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

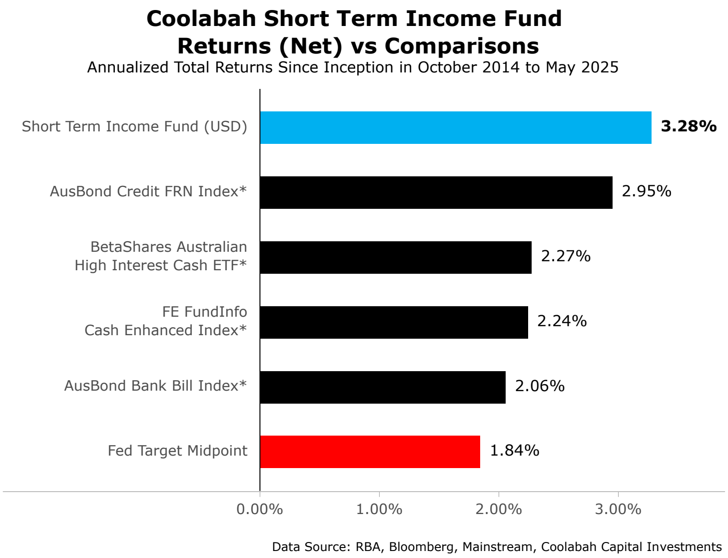
Fund: **Coolabah Short Term Income Fund - USD Investor Class**
Strategy: **Short-Term Fixed-Interest**
Return (since Oct. 2014): **4.14% pa gross (3.28% pa net)**
Net return volatility (since Oct. 2014): **0.80% pa**

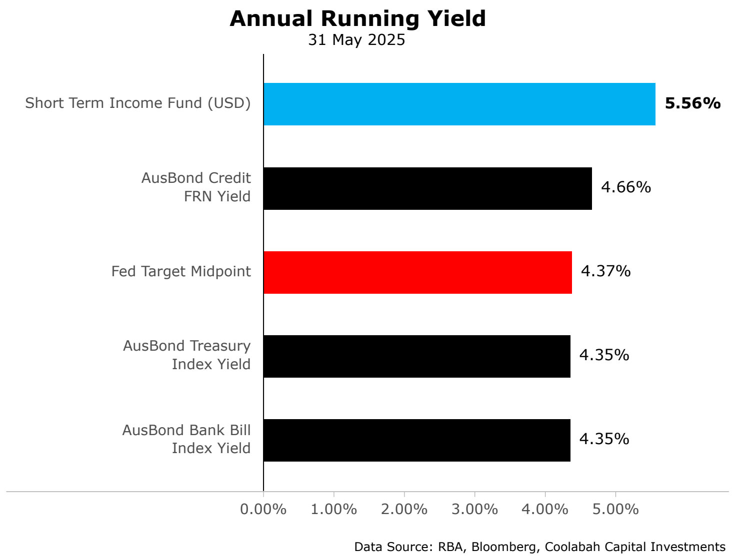
May 2025

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 2025-05-31	Gross Return (USD)	Net Return (USD)†	US Fed Fund Target Midpoint	Gross Excess Return (USD)‡	Net Excess Return (USD)†‡
1 month	0.81%	0.70%	0.35%	0.46%	0.35%
3 months	1.08%	0.87%	1.07%	0.00%	-0.20%
6 months	2.68%	2.32%	2.17%	0.51%	0.15%
1 year	**6.22%**	**5.50%**	**4.76%**	**1.46%**	**0.75%**
3 years pa	6.43%	5.62%	4.55%	1.87%	1.06%
5 years pa	4.94%	4.11%	2.78%	2.16%	1.33%
10 years pa	4.25%	3.38%	1.96%	2.29%	1.43%
Inception pa Oct. 2014	**4.14%**	**3.28%**	**1.84%**	**2.29%**	**1.43%**





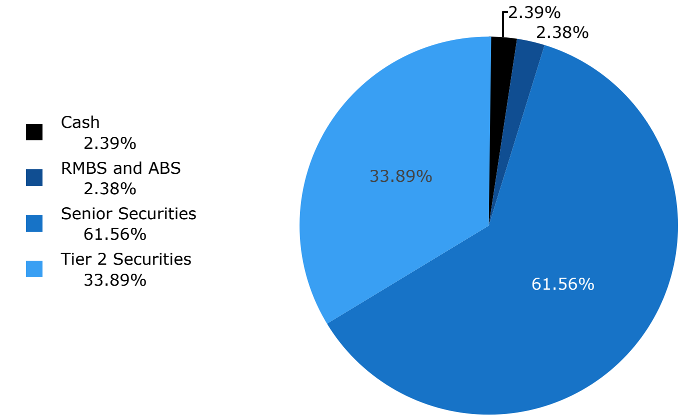
† Net returns are calculated from the historic gross returns using the current fee structure as displayed in the Product Disclosure Statement. *USD gross returns are estimated from AUD gross returns using 1 month forward contracts. ‡ The Excess Return columns represent the gross and net return above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

Net Monthly Returns > Fed Target Midpoint	76%	Modified Interest Rate Duration	0.11 years
Portfolio Weight to Cash Accounts	2.4%	Gearing Permitted?	No
Portfolio Weight to Bonds	97.8%	1 Year Av. Portfolio Weight to Cash	3.1%
Av. Portfolio Credit Rating	A+	Portfolio Weight to AT1 Hybrids	0.0%
Portfolio MSCI ESG Rating	AA	Cash Accounts + RBA Repo-Eligible Debt	59.0%
No. Cash Accounts	12	Net Annual Volatility (since incep.)	0.80%
No. Notes and Bonds	191	Net Sharpe Ratio (since incep.)	1.80x
Av. Interest Rate (Gross Running Yield)	5.56%		

Signatory of:
PRI Principles for Responsible Investment

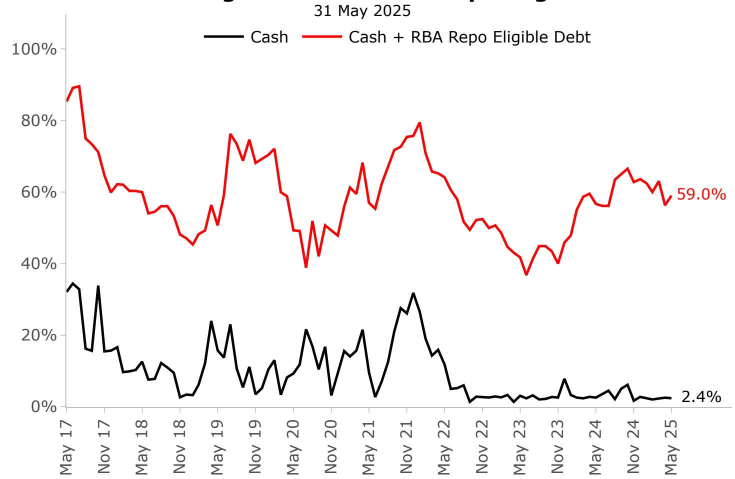
MSCI ESG RATINGS
AA
CCC B BB BBB A AA AAA
Asset weighted average rating

Coolabah Short Term Income Fund Portfolio Composition (NAV)
31 May 2025



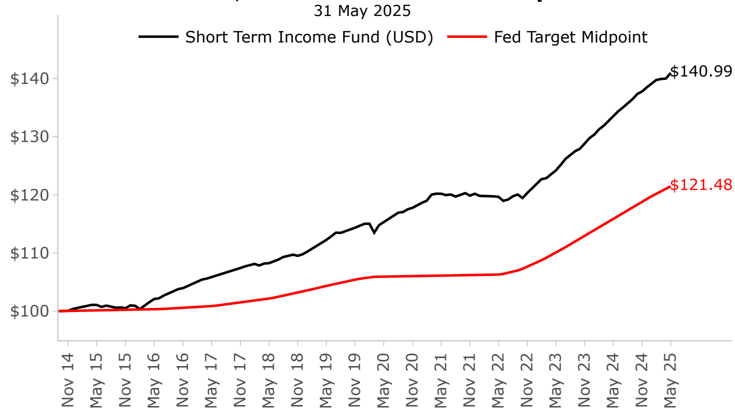
Data Source: Coolabah Capital Investments

Portfolio Weights: Cash + RBA Repo Eligible Debt
31 May 2025



Data Source: Coolabah Capital Investments

Value of $100 Invested Since Inception
31 May 2025



Data Source: Bloomberg, Coolabah Capital Investments

The since inception gross (net) return of 4.14% pa gross (3.28% 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 0.80% 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
AA
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 May, the zero-duration daily liquidity Coolabah Short Term Income Fund (STIN) returned 0.81% gross (0.70% net), outperforming the Fed Target Midpoint (0.35%), the BetaShares High Interest Cash (AAA) ETF* (0.37%), the AusBond Bank Bill Index* (0.38%), and the FE Cash Enhanced Index* (0.57%). Over the previous 12 months, STIN returned 6.22% gross (5.50% net), outperforming the Fed Target Midpoint (4.76%), the AusBond Bank Bill Index* (4.97%), the BetaShares High Interest Cash (AAA) ETF* (4.99%), and the FE Cash Enhanced Index* (5.23%). STIN ended May with a running yield of 5.56% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of AA.

Since the inception of STIN 10.6 years ago in October 2014, it has returned 4.14% pa gross (3.28% pa net), outperforming the Fed Target Midpoint (1.84% pa), the AusBond Bank Bill Index* (2.06% pa), the FE Cash Enhanced Index* (2.24% pa), and the BetaShares High Interest Cash (AAA) ETF* (2.27% 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 0.80% 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: It's worth recapping that Coolabah was exceptionally bearish on risk markets prior to April, writing in the AFR on 14 March that US equities would likely decline 20-40%. As it transpired, the S&P500 fell 22% while the Nasdaq slumped 27%.

We had reduced risk for 12 months, cutting US and European bond exposures, selling hybrids and subordinated bonds, and moving up the capital stack into the safest and highest rated senior-ranking bonds. In levered portfolios, we also actively reduced gearing. In late March we further hedged 15-25% of all our global credit risk.

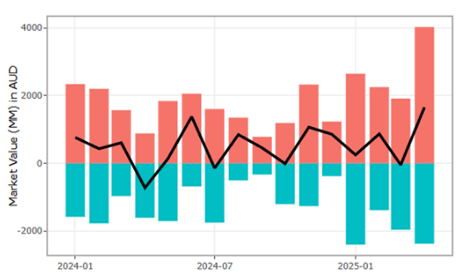
While Coolabah was bearish, we swung 180 degrees on 9 April, removing all hedges/shorts and aggressively buying $1.7bn of bonds on that day alone. We proceeded to buy almost $5 billion of bonds between 9 and 30 April (see summary below). Indeed, we even outlined the rationale for this shift in the AFR on 11 April, arguing that that time presented an enticing buying opportunity.

Despite many investors complaining about market illiquidity in April, Coolabah provided its clients with exceptional liquidity and traded around $15 billion of bonds, including $11 billion of credit. We definitely heard anecdotes of investors in riskier debt securities struggling with illiquidity, which was not a problem in our markets.

Coolabah Credit Trading April 2025: Total Trades $14.5bn

- April was one of our biggest credit trading months in history:
  - Total April Trading: A$14.5bn face value
  - Government bond trading: A$3.6bn face value
  - Credit trading: A$10.9bn face value
  - April 9 credit buying gross: A$1.7bn face value
  - April 9-30 credit buying gross: A$4.6bn face value
- Since mid April, performance was exceptionally strong and we have seen this continue in May
  - Yields have also generally improved
  - The A+ rated, floating-rate Long Short Credit Fund's yield has risen from 6.8% to 7.0% in April (despite expectations of RBA rate cut).

Market Value of Credit Trading ($m)



Source: Coolabah Capital Investments 30/4/25

CCI Past performance does not assure future returns. 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. The above figures are shown in Australian Dollars (AUD) unless otherwise shown and could be reduced, or losses incurred due to currency fluctuations. Refer to investment disclaimer at start of presentation.

Strategy commentary cont'd: The catalyst for the shift in Coolabah's risk posture was the assessment that President Donald Trump's backflip on tariffs on 9 April would trigger a very significant risk rally. This is what has played out in the period since.

Our central case remains that the world will be cleaved by declining short-term interest rates juxtaposed against higher long-term rates as investors worry about the enormous supply of government bonds that will be required to fund politicians' profligate spending programs. This is unlikely to contribute to an environment characterised by sustainably low inflation.

It is, nonetheless, a complex climate. In small open economies like Australia and New Zealand, inflation pressures in the near-term could be *disinflationary* as global exporters dump products blocked by the US on to non-protectionist markets. (Consider BYD sales of EVs in Australia that are now multiples the volume of Teslas being purchased.)

This could improve the scope for central banks in these smaller countries to cut their policy rates back to more normal levels. The RBA, for example, is priced by markets to lower its cash rate from its current 3.85% level to 3.05% by December 2025 (or circa 3-4 more standard cuts).

At the same time, the US is likely to face an acceleration in short-term inflation pressures as tariffs push up prices, which could keep the Federal Reserve sidelined for a longer period than might otherwise be the case in the absence of such tariffs. Markets are currently forecasting that the Fed will reduce its cash from 4.25-4.50% to around 3.8%, implying that there will only be two cuts this year in total (compared to a total of more than five cuts from the RBA in 2025).

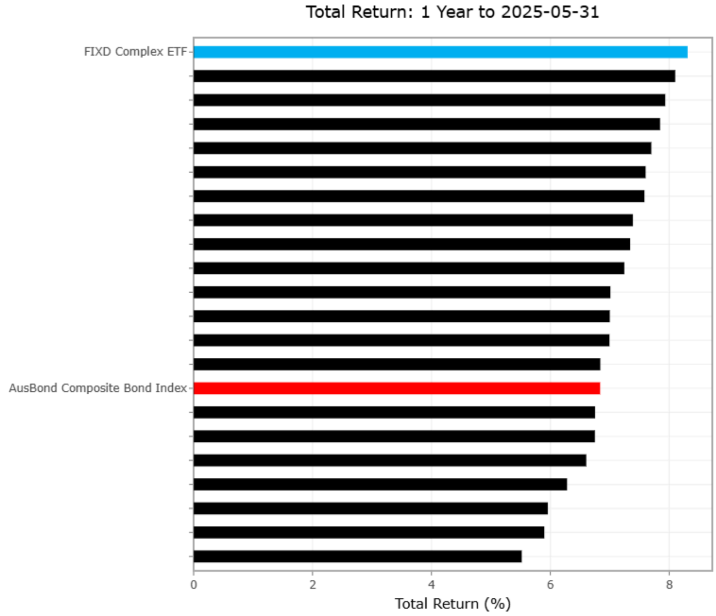
Coolabah prefers to remain focussed on the safest and most liquid assets that are likely to outperform securities that are subject to stress during cyclically volatile periods like the present environment where tail risks are unusually elevated.

After the extreme volatility experienced during April, the month of May was constructive for both performance and long-term yields. Coolabah's daily liquidity strategies delivered healthy excess returns in May, outperforming benchmarks and peers, including:

- the Long Short Opportunities Fund (+2.04% net),
- the Global Floating-Rate High Yield Fund (+1.70% net),
- the Long-Short Credit Fund (+1.66% to +1.69% net),
- the Active Sovereign Bond Fund (+1.55% net),
- the Floating-Rate High Yield Fund (+1.52% to +1.54% net),
- the Active Global Bond Fund (+1.12% net),
- the Active Composite Bond Fund (+0.84%), and
- HBRD (+0.83% net), amongst others.

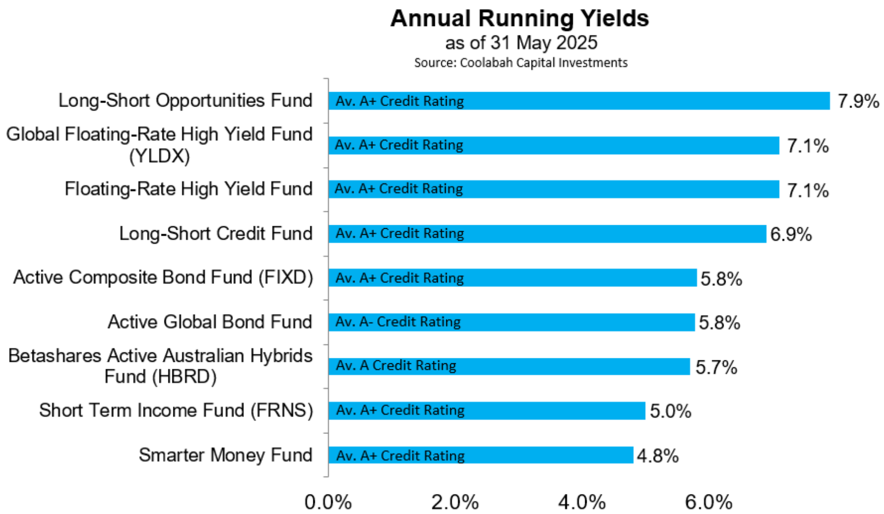
It is instructive to highlight how Coolabah's Active Composite Bond Fund, which is also an ETF under the ticker FIXD, has performed compared to peers since its inception in 2017 and over more recent 1 year and 3 year periods. Net of retail fees, FIXD has outperformed while maintaining exceptional liquidity.

Strategy commentary cont'd:



Strategy commentary cont'd:

As credit spreads widened in March and April, yields on our key portfolios stabilised, or in some cases, actually improved. The 31 May running yields are highlighted in the chart below. Note that past performance is no guide to future returns and investors should carefully read the product PDS to better understand the specific risks (and also consider consulting an independent financial adviser).



The move higher in long-term government bond yields resulted in floating-rate benchmarks, such as the RBA cash rate (+0.32%), the AusBond Bank Bill Index (+0.34%), and the AusBond Floating Rate Note Index (+0.64%), outperforming fixed-rate indices, like the AusBond Composite Bond Index (+0.16%) and the Bloomberg Global Aggregate Corporate Index (+0.18% hedged into AUD). Put simply, floating-rate bonds produced superior returns to their fixed-rate equivalents.

There was a solid rise in 10-year government bond yields in Germany (+6bps), Australia (+10bps), New Zealand (+14bps), the UK (+21bps) and the US (+24bps). There were nevertheless a few exceptions where 10-year government bond yields declined in May, such as in France (-1bps) and Italy (-8bps).

After the spike in credit spreads in late March and over the first half of April, there was predictable mean-reversion in May. Synthetic credit default swaps compressed sharply, with declines across both investment-grade (CDX IG -11bps and iTraxx Main -10bps) and high-yield (CDX HY -56bps and Xover -50bps) indices.

Strategy commentary cont'd: Cash credit markets also performed as investment-grade spreads contracted meaningfully in Australia (-10bps), Europe (-13bps), the UK (-13bps), and the US (-18bps).

Within the Aussie market, 5-year major bank senior and subordinated bond spreads were both 10bps tighter while, unusually, 5-year major bank hybrid spreads drifted a significant 21bps wider.

The poor performance of ASX hybrids appeared to be driven by competing supply from attractively priced new bank subordinated bond deals and corporate hybrids in the OTC market, which encouraged switching of retail investments out of ASX hybrids. This is a dynamic that Coolabah has long expected, which is one reason why we have minimised exposures to hybrids. Another concern has been the historically tight levels of ASX hybrid spreads.

There has been record supply of new subordinated and hybrid bond deals in Australia, with an unprecedented $5.8 billion of issues in the period since 14 May through to the time of writing, which was 5 June. There will be elevated supply of these transactions going forward as issuers tap into the appetite for hybrid replacement opportunities.

This is also fuelling a surge in listings on the ASX of complex high risk debt portfolios structured as listed investment trusts (LITs). The assets in these LITs often have little-to-no liquidity, which makes them very hard to value. This is why debt LITs traded at discounts to NAV of as much as 10-15% in April in an echo of what happened in March 2020.

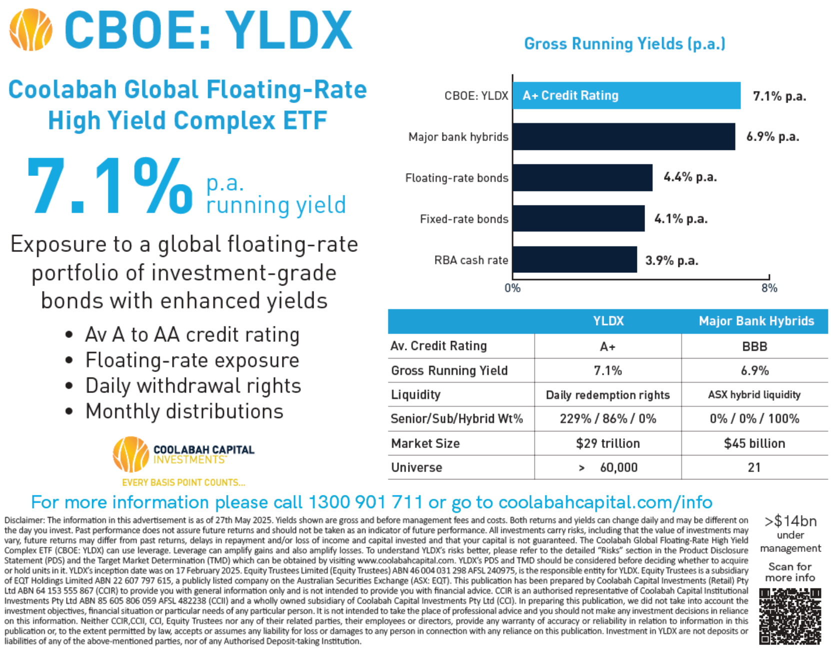
The rally in May was secular and global. Bitcoin appreciated 10.59% as did global equity markets, led by the S&P500 (+6.15%), Eurostoxx 50 (+5.42%), NZX50 (+4.33%), ASX200 (+4.20%), and FTSE 100 (+3.79%).

We thought you might be interested to know that Coolabah has recently launched a listed ETF version of our popular Floating-Rate High Yield Fund. The new ETF trades under the ticker YLDX. The fund is called the Coolabah Global Floating-Rate High Yield Complex ETF. While YLDX is similar to the Floating-Rate High Yield Fund, with an identical 7.1% yield, it has some noteworthy differences:

- YLDX is a listed ETF as well as being an unlisted fund like the Floating-Rate High Yield Fund (both offer daily liquidity and target an average A to AA credit rating)
- YLDX has monthly rather than quarterly income distributions
- YLDX can invest in global investment-grade bonds rather than just Aussie dollar bonds
- YLDX has the ability to buy both floating-rate notes and fixed-rate bonds as long as it hedges the fixed-rate securities to remove the associated interest rate risks (the Floating-Rate High Yield Fund is limited to just FRNs)

Note that past performance is no guide to future returns and investors should carefully read the product PDS to better understand the specific risks (and also consider consulting an independent financial adviser).

Strategy commentary cont'd:



Click here for more information

The RBA marks down the neutral cash rate again

In figures released from the 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.

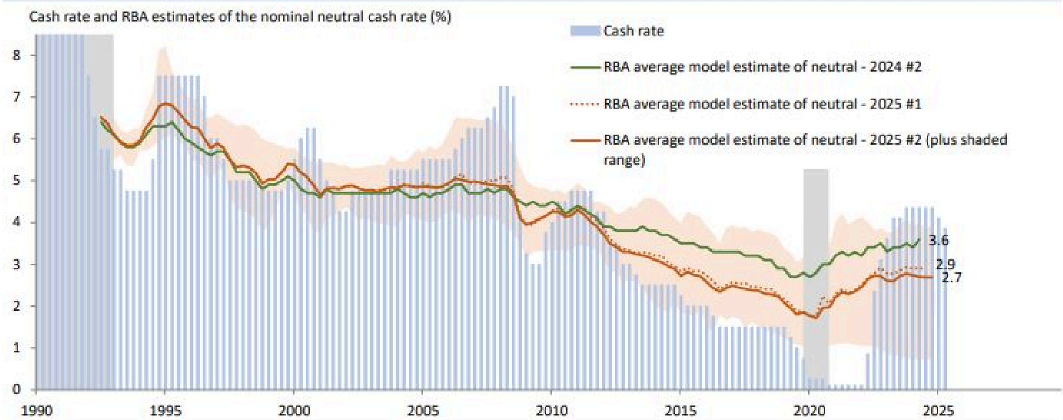
The low average staff estimate of the neutral rate also contrasts with Deputy Governor Hauser's remark late last year that the neutral rate was probably around 3.5-3.75%.

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%.

Strategy commentary cont'd: 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).

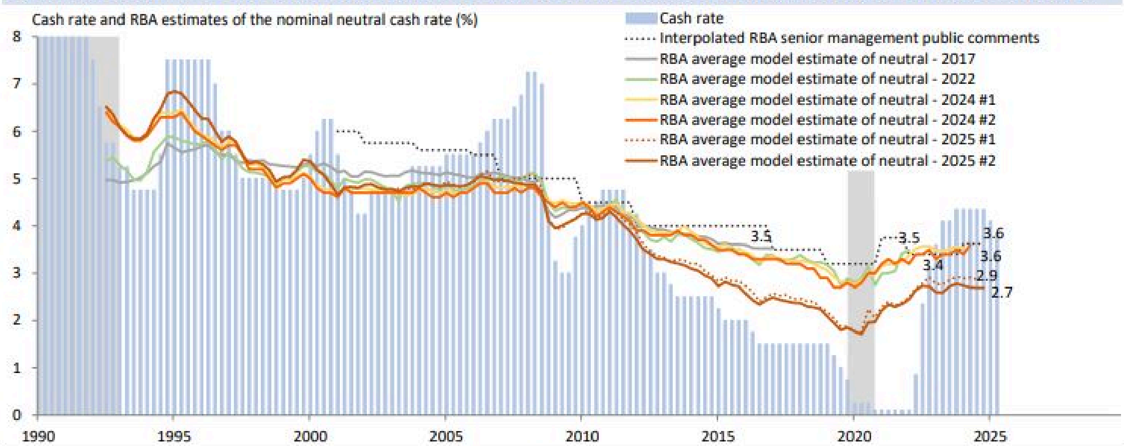
All this raises the possibility that RBA policy-makers are not taking the downwardly-revised staff estimate of the neutral rate at face value, which means that it may have less influence on how far the RBA cuts rates, assuming that inflation continues to slow over the next year and that the fallout from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

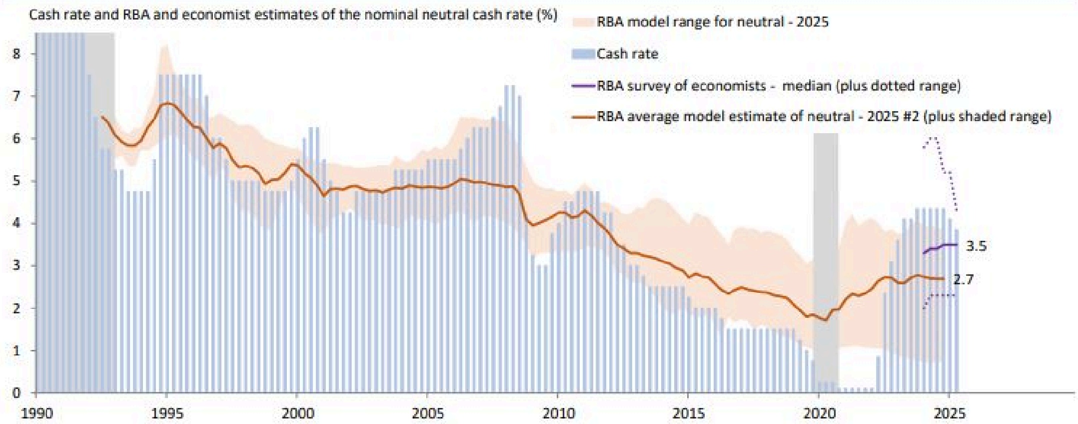
Figure 2: Past post-COVID RBA staff estimates of the neutral cash rate were generally around the 3½% mark



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

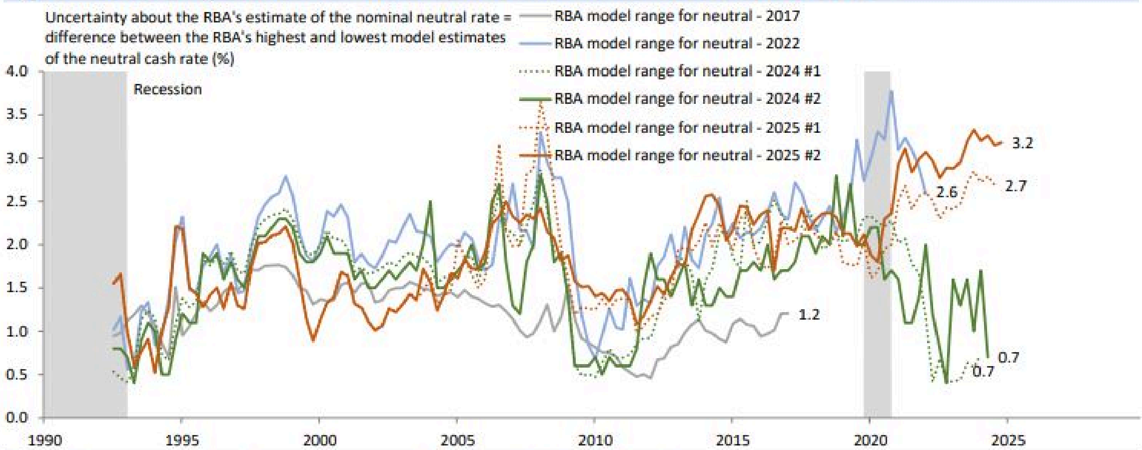
Strategy commentary cont'd:

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

The drivers of higher US bond yields

With rising public-sector debt placing upward pressure on US government bond yields, the charts below show the Fed's modelled split of the different drivers of the benchmark 10-year nominal bond yield.

The Fed estimates various liquidity, term and risk premia to get a cleaner read on expected inflation and real interest rates than the usual approach of approximating the real bond yield by using the TIPS inflation-indexed bond yield and estimating expected inflation using the breakeven inflation rate, derived as the gap between the nominal bond yield and the TIPS yield.

The main finding from the Fed's split of the data is that nominal bond yields are higher over the past couple of years than pre-COVID experience because estimated real bond yields and expected inflation are both broadly back at pre-global financial crisis levels.

In turn, higher real bond yields reflect the estimated expected future real short rate and real term premium both returning to positive territory after fluctuating around zero for most of the time since the global financial crisis.

Taking rounded averages of monthly bond yields and their estimated drivers to illustrate these points, the average nominal bond yield over the past two years has almost doubled from the average over the two years prior to COVID, increasing by about 1.75pp from about 2.5% to around 4.25%.

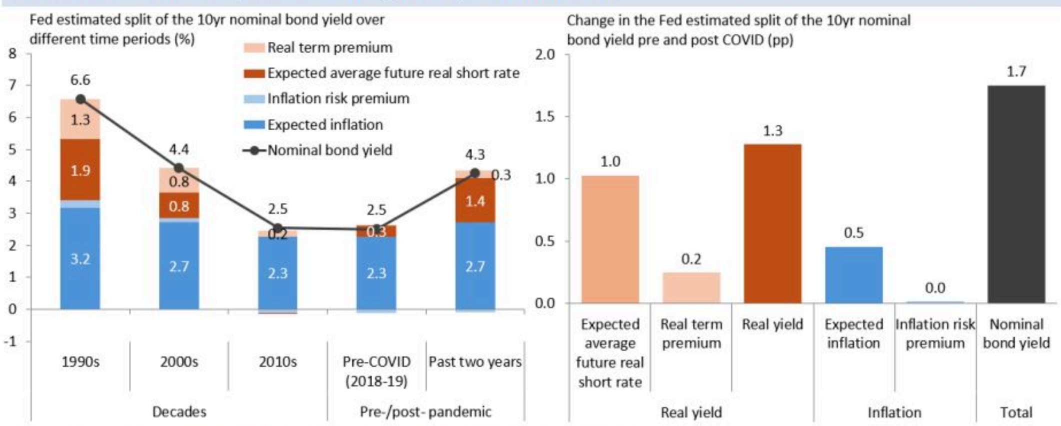
Strategy commentary cont'd:

- The estimated real bond yield has increased by about 1.25pp from around 0.25% to about 1.5%, comprising a 1pp increase in the expected future real short rate from about 0.25% to near 1.25% and a roughly 0.25pp increase in the real term premium from zero to about 0.25pp.
- The estimated expected inflation rate has also increased by about 0.5pp from around 2.25% to about 2.75% over this period (note that this is a measure of expected CPI inflation and hence exceeds the Fed's 2% inflation target because CPI inflation is nearly always higher than PCE inflation). There is no real change in the estimated inflation risk premium over this time, which remains around zero.

The higher estimated expected real short rate is consistent with other market and survey-based indicators that suggest that the neutral policy rate has increased from pre-pandemic levels, partly because of the stimulus from easy fiscal policy, while the return of a positive real term premium is consistent with the end of QE, as well as record high public-sector debt.

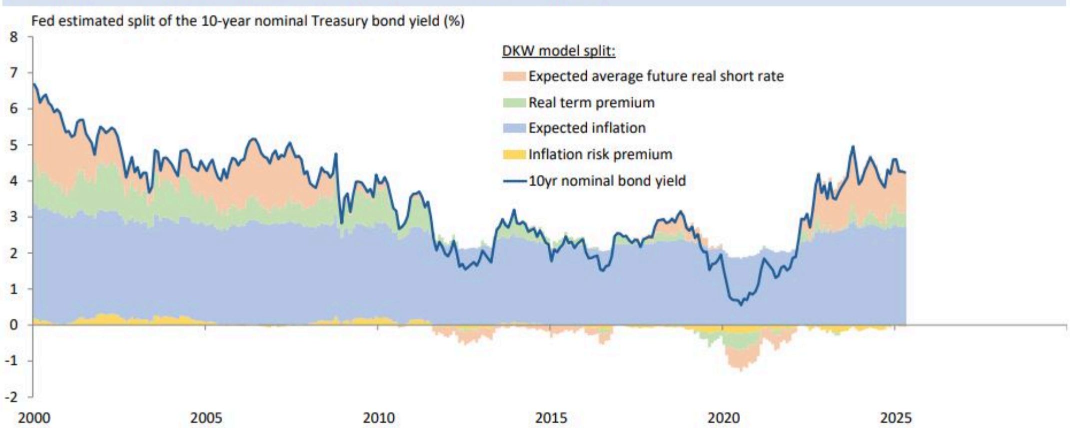
With no sign that US fiscal policy will be brought under control any time soon, record levels of public debt raise the risk that real yields edge higher, placing upward pressure on nominal bond yields (expected inflation may not change unless consumers and firms start to believe that new tariffs will lead to higher ongoing inflation).

Figure 1: The large rise in US bond yields from pre-COVID levels reflects higher expected future real short rates, the return of a real term premium and higher expected inflation



Source: Board of Governors of the Federal Reserve, Coolabah Capital Investments

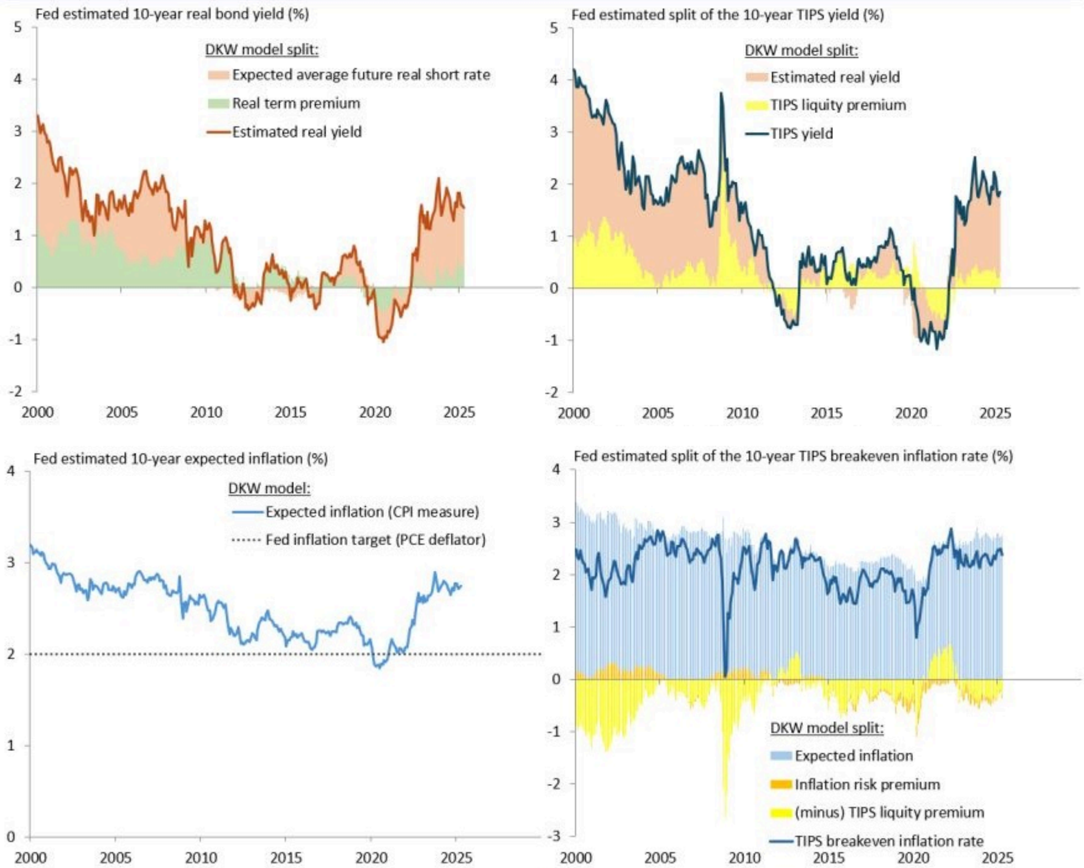
Figure 2: This is in sharp contrast with most of the post-global financial crisis period when the expected future real short rate and the real term premium fluctuated around zero



Source: Board of Governors of the Federal Reserve, Coolabah Capital Investments

Strategy commentary cont'd:

Figure 3: The Fed estimates of real bond yields and expected inflation



Source: Board of Governors of the Federal Reserve, Coolabah Capital Investments

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