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

Fund: **Coolabah Short Term Income PIE Fund**
Strategy: **Short-Term Fixed-Interest**
Return (since Dec. 2021): **4.78% pa net**
Net return volatility (since Dec. 2021): **0.92% pa**

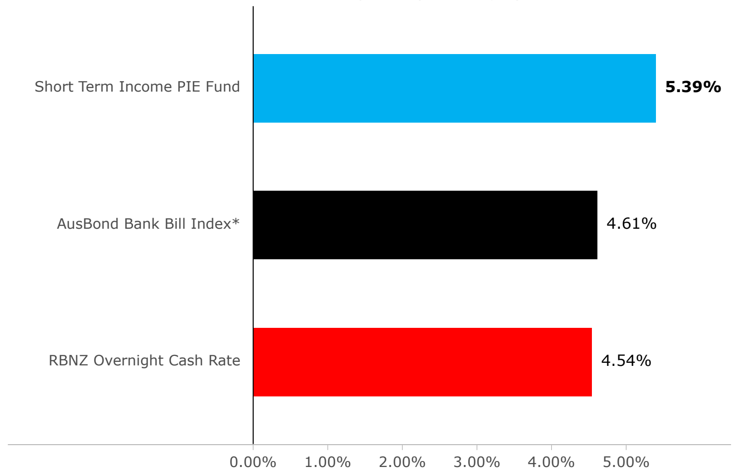
## May 2025

**Objective:** The Fund targets investment returns, after fees and before taxes, of 1.5% to 3.0% per annum above the overnight interbank cash rate as published by the Reserve Bank of New Zealand, over a rolling 12 month period.

**Strategy:** The Fund provides exposure to a zero-duration, short-term fixed-income strategy focused on exploiting mispricings in Australian and global credit markets. It achieves this by holding units in the Coolabah Short Term Income Fund (STIN) fully hedged to New Zealand dollars. STIN actively invests in a portfolio of cash securities, bonds and hybrids with a near-zero interest rate duration risk and a target dollar-weighted average credit rating in the "A" band. STIN does not invest in fixed-rate bonds (unless interest rate risk is hedged out). STIN is not permitted to use leverage.

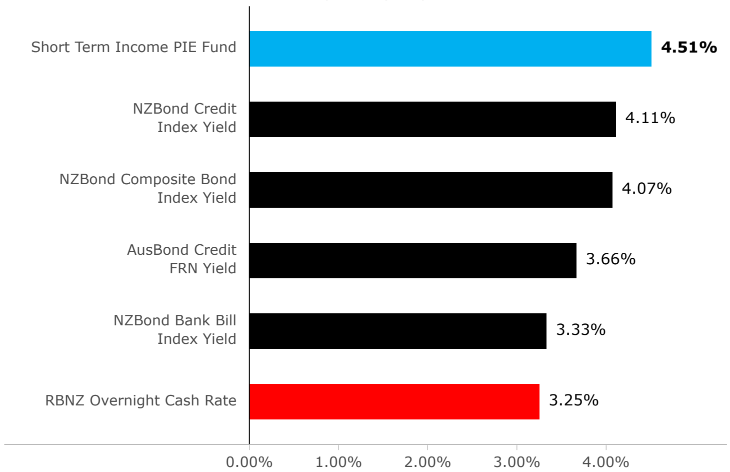
| Period Ending 2025-05-31 | Net Return† | RBNZ Overnight Cash Rate | Net Excess Return‡ |
|---|---|---|---|
| 1 month | 0.67% | 0.28% | 0.39% |
| 3 months | 0.76% | 0.89% | -0.12% |
| 6 months | 2.20% | 1.93% | 0.27% |
| **1 year** | **5.39%** | **4.54%** | **0.85%** |
| 3 years pa | 5.79% | 4.60% | 1.18% |
| **Inception pa Dec. 2021** | **4.78%** | **4.11%** | **0.67%** |
| | **Underlying STIN Strategy*** | | |
| 5 years pa | 3.98% | 2.93% | 1.05% |
| 10 years pa | 3.61% | 2.36% | 1.24% |
| **Inception pa Oct. 2014** | **3.72%** | **2.43%** | **1.29%** |

**Short Term Income PIE Fund Returns (Net) vs Comparisons**
1 Year Returns to May 2025 (NZD hedged)




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

**Annual Running Yield**
31 May 2025 (NZD)#




Data Source: RBA, Bloomberg, Coolabah Capital Investments

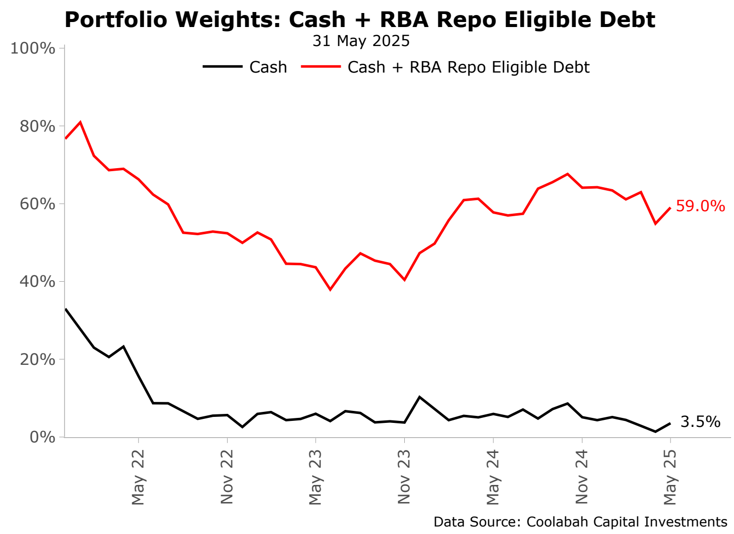
* The underlying strategy is an Australian unit trust. The returns displayed are estimated in NZD based on the actual AUD returns with 1 month forward contracts. † Net returns are calculated from the historic gross returns using the current fee structure as displayed in the PDS. ‡ The Excess Return columns represent the gross and net return above the AusBond Bank Bills Index hedged to NZD. # The yields shown are estimates based on the yield of the underlying strategy hedged to New Zealand Dollar (NZD) using the NZD Bank Bill 3 Month Index (NDBB3M) and the AUD Bank Bill 3 Month Index (BBSW3M).

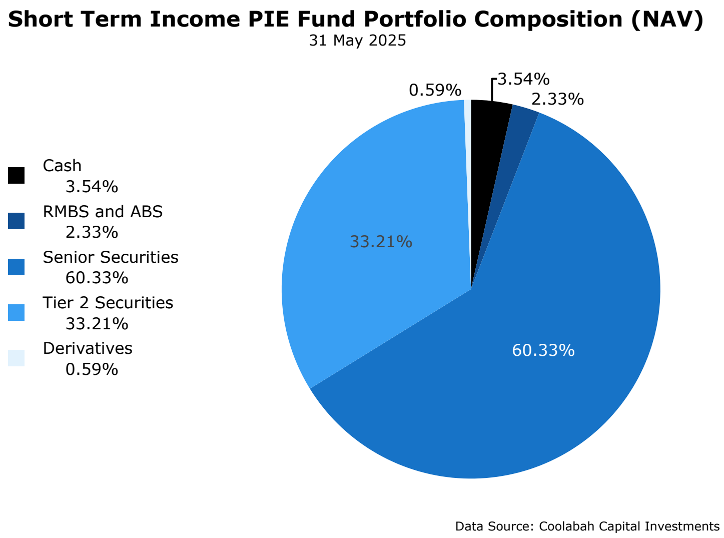
**Disclaimer:** Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed.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

| | | | |
|---|---|---|---|
| Portfolio Weight to Cash Accounts | 3.5% | Modified Interest Rate Duration | 0.11 years |
| Portfolio Weight to Bonds | 95.9% | Gearing Permitted? | No |
| Av. Portfolio Credit Rating | A+ | 1 Year Av. Portfolio Weight to Cash | 5.0% |
| Portfolio MSCI ESG Rating | AA | Portfolio Weight to AT1 Hybrids | 0.0% |
| No. Cash Accounts | 15 | Cash Accounts + RBA Repo-Eligible Debt | 59.0% |
| No. Notes and Bonds | 191 | Net Annual Volatility (since incep.) | 0.92% |
| Av. Interest Rate (Gross Running Yield) | 4.51% | **Underlying Strategy Ratings:** Recommended (Lonsec); Superior - Relatively Simple (Foresight Analytics) | |

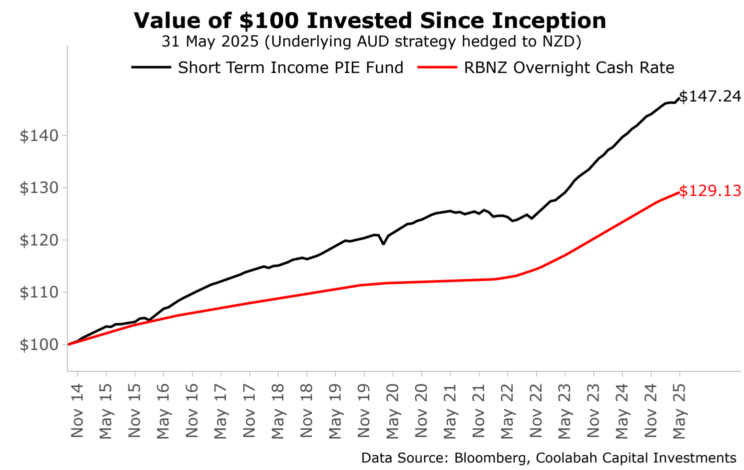
Signatory of: PRI Principles for Responsible Investment

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










**The since inception net return of 4.78% pa net** is the total annual return earned by the fund since Dec. 2021, 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 PIE Fund, with quarterly distributions reinvested. Investment return will vary depending upon investment date and any additional investments and withdrawals made. **The annualised volatility estimate of 0.92% pa** is based on the standard deviation of net daily returns since inception, which are then annualised, attributable to the Coolabah Short Term Income PIE Fund.

| | | | |
|---|---|---|---|
| Portfolio Managers | Christopher Joye, Ashley Kabel, Roger Douglas, Fionn O'Leary (Coolabah Capital Investments) | | |
| Fund Inception | 09-Dec-2021 | Distributions | Quarterly |
| Morningstar Ticker | 25326 | Unit Pricing | Daily (earnings accrue daily) |
| Asset-Class | Short-Term Fixed-Interest | Target Return | Net 1.5%-3.0% pa over RBNZ cash rate |
| Min. Investment | NZD$1,000 | Withdrawals | Daily Requests (funds normally in 4 days) |
| Buy/Sell Spread | 0.00%/0.025% | Investment Manager | Coolabah Capital Investments (Retail) |
| Supervisor | Public Trust | Manager | FundRock NZ |
| Mgt. & Admin Fee | 0.69% pa | Perf. Fee | 22.5% of returns over AusBond Bank Bills Index hedged to NZD + 1.89% 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 NZD based on AUD returns hedged to NZD with 1m forward contracts. All other returns are NZD Denominated where unit classes in NZD exist, and estimated from AUD returns hedged to NZD using 1m forward contracts before the inception of the NZD unit class. Strategy commentary is for the AUD Market.*

**Portfolio commentary:** **In May, the zero-duration daily liquidity Short Term Income PIE Fund (NZSTIP) returned 0.67% net, outperforming the RBNZ Overnight Cash Rate (0.28%), the AusBond Bank Bill Index* (0.28%), and the AusBond Credit FRN Index* (0.59%). Over the previous 12 months, NZSTIP returned 5.39% net, compared to the RBNZ Overnight Cash Rate (4.54%), the AusBond Bank Bill Index* (4.61%), and the AusBond Credit FRN Index* (5.54%). NZSTIP ended May with a running yield of 4.51% pa, a weighted-average credit rating of A+, and a portfolio weighted average MSCI ESG rating of AA.**

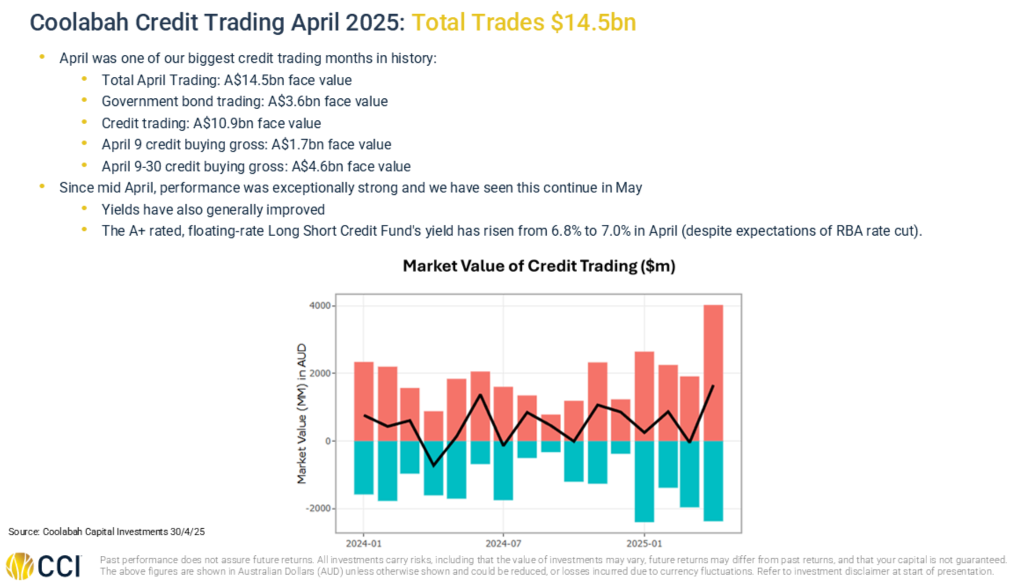
**Since the inception of NZSTIP 3.5 years ago in December 2021, it has returned 4.78% pa net, compared to the AusBond Bank Bill Index* (4.09% pa), the RBNZ Overnight Cash Rate (4.11% pa), and the AusBond Credit FRN Index* (4.91% pa).** While NZSTIP's return volatility since inception has been low at around 0.92% 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.




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.

**Strategy commentary cont'd:** 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).

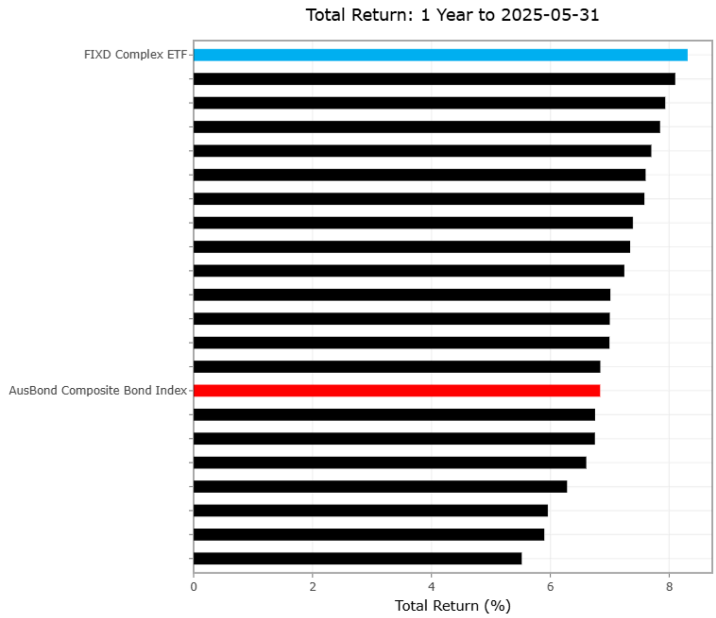
Coolabah prefers to remain focussed on the safest and most liquid assets that are likely to outperform securities that are subject to stress during cyclically volatile periods like the present environment where tail risks are unusually elevated.

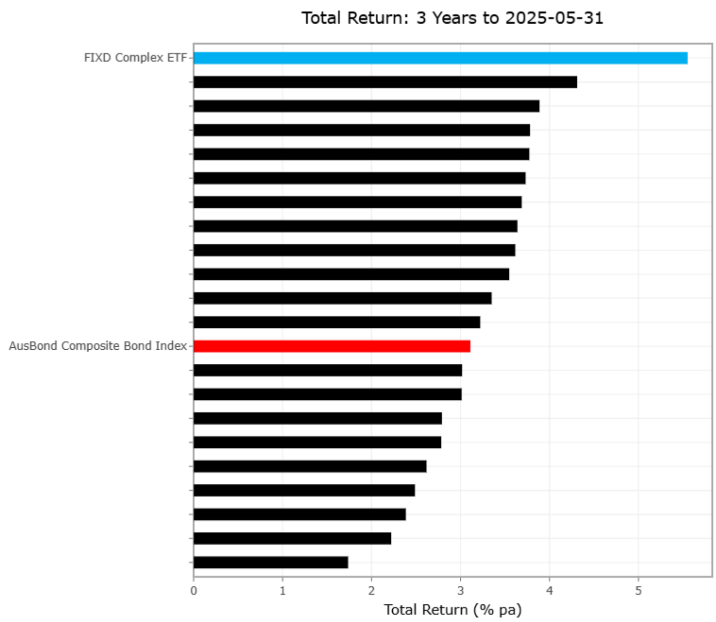
After the extreme volatility experienced during April, the month of May was constructive for both performance and long-term yields. Coolabah's daily liquidity strategies delivered healthy excess returns in May, outperforming benchmarks and peers, including:

- 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.

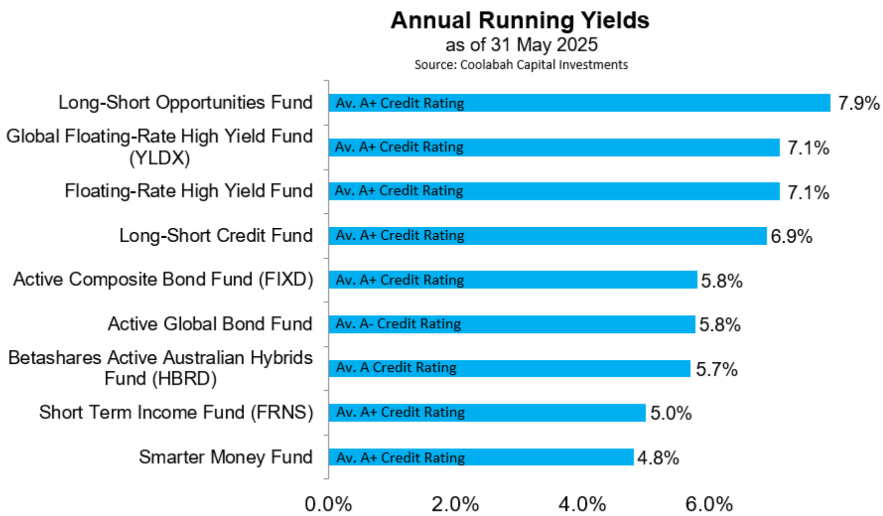
## Strategy commentary cont'd:



## 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:



**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.

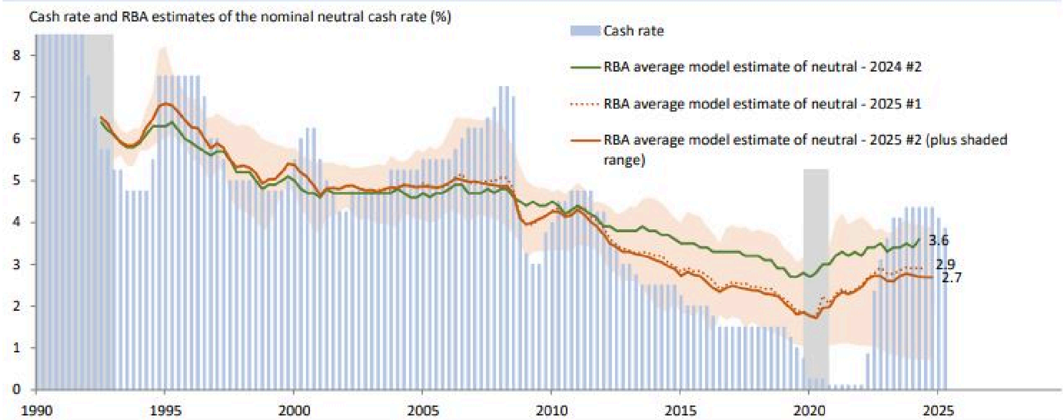
The low average staff estimate of the neutral rate also contrasts with Deputy Governor Hauser's remark late last year that the neutral rate was probably around 3.5-3.75%.

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).

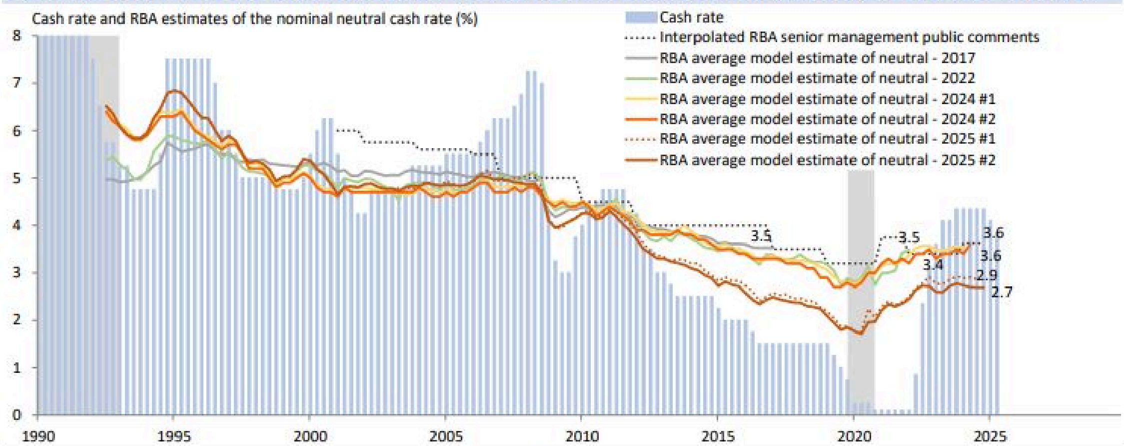
All this raises the possibility that RBA policy-makers are not taking the downwardly-revised staff estimate of the neutral rate at face value, which means that it may have less influence on how far the RBA cuts rates, assuming that inflation continues to slow over the next year and that the fallout from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

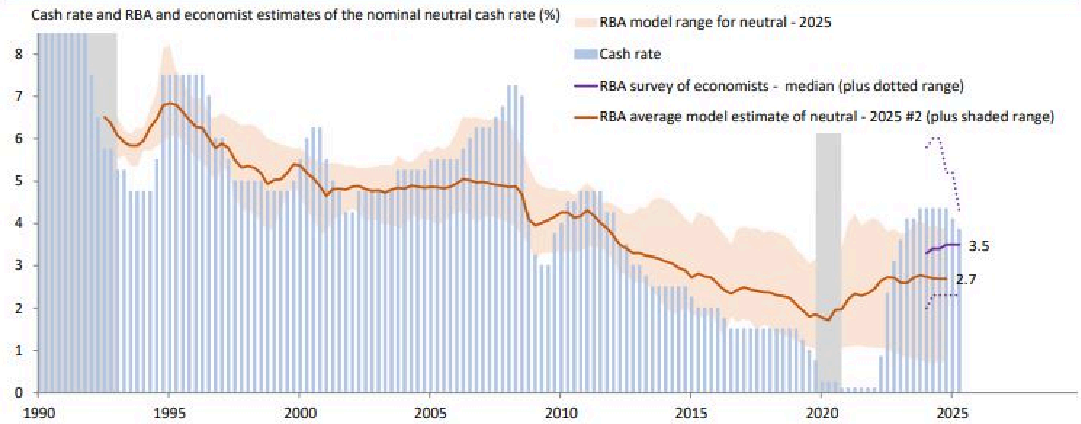
Figure 2: Past post-COVID RBA staff estimates of the neutral cash rate were generally around the 3½% mark




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

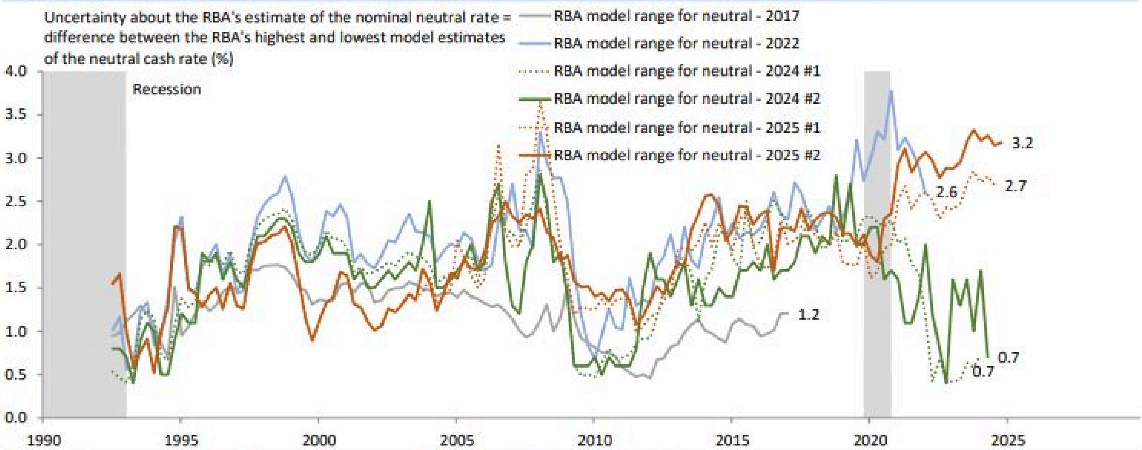
**Strategy commentary cont'd:**

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%.

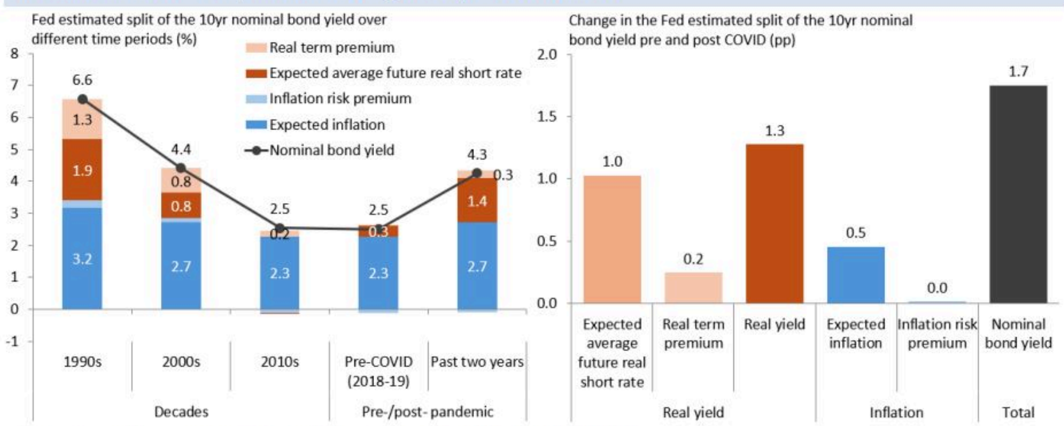
**Strategy commentary cont'd:**

- 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.

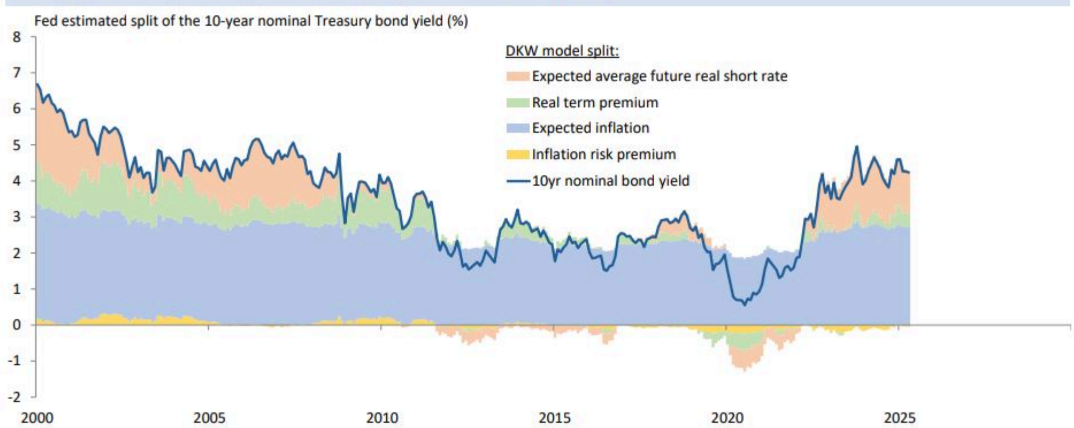
With no sign that US fiscal policy will be brought under control any time soon, record levels of public debt raise the risk that real yields edge higher, placing upward pressure on nominal bond yields (expected inflation may not change unless consumers and firms start to believe that new tariffs will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

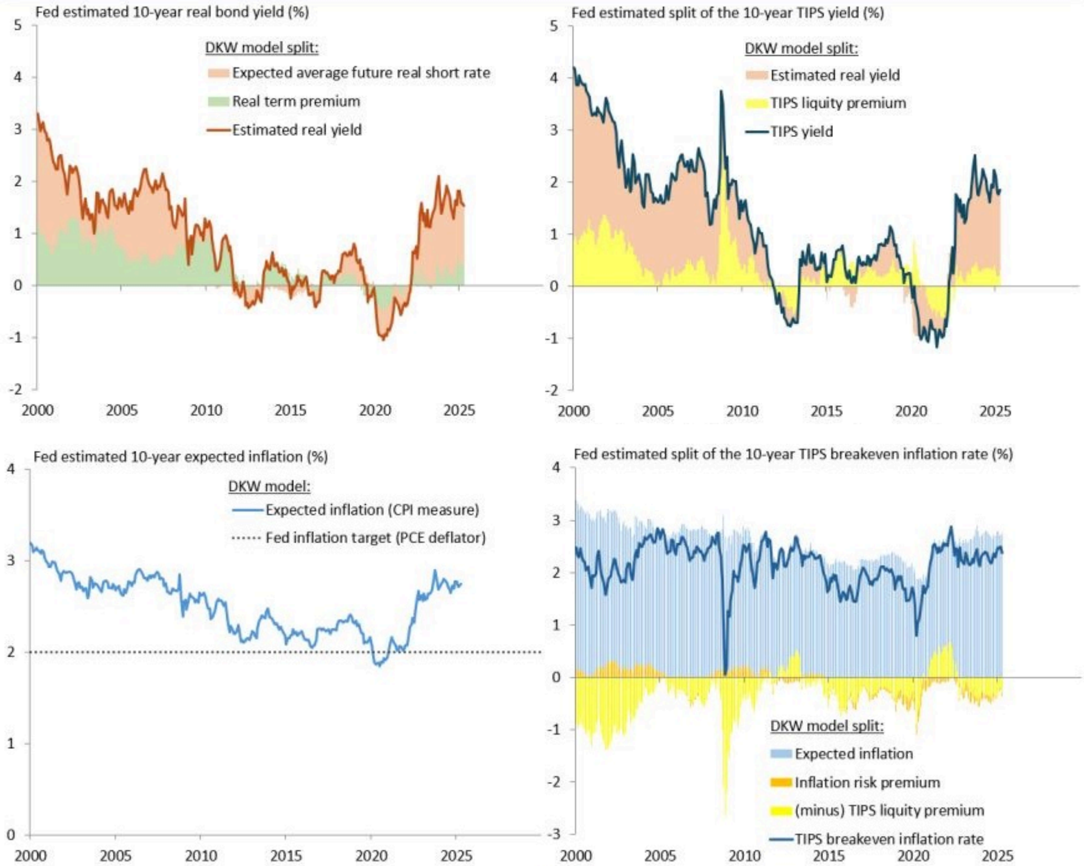
Figure 2: This is in sharp contrast with most of the post-global financial crisis period when the expected future real short rate and the real term premium fluctuated around zero




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*

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CCC | B | BB | BBB | A | AA | AAA

Asset weighted average rating