



November 2024

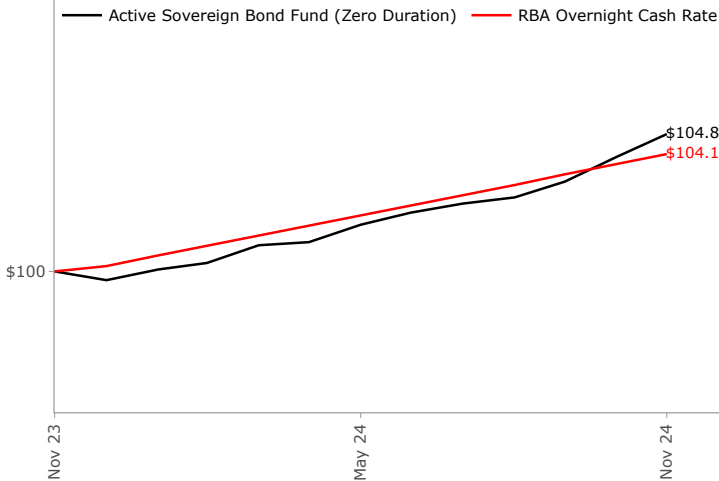
Objective: The Active Sovereign Bond Fund - Zero Duration Class targets returns in excess of its Benchmark, the RBA Overnight Cash Rate (RBACOR), after management costs, by 3.0% to 5.0% per annum over rolling 3 year periods.

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 [†]	Net Excess Return [†]
2024-11-30					
1 month	0.93%	0.77%	0.34%	0.60%	0.44%
3 months	2.59%	2.18%	1.06%	1.52%	1.12%
6 months	3.76%	3.17%	2.14%	1.62%	1.03%
Inception Dec. 2023	5.85%	4.88%	4.17%	1.68%	0.70%

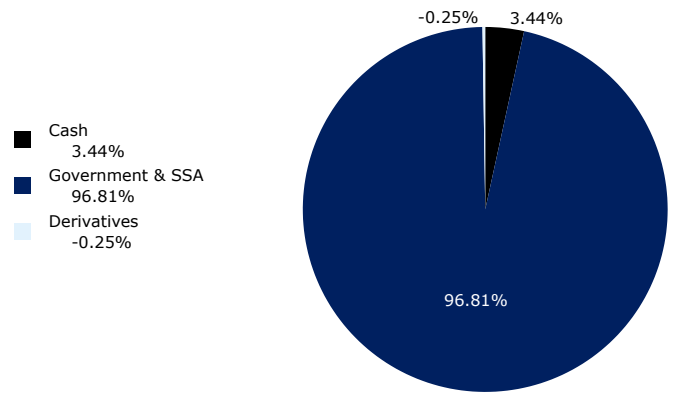
Value of \$100 Invested since Inception

30 November 2024



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

30 November 2024



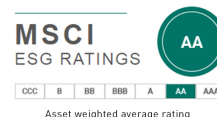
Data Source: Coolabah Capital Investments

[†] The Excess Return column represents the gross and net return above the RBA Overnight Cash Rate

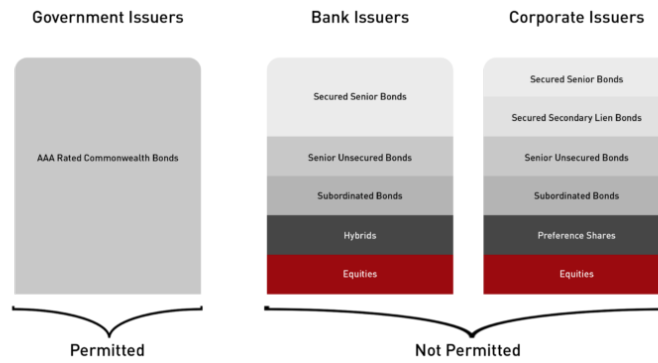
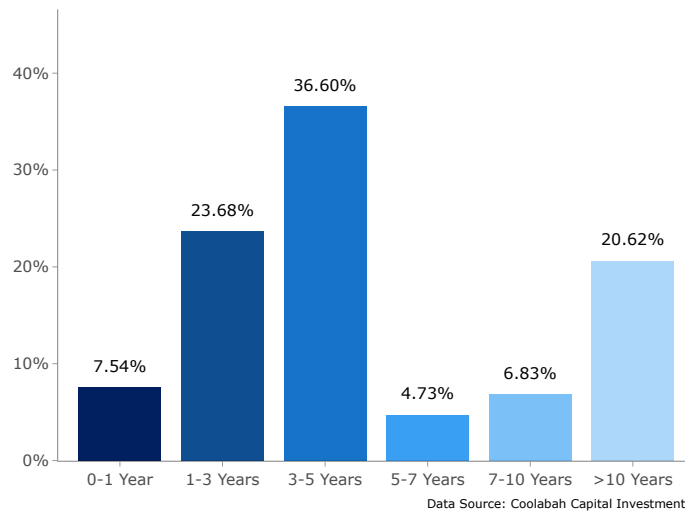
Disclaimer: Past performance does not assure future returns. Returns are shown net of management fees and costs unless otherwise stated. All investments carry risks, including that the value of investments may vary, future returns may differ from past returns, and that your capital is not guaranteed. 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	96.8%
Portfolio MSCI ESG Rating	AA	Modified Interest Rate Duration	0.11 years
No. Cash Accounts	11	Gearing Permitted?	Yes
No. Notes and Bonds	16	Net Annual Volatility (since incep.)	1.12%
		Ratings: Recommended (Zenith)	



Absolute Physical Exposure by Maturity Bucket
30 November 2024



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The since inception gross (net) return of 5.85% gross (4.88% 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 1.12% 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 November, Coolabah's Active Sovereign Strategy Returned 0.93% gross (0.77% net), outperforming the RBA Overnight Cash Rate (0.34%), in a month where Coolabah's relative value strategies worked reasonably well.

The month began with an RBA meeting and the US Presidential election. The RBA meeting caused a small flattening of the curve, as their forecasts pushed back the date of the first cut – but the curve resumed steepening into the US election as folks put on Trump Trades. The global bear steepening that dominated pre-election extended for less than a day following the election result, but reversed as bad positioning led to bull flattening. These macro developments favoured relative value trading, as Trump trades (predominately bear steepeners) had stretched relative value going into the US Election. These developments tended to favour the outperformance of belly bonds, particularly in the 5-year and 6-year area.

On the month, the strongest returns were made in the 5-year to 7-year segment of the curve. These bonds outperformed as the curve bull flattened following the US presidential election. Some money was also made in XM basket bonds, including the green bond. Coolabah had small short positions in the short end of the curve, as it was judged to have become expensive relative to the mid-curve.

Strategy commentary: After exceptional returns in October, November was an unusual month replete with contradictory cross-currents. Global government bond yields declined sharply, retracing some of their enormous gains in October, which powered the performance of fixed-rate bonds (known as duration).

We had previously asserted that the spike in yields before and after the US election presented an opportunity to average-into duration, and this sector delivered in spades in November following a very tough October. The fixed-rate Bloomberg Global Aggregate Corporate Index soared 1.34% in November while the AusBond Composite Bond Index returned 1.14%.

As risk-free discount rates contracted, the value of riskier asset-classes generally climbed (Bitcoin leapt 39% care of an equity rally and the supportive tailwind of a crypto-friendly Trump presidency). Equities appreciated in the US (S&P500 up 5.87%; Nasdaq up 5.31%), Australia (ASX200 up 3.79%), New Zealand (NZX50 up 3.39%), and the UK (FTSE100 up 2.60%).

One exception was Europe where concerns around political instability in France taxed the performance of banks, dragging down the Eurostoxx 50, which fell 0.32% (the Eurostoxx banks index declined 3.29%). The spread on 10-year French government bonds over the benchmark German government bond curve lifted from lows of 77bps in November to as high as 87bps by the end of the month.

Global credit markets were a mixed bag. In the synthetic credit default swap (CDS) index domain, spreads consistently compressed: US and European investment-grade credit default swap spreads declined by 6bps and 3bps, respectively. In the physical or cash bond market, there was more noise. Whereas US and UK IG spreads fell by 6bps and 1bps respectively, European spreads (3bps wider) and Aussie spreads (2bps higher) expanded.

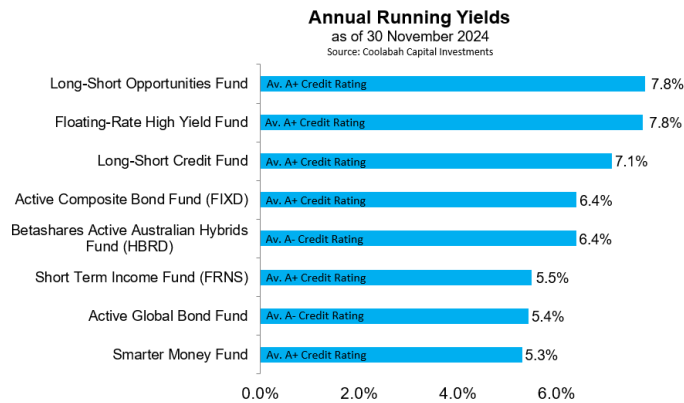
Arguably the most interesting price action was in the Aussie credit market where November was a tale of two halves. During the first half of the month, benchmark 5-year major bank senior and Tier 2 bond spreads moved lower by 3bps and 4bps, respectively. Yet a torrent of new supply during November appeared to break the back of demand, pushing senior and Tier 2 spreads 5bps and 8bps wider over the second half of the month.

In the Tier 2 space, there was A\$3.75bn of new issuance across four transactions (QBE, CBA, Barclays and BNP), which attracted A\$15.4bn of demand. Despite being oversubscribed, the BNP deal was very poorly allocated with its credit spread promptly gapping 15-20bps wide of the issue margin within 24hrs (we did not participate).

In the 2024 YTD there has now been A\$21.4bn of AUD issuance of Tier 2 bonds, which is 54% higher the previous record of A\$13.9bn. One part of this story has been foreign or "Kanga" issuers supplying the AUD Tier 2 market with A\$5.85bn of issuance in 2024 YTD compared to \$1.8bn in the prior four years combined.

As a result of higher credit spreads, Coolabah's strategy yields improved in November, as the chart immediately below highlights.

Strategy commentary cont'd:



Coolabah's fixed-rate (or long duration) strategies generated healthy returns in November. Our AAA rated, daily liquidity Active Sovereign Bond Fund returned 1.57% net of fees in its 5.3 year fixed duration unit class (benchmarked against the AusBond Treasury Index's 1.17%).

The sovereign strategy was launched at the end of 2022 and is now starting to generate considerable momentum, outperforming its benchmarks and known peers since inception.

In November, the recently launched Active Global Bond Fund, which has an average A- rating and 6.0 years duration, returned 1.43% after fees, besting the benchmark Bloomberg Global Aggregate Corporate Index's return of 1.32%.

Coolabah's A+ rated Active Composite Bond Fund (ETF: FIXD), which carries 5.1 years duration exposure, returned 0.99% after fees in November, lagging the Composite Bond Index's 1.14% following some exceptionally strong FIXD alpha in October. Over the 12 months to November, FIXD has returned 8.4%, outperforming the index's 5.2% by a nontrivial 3.2% after all retail fees.

Coolabah's floating-rate or near-zero duration strategies posted more modest returns due to wider credit spreads and the absence of any assistance from the fixed-rate duration rally. One exception was the near-zero duration unit class offered within Coolabah's Active Sovereign Bond Fund, which returned 0.8% net compared to the RBA cash rate's 0.3%.

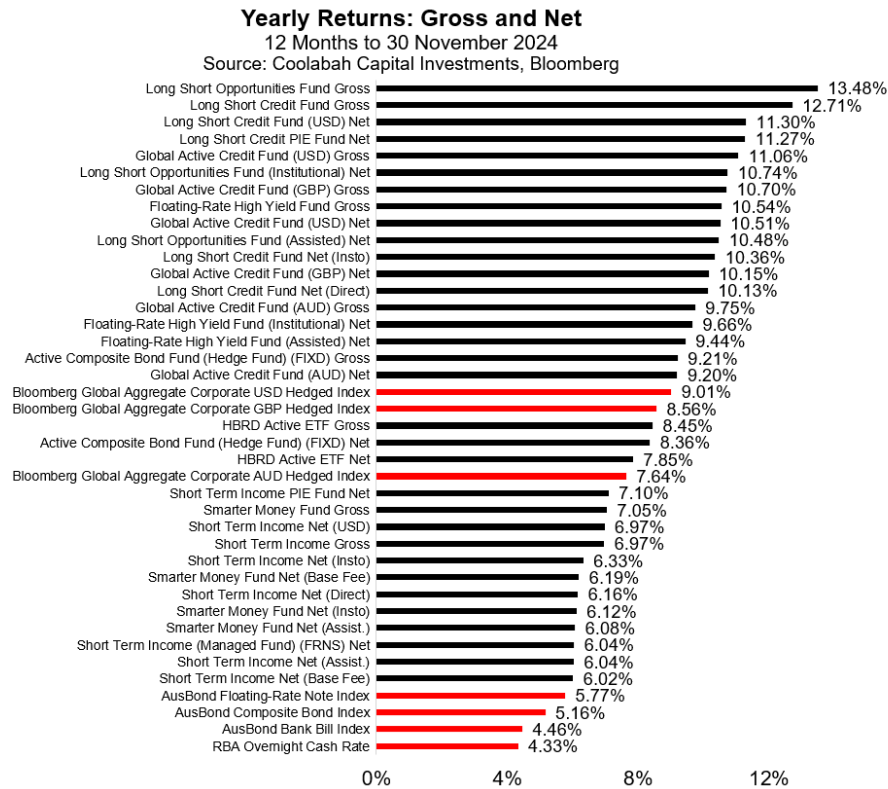
The daily liquidity, A+ rated Long Short Credit Fund returned 0.3% after fees in November and has delivered 10.1% to 10.4% net over the last 12 months.

The daily liquidity, A+ rated Floating-Rate High Yield Fund returned 0.2% in November and has offered 9.4% to 9.7% net over the past year.

Coolabah's lowest volatility strategies, the daily liquidity, A+ rated Smarter Money and Short Term Income funds, furnished 0.3% net in November and have returned between 6.0% and 6.3% over the last year after all fees.

Past performance is no guide to future returns. Please read the product PDS to better understand its risks. Investors should also seek independent financial advice.

Strategy commentary cont'd:



Could the RBA cut interest rates in February?

Interest rate relief in Australia may be coming faster than markets think. The October monthly gauge revealed an **unwelcome 3.5% core, or trimmed mean inflation over the 12 months to October**. The Reserve Bank of Australia is hoping to return core inflation to the 2.5% midpoint of its target band by late 2026.

The October outcome was notably higher than both the 3.2% annual reading in September and economist expectations. The details were also disconcerting. While goods prices have finally started declining in Australia thanks to supply chain normalisation, the all-important – and substantially more structural – services inflation has remained stubbornly sticky at circa 4% to 4.5% since the end of 2023.

And the bad news on goods prices is that we are now facing the advent of an **international trade war between the US, China and other countries** caught in the crossfire. This will inevitably put upward pressure on global inflation in the immediate term, which will make it much harder, at the margin, for central banks to ease interest rates.

It is difficult to foretell precisely how the burgeoning trade war will unfold. After Donald Trump announced he was slapping a new 35% tariff on all Chinese imports, one would expect his adversaries to retaliate in kind by further restricting access to China's essential exports of rare earths, which are critical components in many US high-tech devices.

China produces 60% of the global supply of rare earths, processing almost 90%. In late 2023, it limited the export of gallium and germanium, which are required in electronics and fibre optics, and the supply of high-grade graphite, which is needed for lithium-ion batteries. It has also recently placed constraints on the sale of technologies to make rare earth magnets, to extract and divide rare earths, and to produce rare earth metals and alloys.

The reduction in global inflation has been mostly powered by falling goods prices as supply chains reopened following the pandemic lockdowns. The inception of this new Trumpian trade war could reverse that dynamic.

Strategy commentary cont'd: The good news according to Barrenjoey's rates strategist Andrew Lilley is that there is evidence that the rolling quarterly pace of core inflation in Australia, which he measures monthly, has attenuated sharply. More precisely, Lilley's estimate of this benchmark fell to within the RBA's target 2% to 3% band in October for the first time in years.

"On a quarterly basis, underlying inflation has – at a surprising pace – come back within the 2% to 3% target band," Lilley says. In particular, it has fallen from a peak of 1.21% in September 2023 to just 0.65% in October 2024 on Lilley's calculations.

The Barrenjoey' rates strategist is now forecasting that the very important official fourth-quarter core inflation numbers in Australia will come in at only 0.5%, which would be a material downside surprise relative to the RBA's latest projection of 0.7%.

"Based on our historical misses on trimmed mean, we can project [a circa] two-thirds chance that trimmed mean will print at 0.5% or below and a 30% chance that trimmed mean will print at 0.4% or below," Lilley says.

In the event that the December quarter core inflation results are as low as 0.4%, Lilley reckons the RBA will commence cutting interest rates in February, "irrespective of their prior guidance".

Statistically, he believes there is now a "90% probability that trimmed mean inflation in the fourth quarter will be below the RBA's forecast, and at or below the midpoint of the target band".

If we do get a softer-than-expected 0.4% or 0.5% outcome for core inflation in the December quarter, the six-month annualised pace would have declined to 2.4% to 2.6% (down from 3.3% in the September quarter).

Now the RBA has warned in its latest board minutes that it will not be swayed by one quarterly print. But a sufficiently weak result could, as Lilley asserts, compel them to cut irrespective of their prior guidance, putting a possible February move well and truly in the crosshairs.

They will doubtless come under tremendous political pressure to act before the next federal election, which will have to be held before May 17, with pundits such as [Phil Coorey suggesting a target date could be April](#). And if we have learnt anything at all about the current incarnation of Australia's central bank, it is that it is prone to wilt when bullied by its political masters.

Remember governor Michele Bullock's claim that out-of-control public spending was not the main game with respect to cauterising Australia's demand-side inflation crisis – because the treasurer was hell-bent on quashing it via prudent fiscal policy settings? Yet the RBA's own researchers subsequently declared that rampant government largesse was, in fact, one of the biggest drivers of the country's capacity constraints.

Then there was Bullock's testimony that the RBA could keep interest rates lower than peers overseas because monetary policy is more potent here given the unusually high household dependency on variable-rate mortgages.

Just this month one of the RBA's assistant governors, Chris Kent, eviscerated Bullock's proposition by declaring that, "the effect of monetary policy is neither faster nor more potent in Australia than elsewhere". (See more on this below.)

The parlous state of our public finances was underscored by rating agency Standard & Poor's shocking markets with a threat to downgrade NSW's AA+ credit rating. It has already pulled the trigger once since the pandemic when it swiped NSW's AAA rating in late 2020.

"Our previously forecast structural improvement in NSW's budgetary performance has not materialised since the pandemic due to strong government spending," S&P stated.

"We now forecast that NSW's after-capital account deficits will not narrow for another two years. Our very strong assessment of NSW's financial management capability could weaken if the state does not rein in growth of operating expenditure, narrow its after-capital account deficits, and ease its growing debt burden as promised in its 2024-25 budget."

Strategy commentary cont'd: The world's most influential rating agency warned that it had "revised the outlook on our long-term rating on NSW to negative from stable", which is a potential harbinger of a future downgrade to AA or AA-. If this came to pass, the biggest Australian state would carry a similar credit rating to the four major banks, which currently pay substantially higher interest rates on their debt than NSW does.

Prior to the pandemic, NSW owed the world \$62 billion. But in 2020, the state's politicians started spending like crazy because the RBA told them they were committed to not lifting interest rates above 0.1% until 2024.

In late 2021, NSW was still only paying less than 1% in annual interest on its 10-year borrowings. By 2028, NSW says it will owe the world about \$250 billion, or four times as much as it had borrowed in 2019.

The problem is that the interest rate on new 10-year NSW debt has jumped from circa 1% in 2021 to more than 5% today. As the cheap debt from the pandemic rolls off and is replaced with much more expensive finance, NSW's annual interest bill could rise to north of \$12 billion.

It makes you wonder about the much higher taxes future generations will have to pay to service the debt racked up by myopic politicians addicted to spending other people's money to financially conflict voters in a desperate attempt to win elections. We are stealing from future generations in order to bail out those hedonists who populate in the present.

RBA: "No evidence that monetary policy overall is more potent in Australia"

RBA Assistant Governor (financial markets) Kent recently spoke on [the financial system and monetary policy](#).

Importantly, he acknowledged that, "... the effect of monetary policy is neither faster nor more potent in Australia than elsewhere", adding that "[while] the effect of interest rates on the cash flows and behaviour of indebted households receives extensive attention in Australia [it] is only one side of the cash-flow channel, and that, in turn, is only one of the channels of monetary policy transmission".

This is a point that CCI has long made, despite the widely-held market belief the interest rates are more effective in Australia because of the cash flow effect on heavily-indebted households, something that has periodically coloured the RBA's own commentary on the economy.

This point also gels with [analysis](#) showing that monetary policy in Australia has not been particularly tight relative to history, with policy less restrictive than other advanced economies that have made more progress in bringing inflation under control, where some other central banks are now cutting interest rates.

On financial stress, Kent mentioned that, "Despite the substantial increase in mortgage payments, there has been little increase in acute financial distress among borrowers. Mortgage arrears rates have risen, but they remain low and at similar levels in Australia and the United States", with households still adding to mortgage buffers.

However, corporate insolvencies have picked up, which Kent thought was driven more by factors other than interest rates – "while company insolvencies have increased over the tightening phase, this largely reflects factors beyond the direct effects of higher interest rates" – where it is true that the use of fixed-cost contracts was a catalyst for many construction companies going broke.

Finally, Kent talked about the reluctance of the RBA to follow its peers and offer explicit forward guidance on interest rates, stating that, "Outside the pandemic episode, the RBA has tended to provide forward guidance that is more infrequent, short-term and qualitative than many other central banks. I have outlined some of the arguments for this, but I think it would be worth reviewing the RBA's approach to forward guidance from time to time, including to consider other ways that the RBA might clarify the nature of its reaction function. Any such reviews should carefully account for features of Australia's financial system that set it apart from other economies."

Strategy commentary cont'd: Note that the RBA did not broadcast the speech, suggesting that it will publish audio of the Q&A session tomorrow, which presumably will include questions about the economic spillover of Trump policies to Australia.

RBA: Policy not as tight as peers, which is why inflation is higher

With the year almost over, the RBA kept the cash rate steady at 4.35% in November, having last raised rates twelve months ago.

The RBA also issued an updated outlook that was little changed from August, showing a slow return of underlying inflation to the 2.5% midpoint of the inflation target in late 2026.

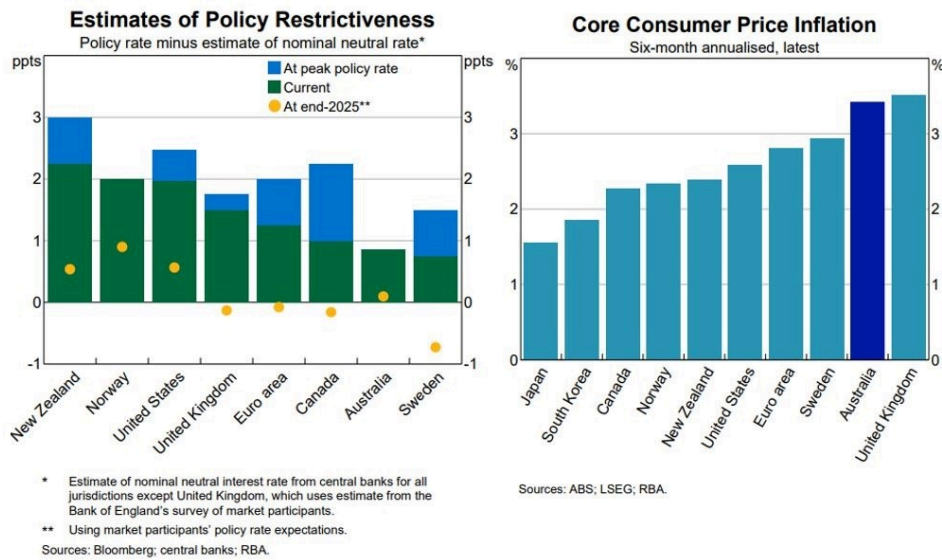
The slow return of inflation to target reflects the well-known choice by the RBA not to raise rates as much as other countries in order to preserve as many of the COVID-era gains in the labour market as possible.

Interestingly, the RBA was more explicit in highlighting this trade-off in two charts in its [Statement on Monetary Policy](#).

The first chart shows how Australia's monetary policy – as measured by the policy rate less the neutral rate – is not as tight as other countries, even with some other central banks already cutting rates.

The second chart shows that less tight policy has meant that underlying inflation in Australia is higher than nearly all its peers, where lower inflation elsewhere has allowed other advanced economies to start cutting rates sooner.

CCI has [previously](#) made the same points, such that the RBA has less scope to cut rates than other countries if it achieves a soft economic landing for the simple fact that it never raised rates by as much as in the first place.



The RBA shows that policy is not as tight as other countries, such that underlying inflation is still high



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