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

Fund: **Coolabah Short Term Income Fund - USD Investor Class**
Strategy: **Short-Term Fixed-Interest**
Return (since Oct. 2014): **4.15% pa gross (3.30% pa net)**
Net return volatility (since Oct. 2014): **0.79% pa**

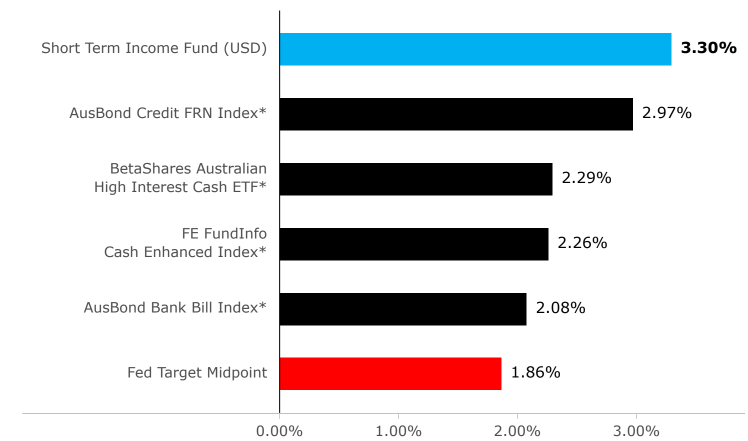
June 2025

Objective: An independently-rated/recommended strategy targeting low-risk cash and fixed income returns that exceed the midpoint of the US Fed Funds Target Range plus 1.5% to 3.0% p.a. over rolling 12 month periods after Management Fees, Administration Fees and Performance Fees, denominated in USD.

Strategy: The USD Investor Class has exposure to an Underlying Pool (the **Fund**) which invests in an actively managed diversified portfolio of Australian deposits, investment grade floating-rate notes and hybrid securities with a weighted-average "A" credit rating. We do not invest in fixed-rate bonds (unless interest rate risk is hedged), direct loans, use leverage, or take currency risk. We add value via active asset-selection using a range of valuation models with the aim of (1) delivering lower portfolio volatility than traditional bond funds and (2) providing superior risk-adjusted returns, or alpha, without explicitly seeking interest rate risk, credit risk or liquidity risk. The strategy is managed by Coolabah Capital Investments, which is a specialist active credit manager. The Fund returns are hedged to USD.

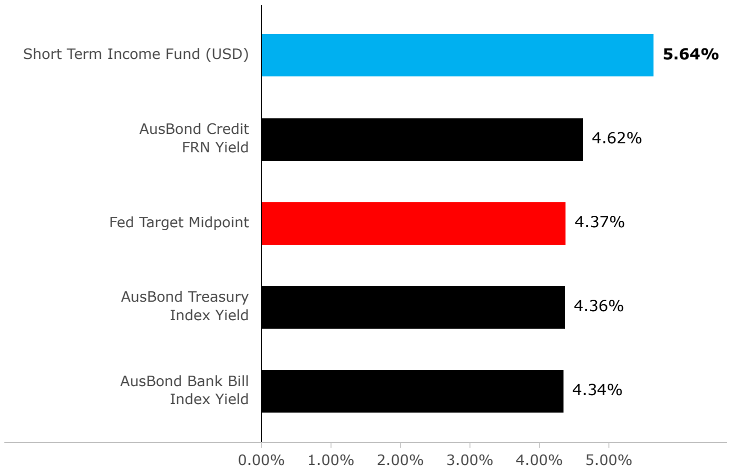
Period Ending 2025-06-30	Gross Return (USD)	Net Return (USD)†	US Fed Fund Target Midpoint	Gross Excess Return (USD)‡	Net Excess Return (USD)†‡
1 month	0.50%	0.45%	0.36%	0.13%	0.09%
3 months	1.40%	1.20%	1.07%	0.33%	0.12%
6 months	2.58%	2.23%	2.15%	0.43%	0.08%
1 year	**6.12%**	**5.40%**	**4.72%**	**1.40%**	**0.69%**
3 years pa	6.79%	5.97%	4.64%	2.15%	1.33%
5 years pa	4.90%	4.09%	2.85%	2.05%	1.24%
10 years pa	4.33%	3.46%	1.99%	2.34%	1.47%
Inception pa Oct. 2014	**4.15%**	**3.30%**	**1.86%**	**2.29%**	**1.43%**

Coolabah Short Term Income Fund Returns (Net) vs Comparisons
Annualized Total Returns Since Inception in October 2014 to June 2025



Data Source: RBA, Bloomberg, Mainstream, Coolabah Capital Investments

Annual Running Yield
30 June 2025



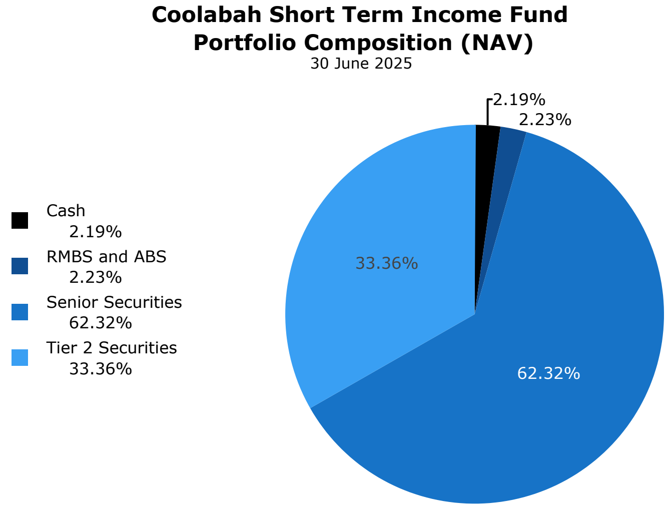
Data Source: RBA, Bloomberg, Coolabah Capital Investments

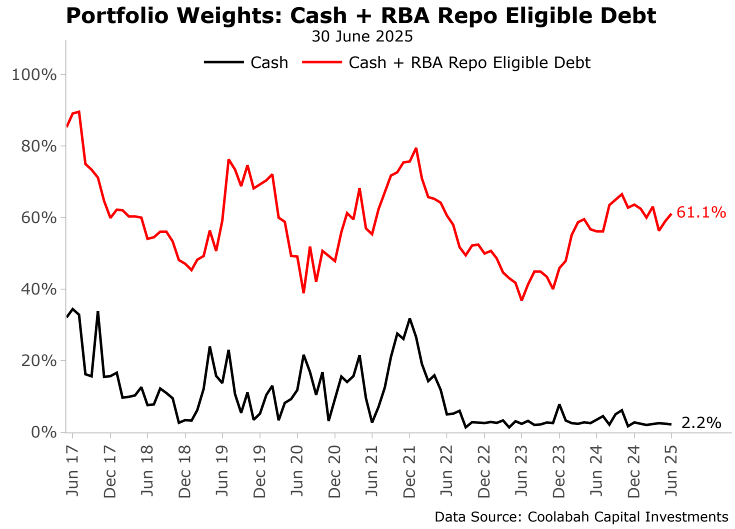
† Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. *USD gross returns are estimated from AUD gross returns using 1 month forward contracts. ‡ The Excess Return columns represent the gross and net return above the midpoint of the US Federal Funds Target Range.

Net Monthly Returns > Fed Target Midpoint	76%	Modified Interest Rate Duration	< 0.1 years
Portfolio Weight to Cash Accounts	2.2%	Gearing Permitted?	No
Portfolio Weight to Bonds	97.9%	1 Year Av. Portfolio Weight to Cash	3.0%
Av. Portfolio Credit Rating	A+	Portfolio Weight to AT1 Hybrids	0.0%
Portfolio MSCI ESG Rating	A	Cash Accounts + RBA Repo-Eligible Debt	61.1%
No. Cash Accounts	12	Net Annual Volatility (since incep.)	0.79%
No. Notes and Bonds	195	Net Sharpe Ratio (since incep.)	1.80x
Av. Interest Rate (Gross Running Yield)	5.64%		

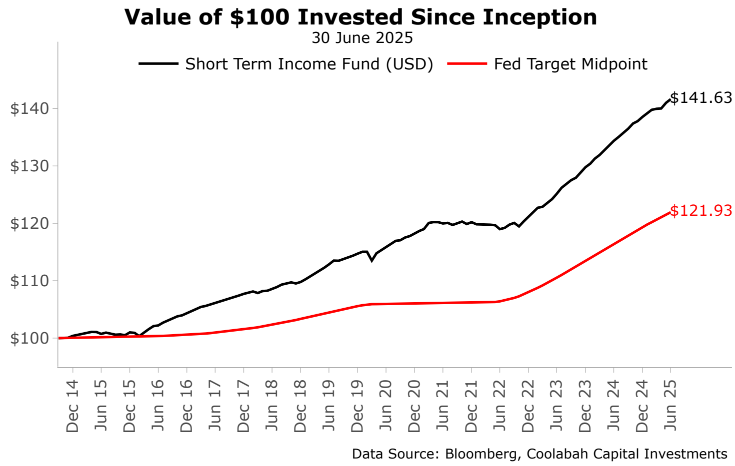
Signatory of:
PRI Principles for Responsible Investment

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





Data Source: Coolabah Capital Investments



The since inception gross (net) return of 4.15% pa gross (3.30% pa net) is the total annual return earned by the fund since Oct. 2014, 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 Short Term Income Fund - USD Investor 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 0.79% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Short Term Income Fund - USD Investor Class.

Portfolio Managers	Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary (Coolabah Capital Investments)		
APIR Code	ELT3997AU	Fund Inception	30-Sep-14
ISIN	AU60ETL39970	Distributions	Quarterly
ARSN	601 093 485	Unit Pricing	Daily (earnings accrue daily)
Asset-Class	Short-Term Fixed-Interest	Min. Investment	US$1,000
Custodian	Citigroup	Withdrawals	Daily Requests (funds normally in 5 days)
Investment Manager	Coolabah Capital Investments (Retail)	Buy/Sell Spread	0.00%/0.025%
Responsible Entity	Equity Trustees	Mgt. & Admin Fee	0.55% pa
Target Return	Net 1.5%-3.0% pa over Fed Funds Target Mid Point	Perf. Fee	22.5% of returns over Fed Funds Target Midpoint + 2.05% pa

Signatory of: PRI Principles for Responsible Investment

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

*In the commentary below, returns indicated with * are estimated returns in USD based on AUD returns hedged to USD with 1m forward contracts. All other returns are USD Denominated where unit classes in USD exist, and estimated from AUD returns hedged to USD using 1m forward contracts before the inception of the USD unit class. Strategy commentary is for the AUD Market.*

Portfolio commentary: In June, the zero-duration daily liquidity Coolabah Short Term Income Fund (STIN) returned 0.50% gross (0.45% net), outperforming the Fed Target Midpoint (0.36%), the FE Cash Enhanced Index* (0.37%), the AusBond Bank Bill Index* (0.37%), and the BetaShares High Interest Cash (AAA) ETF* (0.38%). Over the previous 12 months, STIN returned 6.12% gross (5.40% net), outperforming the Fed Target Midpoint (4.72%), the AusBond Bank Bill Index* (4.89%), the BetaShares High Interest Cash (AAA) ETF* (4.94%), and the FE Cash Enhanced Index* (5.12%). STIN ended June with a running yield of 5.64% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of A.

Since the inception of STIN 10.7 years ago in October 2014, it has returned 4.15% pa gross (3.30% pa net), outperforming the Fed Target Midpoint (1.86% pa), the AusBond Bank Bill Index* (2.08% pa), the FE Cash Enhanced Index* (2.26% pa), and the BetaShares High Interest Cash (AAA) ETF* (2.29% pa). Since inception, STIN's Sharpe Ratio, which measures risk-adjusted returns, has been 2.79x gross (1.80x net). While STIN's return volatility since inception has been low at around 0.79% pa (measured using daily returns), as a daily liquidity product with assets that are marked-to-market using executable prices, volatility does exist. This contrasts with illiquid credit (eg, loans and high yield bonds) wherein assets that have very high risk can appear to have remarkably low volatility, which is, in fact, just a mirage explained by the inability to properly value these assets using executable prices.

Strategy commentary: This year has proven to be a very volatile one underscored by the advent of both a global trade war and full-blown kinetic conflict between Iran, on the one hand, and Israel and America, on the other. The short-lived 12 day war first erupted in June and was brought to a hasty end by president Donald Trump unleashing seven B-2 stealth bombers and one Ohio-class submarine on three key Iranian nuclear targets. The weapons of choice were bunker-busting GBU-57 massive ordnance penetrators and Tomahawk cruise missiles.

Coolabah's CIO found himself situated at 36,000ft in an Emirates plane above Baghdad at precisely the time Israel launched its initial strike, involving more than 200 jets and 330 missiles. The assault could be seen from the passenger-side window.

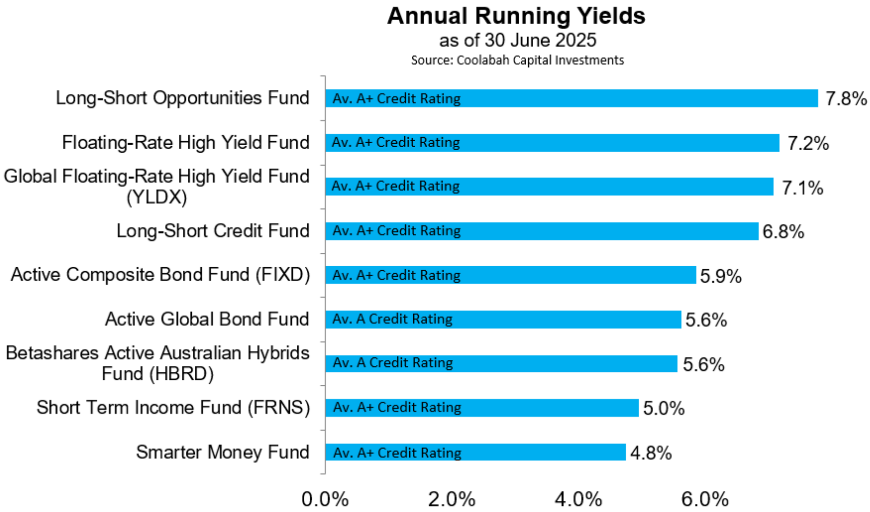
The good news is that after derisking immediately prior to Donald Trump's decision to enter the conflict, Coolabah's team added to risk on the day the B-2 bombers hit their targets. This proved to be a signal turning point for markets and the end of the war. So, despite significant intra-month volatility, Coolabah's portfolios ended June with solid performance and especially strong yields notwithstanding a gradual easing of global monetary policy that has pushed short-term interest rates lower.

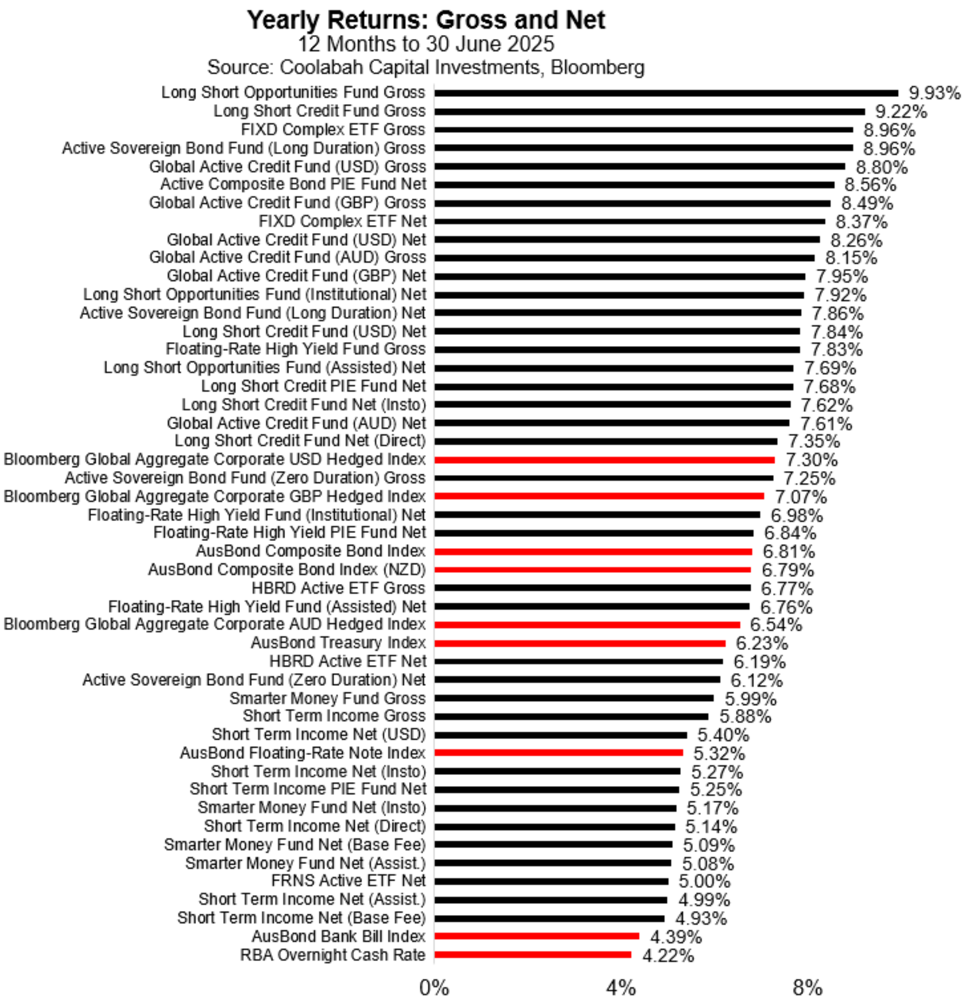
Current gross running yields and 12 month returns for the 2025 financial year are enclosed below. Reflecting on the financial year, there are several results of note. Despite multiple RBA rate cuts, Coolabah's recently launched ETF, called the Global Floating-Rate High Yield Fund (ETF: YLDX), continues to offer a very healthy 7.1% pa gross yield with a strong A+ average credit rating, daily liquidity, and a floating-rate interest rate profile.

Interestingly, YLDX's yield and credit rating are both higher than what you get on ASX-listed major bank hybrids that are rated BBB and typically carry a yield in the 6% vicinity. Coolabah's best yielding strategy is the A+ rated, daily liquidity, and floating-rate Long Short Opportunities Fund, which is producing a running yield of 7.8% pa.

In performance terms, the top strategy in FY25 was Coolabah's Active Composite Bond Fund (ETF: FIXD), which delivered 8.4% net of fees and significantly exceeded its benchmark Composite Bond Index return of 6.8% (ie, 1.6% net alpha). The A+ rated, daily liquid, floating-rate Long Short Opportunities Fund was the next best performer, providing 7.7% to 7.9% net of fees (vs the RBA cash rate's 4.2%). Please note that past performance is no guide to future returns.

Strategy commentary cont'd:





June was a mixed month for equities and bonds. Whereas US stocks finished strongly (S&P500 up 5.0% while the Nasdaq was up 6.3%), European and UK equities declined (Eurostoxx 50 down 1.18% followed by the FTSE100, which fell 0.13%). Bourses in Australia (ASX200 up 1.4%) and New Zealand (NZX50 up 1.5%) fared better.

Strategy commentary cont'd: This price action echoed the mixed moves in global interest rate markets. Helped by benign inflation outcomes, 10-year government bond yields dropped in the US (-17bps), UK (-16bps), Australia (-9bps) and New Zealand (-4bps). By way of contrast, 10-year government bond yields rose in France (+13bps) and Germany (+11bps). One dynamic that helps explain this disparity is the recent shift by European governments to commit a much larger share of their budgets to defence spending after Trump convinced NATO countries to lift their investment to 5% of GDP. This has fuelled concerns about the quantum of public debt that will need to be issued to provide the funding for this spending.

Coolabah has long argued that investors should expect higher term premia or greater excess returns from long-term bonds over overnight cash instruments as compensation for inflation volatility, fiscal uncertainty, and the growing supply of public debt. In the US, 10-year government bond yields have historically paid a total nominal term premium of about 100 basis points above cash. If one takes the Federal Reserve's estimate of its neutral or normal cash rate of circa 3% at face value, this implies that 10-year government bond yields above 4-4.5% in the US could be attractive entry points for investors hunting for fixed-rate duration exposures.

While investment-grade cash credit spreads were globally tighter in June (US 4bps tighter; Europe 8bps tighter; UK 9bps tighter), this was not true in Australia where corporate (+2bps) and senior-ranking bank (+2bps) spreads drifted wider. One headwind in the Antipodes was the volume of supply with A$24bn of issuance in June, which was powered by financials (A$13bn) and senior-ranking bank bonds specifically (A$11bn). Supply is expected to be more muted as we head into the northern hemisphere's summer. During this time many issuers and investors are on holidays, which creates a seasonal lull in global supply.

Why we may be on the cusp of a more stable global order

Superficially, financial markets are telling us that the Reserve Bank of Australia is certain to continue its process of normalising interest rates next week.

The market is 100% priced for a 25 basis point cut in July, which would reduce the RBA's official target cash rate from 3.85% to 3.60%.

There has been one dissenting journalist, James Glynn, who has repeatedly argued that Martin Place could pause in July. This view attracted attention because Glynn previously predicted that the RBA would deliver a third rate cut in July following the soft May inflation release.

The latter revealed that rolling 12-month core (or trimmed mean) inflation declined from 2.8% in April to 2.4% in May, ostensibly below the RBA's 2.6% expectation and the 2.5% midpoint of the RBA's target band.

We don't trade individual monetary policy decisions because interest rate markets are supremely efficient, embedding a great deal of public and private information about decision-making probabilities.

It is, therefore, hard to make money consistently betting against the policy paths implied by interest rate derivatives, despite the propensity of many traders to try to do so.

On a meeting-by-meeting basis you are also grappling with the vagaries of the difficult-to-anticipate human condition. Among central banks, the RBA is notorious for its supercilious ways and desire to continuously demonstrate that it is the smartest player in the room.

This has not, however, tended to work out well for the monetary mandarins. Yet the RBA's capacity to surprise never ceases to amaze. This column has a very simplistic take on the situation. Inflation is in the RBA's target band and has been extremely well-behaved.

The highest-quality reading on consumer price pressures is rendered by the quarterly (as opposed to monthly) prints.

Strategy commentary cont'd: The next update will be the June quarter data, available on July 30. Following its last rate cut in May, the RBA published a revised estimate of the normal (or neutral) target cash rate that is likely to prevail, on average, over the course of the business cycle.

This was marked down from 3.6% in November last year to 2.7% in May. While there are some who believe that the neutral rate that is neither stimulatory nor contractionary might be a touch higher, there is a case that the policy remains in reasonably restrictive territory.

The RBA has signalled that it wants to move towards a more normal footing, which would, as a minimum, place the cash rate in the 3% to 3.5% vicinity. It could chisel rates lower in July, noting that the second quarter inflation data published at the end of the month will provide valuable insights on how much wood is left for policy to chop.

That is to say, it will retain considerable optionality regarding future decisions in the event that the June quarter data comes in a little too hot. And taking the RBA's empirical research at face value, a 3.6% cash rate is still likely to be exercising a restraining influence on activity.

Here it is worth recalling that before the pandemic in early 2020, the RBA's cash rate was sitting at just 0.75%. Only a few years ago, some of the best economic brains in the business felt that neutral was probably around 2%.

Since the RBA lowered rates in May, the Aussie dollar has appreciated, as has the trade-weighted exchange rate, which at the margin should work to further mitigate inflation pressures.

The risk of a dramatic appreciation in the price of oil has also been ruled out as a result of the sudden cessation of hostilities between Israel and Iran following US President Donald Trump's dramatic intervention. (It must frustrate diplomats and foreign policy experts to see the hyperbolic Celebrity Apprentice host suddenly bringing peace to the Middle East!)

And then there is a case that Australia's robust population growth rate is providing more than enough new labour supply to keep a lid on wage-related inflation drivers. On our own modelling, the June trimmed mean inflation pulse should print at about 0.7% for the quarter.

This is slightly above the RBA's latest 0.6% projection, although below its prior 0.8% forecast. The bottom line is that it should not be view-changing vis-à-vis the RBA's direction of travel, which is a gradual progression towards a more neutral cost of capital.

Martin Place's broader thesis that the trade war could precipitate disinflationary forces in Australia remains well and truly intact. The hard modelling implies that the near-term risk to local consumer prices is to the downside as global exporters pivot their goods away from the increasingly closed US market and dump them on small open economies like Australia.

Having said all of that, anything is possible when it comes to the RBA, which has historically displayed a perverse fixation with trying to prove market pricing wrong.

On the subject of uncertainty, there are signs that there may be changes afoot in China. Historian Niall Ferguson recently pointed to analysis suggesting that President Xi Jinping could be on his way out.

This fall from grace has allegedly been engineered by Xi's predecessor, Hu Jintao, whom Xi sensationally had physically removed from the 20th Party Congress in 2022.

Dozens of People's Liberation Army generals, who were loyal to Xi, have been purged or mysteriously taken their own lives. Former US diplomat Gregory Slayton claims Xi is "likely to retire at the CCP Plenary Session this August or take a purely ceremonial position".

Strategy commentary cont'd: "Zhang Youxia, with whom Xi had a major falling out after helping Xi secure an unprecedented third five-year term, is now the de facto leader of the PLA," Slayton maintains.

Ferguson responds that this is "big if true". Xi's relentless attempts to compete with the US as the globally dominant military superpower and economic hegemon have precipitated Western efforts to strategically decouple from China, which is no longer regarded as a trustworthy counterparty.

Xi's departure could, as a consequence, be a crucial turning point for the world, especially if his successor rejects the idea of the inevitability of conflict between capitalism and socialism with Chinese characteristics.

"Although not yet certain, it appears that Zhang Youxia and CCP elders have chosen Wang Yang, whom Deng Xiaoping lifted out of obscurity and who served as a successful technocrat until his forced retirement in 2023, to be the next CCP chairman," Slayton says.

Importantly, Wang Yang is believed to be a "soft-spoken reformer who supports more free-market policies, more decentralised decision making, and a much less confrontational foreign policy".

The burgeoning strategic tensions between China and the US have shaped the world in recent decades, cleaving it into competing democratic and authoritarian blocs in both trade and military terms. They have also raised the probability of real kinetic conflict between the major powers over the future of Taiwan.

Although it is perhaps a glass half-full take, we could be on the cusp of a more stable regime involving a ceasefire between Russia and Ukraine, peace in the Middle East, and a benign China that wants to once again capitalise on the prosperity that the liberal democratic world has bequeathed through free trade, open markets, and durable property rights.

The end of the COVID-era migration boom

In terms of the overhang from the pandemic, population growth boomed across nearly every advanced economy in the wake of COVID, but that boom is over.

That is, most countries saw their populations broadly stall at the height of COVID and some saw their populations shrink a little.

As borders re-opened, pent-up demand saw massive migration flows boost populations across nearly every advanced economy (Japan was unusual, in that its population briefly fell at a slower rate, while the flows into the euro area were boosted by Ukrainian refugees).

Now, populations are growing back in line with pre-COVID averages and sometimes below.

US population growth – which seems likely to fall further as the new administration deports illegal immigrants and refugees – has eased to an annualised rate of about 0.5%, matching the immediate pre-pandemic experience, which was the lowest growth in the history of the republic.

Japan's population is contracting at an annual rate of about 0.5%, while the euro area's population is back to barely growing, increasing at an annualised rate of about 0.25%.

The UK's current population growth is hard to judge, though, as recent annual estimates are ONS forecasts.

Canada's population, which experienced a massive post-COVID surge, is back growing at an annualised rate of about 1%.

Australia's population growth has also slowed to an annualised rate of about 1.5%, also in line with pre-COVID readings, but still at the high end of advanced economy experience.

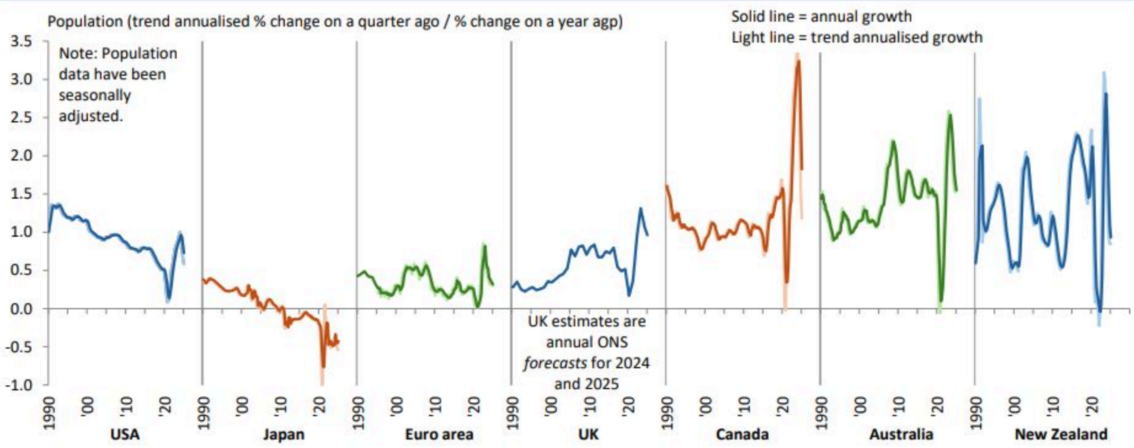
Strategy commentary cont'd: Across the Tasman, the adjustment has been more abrupt, with annualised growth slumping to about 1%, which is at the low end of the range of the past few decades.

Why does the end of the migration boom matter? The return to slow population growth – where Australia is still an outlier – points to slower growth in potential output.

Other things being equal, slower growth in potential output should resume placing downward pressure on central bank neutral policy rates.

However, other things are not equal, and an increase in defence/AI-led investment, as well as spillovers from investment to productivity growth, should counteract this demographic drag.

Figure 1: The end of the COVID-era boom in migration



Source: National statistical agencies, Coolabah Capital Investments

The RBA marks down the neutral cash rate again

In figures released from the May Statement on Monetary Policy, the RBA has revised down its average estimate of the nominal neutral cash rate from 2.9% in February to 2.7% in May, where the neutral rate is what the RBA will steer the cash rate towards if it can successfully return inflation back to the 2.5% target.

The May revision followed an unprecedently large downward revision from 3.6% in November to 2.9% in February, where the RBA made similarly large downward revisions to its historical estimates of the neutral rate as far back as the early 2010s (past post-COVID vintages of RBA staff estimates averaged around 3.5% through successive revisions).

At the same time, uncertainty around the estimated neutral rate – as approximated by the difference between the highest and lowest estimates of the neutral rate – has ballooned from 2.7pp to 3.2pp, which is a much higher sustained level of uncertainty than for any past RBA calculations of the neutral rate.

The RBA estimates of the neutral rate, which are currently derived from seven different approaches, contrast with surveyed economist estimates of the neutral rate, which the RBA now adds to its chart of staff calculations.

That is, as at May, the median economist estimate of the neutral rate was unchanged at 3.5%, having held around that level for more than a year now.

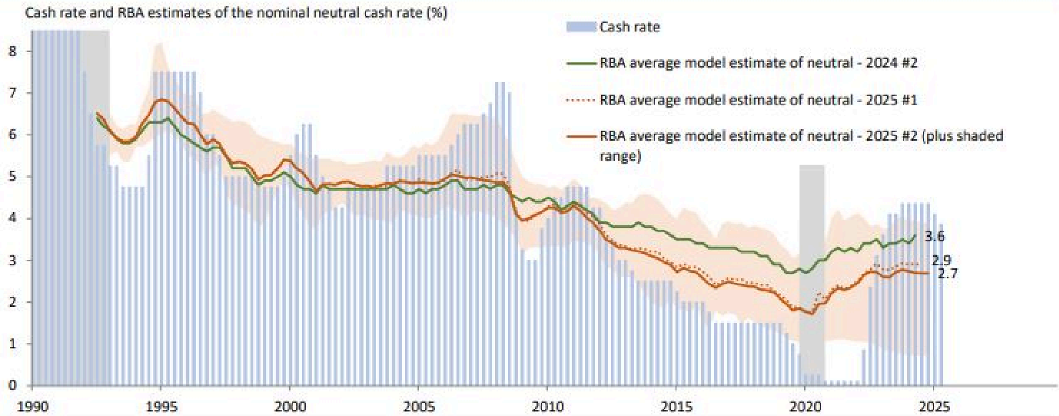
The low average staff estimate of the neutral rate also contrasts with Deputy Governor Hauser's remark late last year that the neutral rate was probably around 3.5-3.75%.

Strategy commentary cont'd: More interestingly, the low average rate does not seem to gel with the RBA's May updated economic outlook, which forecasts that underlying inflation will settle at 2.6% for the next couple of years based on assumed market pricing that has the cash rate falling to 3.2%.

This outlook seems inconsistent with the neutral rate calculations, in that if the neutral rate is actually 2.7%, then the higher assumed cash rate over the entire forecast horizon implies persistently tight monetary policy that would presumably see underlying inflation edge below the 2.5% midpoint (although the RBA's MARTIN macroeconometric model estimates that the cash rate has a gradual impact on inflation, the RBA's separate DINGO – yes, you read that right – DSGE model incorporates a more immediate effect).

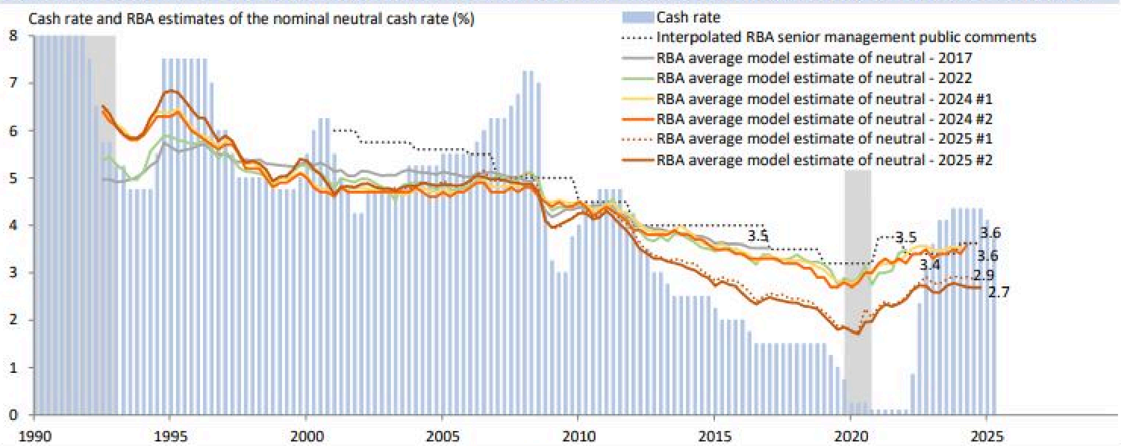
All this raises the possibility that RBA policy-makers are not taking the downwardly-revised staff estimate of the neutral rate at face value, which means that it may have less influence on how far the RBA cuts rates, assuming that inflation continues to slow over the next year and that the fallout from the US-led trade war is manageable.

Figure 1: The RBA staff have revised down the average estimated neutral cash rate from 2.9% in February to 2.7% in May, after a big downward revision from 3.6% in November



Source: Melbourne Institute, Reserve Bank of Australia, Coolabah Capital Investments

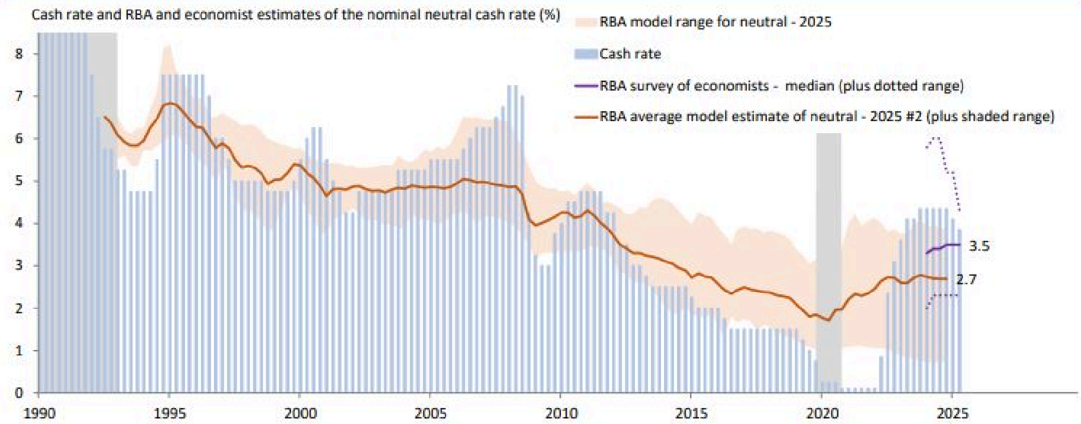
Figure 2: Past post-COVID RBA staff estimates of the neutral cash rate were generally around the 3½% mark



Source: Melbourne Institute, Reserve Bank of Australia, Coolabah Capital Investments

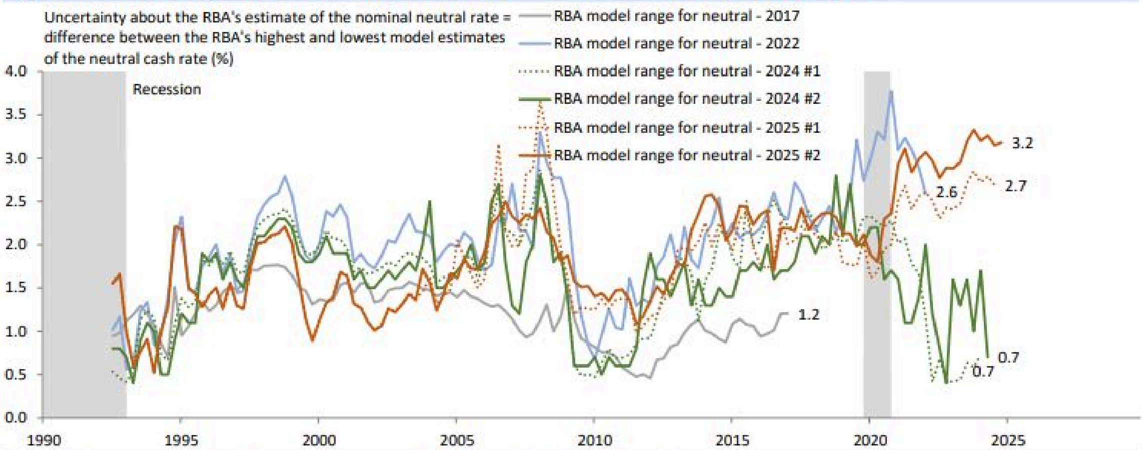
Strategy commentary cont'd:

Figure 3: The new RBA staff estimate of the neutral cash rate is also well below the 3½% median of economist estimates



Source: Melbourne Institute, Reserve Bank of Australia, Coolabah Capital Investments

Figure 4: Uncertainty around the RBA staff estimates of the neutral rate has ballooned



Source: Melbourne Institute, Reserve Bank of Australia, Coolabah Capital Investments

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