11.90%), Australia (the ASX200 up 11.44%), New Zealand (the NZX50 up 11.39%), and the UK (FTSE100 up 9.59%).

As we gaze ahead, investors should focus on the big questions: will a mercurial Trump roil markets and amplify volatility during his final term in power; will profligate political spending continue to crowd-out private activity; will inflation reaccelerate or normalise; will interest rates decline or rise again; will the default cycle deteriorate or modulate; and will the great powers of the world find themselves embroiled in kinetic conflict?

To accent the final point, China has unveiled not one, but two, sixth generation fighter jets in the new year. Officially, the US has yet to even decide if it will produce one. Unofficially, it has probably had several for years zipping around Area 51...

The juxtaposition of modest declines in short-term interest rates against sharp increases in long-term rates meant that floating-rate bond strategies materially outperformed their fixed-rate counterparts (where the latter suffered given that fixed-rate bond prices decline as yields rise).

So whereas the duration-hedged, or effectively floating-rate, Bloomberg Global Aggregate Corporate Index returned 8.60%, its long duration, or fixed-rate, equivalent only delivered 3.69% in 2024.

The floating-rate benchmark in Australia, which is the AusBond FRN Index, returned 5.69% in 2024, which is an attractive 1.34% margin above the RBA's cash rate (and circa 1% above bank deposit rates). This index similarly bested its fixed-rate alternative, the AusBond Composite Index, by 276bps.

Coolabah's most aggressive, daily liquidity, floating-rate strategies, which have average A+ credit ratings, also provided robust returns of circa 9-10% after retail fees (or 12-13% gross). In 2024, the Long Short Opportunities Fund returned 10.0% to 10.2% net of retail fees followed by the Long Short Credit Fund (9.6% to 9.8% after retail fees) and the Floating Rate High Yield Fund (9.0% to 9.2% net). Coolabah's more ambitious customised institutional mandates stretched further with total returns as high as 16.1% after fees.

On behalf of BetaShares, Coolabah manages Australia's largest active ETF, known as HBRD, which is a full capital structure investor in securities issued primarily by local banks and insurers in both Aussie dollars and foreign currencies, including cash securities, senior secured bonds, senior unsecured bonds, subordinated bonds, and hybrids.

In 2024, HBRD returned 7.80% after fees (inclusive of franking), beating passive floating-rate credit benchmarks, such as BetaShares' QPON product and Van Eck's FLOT, which returned 5.94% and 5.63% net of fees, respectively, in 2024.

HBRD also outperformed more aggressive passive floating-rate ETFs, such as Van Eck's popular SUBD, which only allocates to subordinated (known as Tier 2) bonds. In 2024, SUBD delivered 7.1% net.

**Strategy commentary cont'd:** Under HBRD's documentation, it is benchmarked against unfranked indices produced by Solactive, which track the performance of bank and insurer hybrid securities. Despite only being about 30% allocated to hybrids (the remaining 70% was invested in bonds), HBRD outperformed the Solactive benchmark by 92bps in 2024 after fees. Indeed, HBRD has beaten the major bank hybrid indices after fees since inception notwithstanding that it has been historically underinvested in the sector (and allocated to higher-ranking bonds).

Given APRA's decision to phase-out bank hybrids by 2032 (insurer hybrids will remain afoot), Coolabah expects HBRD's benchmark to be eventually upgraded to more appropriately reflect its current universe, which primarily amounts to investment-grade bonds issued by banks and insurers in Aussie dollars and global currencies, hedged back to AUD. Once again, we would note that HBRD will still have the capacity to allocate to insurer and corporate hybrids.

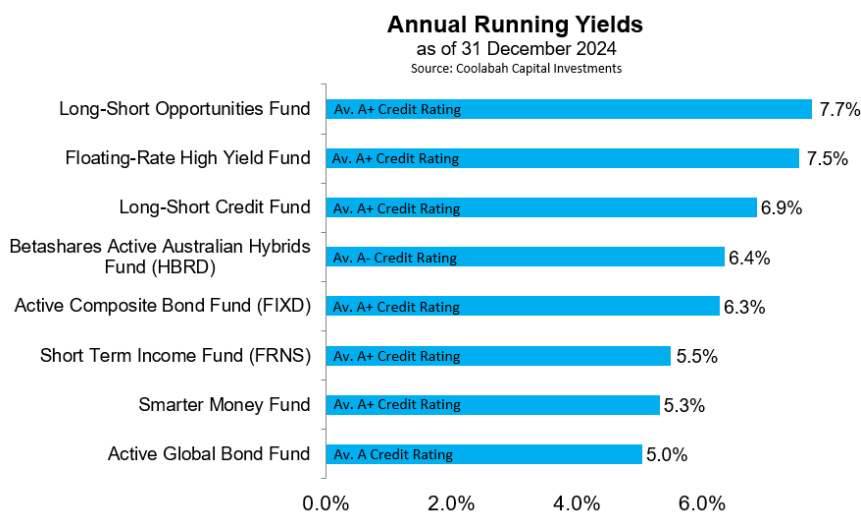
Coolabah's lowest risk floating-rate strategies are the daily liquidity, A+ rated Smarter Money and Short-Term Income funds (ETF: FRNS), which target returns of 1% and 1.5% above the RBA cash rate, respectively. In 2024, they delivered 6.0% after fees (6.9% gross) compared to cash rate's 4.37% and the AusBond FRN Index's 5.69%.

Coolabah's global long duration strategies also significantly outperformed their benchmarks, as evidenced by the 215bps of gross excess returns rendered by the Pacific Coolabah Global Active Bond strategy (5.45% versus 3.29% in GBP terms). This is particularly pleasing given that this strategy, which is not available to Australian investors, has a higher average A- rating than the index's BBB+ rating. It also carries the same 5.9 years duration as the index.

Staying in the long-duration, or fixed-rate, domain, Coolabah's domestic Active Composite Bond Fund (ETF: FIXD), which has a 5.1 year duration exposure, also comfortably beat its benchmark, the AusBond Composite Bond Index, by 288bps after fees (or by 367bps before fees). In absolute terms, FIXD returned 5.81% net (6.60% gross) compared to the index's 2.93%.

Finally, one of Coolabah's newest strategies, the AAA rated Active Sovereign Bond Fund, beat the RBA cash rate by 117bps in 2024 after fees (or by 217bps gross). The long-duration unit class, which is benchmarked against the AusBond Treasury Index, outperformed by 90bps net or 176bps gross. This is a unique solution that is designed to be extremely liquid by only allocating to Commonwealth government bonds with little correlation to equity or credit markets.

See enclosed below a summary of Coolabah's 12 month returns and current running yields as at 31 December 2024. Note that past performance is no guide to future returns. Please read the product PDS to better understand its risks and consult with an independent financial adviser prior to making decisions.



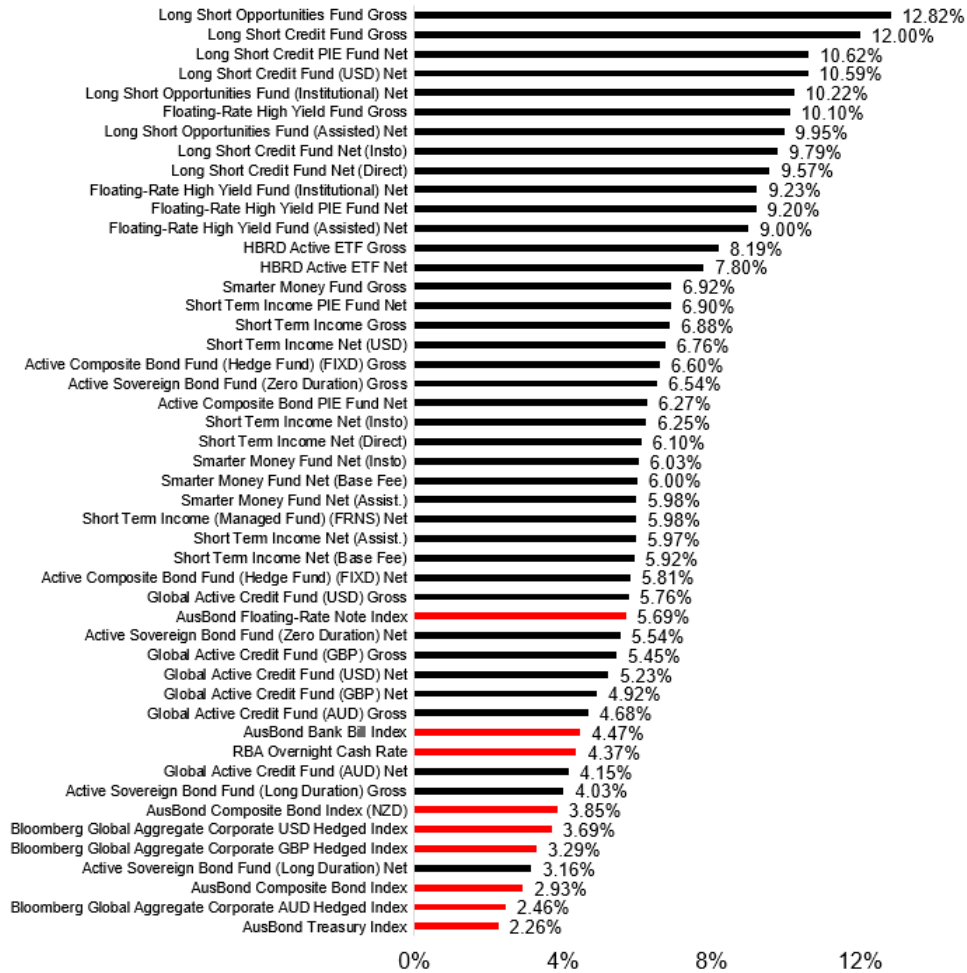


Strategy commentary cont'd:

**Yearly Returns: Gross and Net**

12 Months to 31 December 2024

Source: Coolabah Capital Investments, Bloomberg







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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