seed FUNDS MANAGEMENT

Fund Dashboard

28 February 2025

6.04%
% Yield to Call
(Portfolio as bought)

5.92%
Running Yield

4.9 Years
Weighted Average
Term to Call

96%
Portfolio Floating Rate

0.45 Years
Weighted Average
Interest Rate Duration^

32%
Top 5 Holdings
As % of Fund*

41
Number of Holdings*

BBB+
Weighted Average
Portfolio Rating

$408 million
Current FUM

Source: Seed Funds Management.
As at 28 February 2025.

*Excluding cash.
^Maximum duration of 1.

Lonsec Investment Grade

FundMonitors.com Trusted Targeted Research — Highly Commended

Hybrid Income Fund

Monthly Report – February 2025

Hybrid Income Fund Strategy Net Performance

28 February 2025

FIGURE 1.

	1 Month	3 Months	6 Months	1 Year	3 Years Annualised	5 Years Annualised	SI (Sep 15) Annualised
HYBRID INCOME FUND STRATEGY	**0.69%**	**1.93%**	**4.12%**	**8.18%**	**6.54%**	**6.07%**	**6.46%**
Hybrid Benchmark (Solactive*)	0.51%	0.96%	2.75%	6.20%	4.61%	4.31%	4.83%
RBA Cash Rate	0.35%	1.08%	2.19%	4.43%	3.45%	2.12%	1.83%

Figures to 28 February 2025. The performance table above represents The Hybrid Income Fund Strategy ("Strategy"). The Strategy commenced in September 2015 and has been continuously operated with identical investment parameters and processes by its portfolio manager, Nicholas Chaplin. The Strategy began in 2015 as the Paraclete Investment Fund until June 2022. The Hybrid Income Fund commenced in June 2022 operating under Evolution Trustees Limited as trustee. Investment management services were novated to Seed Funds Management Pty Ltd in March 2024. Accordingly, Seed Funds Management Pty Ltd receives a management fee for managing the Fund. Performance figures for the Strategy have been reviewed in accordance with ASRS 4400 "Agreed-Upon Procedures Engagements" by Hall Chadwick Corporate (NSW) Limited up to June 2024.

Monthly Commentary

On 18 February, the Reserve Bank of Australia (RBA) implemented a 0.25% cut to the target cash rate, bringing it down to 4.10%. While this was widely anticipated, it did feel somewhat premature. The January "trimmed mean" inflation—the RBA's preferred measure of underlying inflation—edged up to 2.8% from 2.7% in December. This uptick likely dampens any expectations of consecutive rate cuts when the RBA meets in March.

Anticipating this rate adjustment, the 90-day bill rate has declined from 4.35% to 4.12% over recent weeks. While this naturally impacts the floating yield of our portfolio, our marginal return over cash remains stable.

The market's response to the recent bank trading updates has been varied. Westpac, ANZ, and NAB faced notable scrutiny, with concerns raised about their performance. In contrast, CBA delivered more reassuring half-year results. The broader Australian banking sector is treading a fine line between promoting economic growth through accommodative monetary policies and safeguarding profitability amid shifting financial conditions. The RBA's rate cut is aimed at stimulating the economy but also brings potential challenges related to margin compression and asset quality for the banks.

We don't see any material credit concerns with the banks following their updates.

Key Portfolio Moves in February

Throughout the month, we actively adjusted the portfolio, primarily through the secondary market. We rotated senior holdings into Tier 2 subordinated bonds, capitalising on value emerging in secondary spreads. This value materialised as the market reassessed issuers following their announced results, leading to attractive pricing in some cases. At the same time, we took profits on select issues that had performed strongly.

During the month, we exited some senior positions in Westpac, CBA, and AMP Bank while increasing exposure to subordinated bond issues from Suncorp, Macquarie Bank, Westpac, QBE, and Bendigo Adelaide Bank. Additionally, we expanded our holdings in listed hybrids, WBCPM and MBLPD.

These trades helped offset most of the impact of the RBA's move as the 90-Day Bank Bill Rate declined.

*Solactive Australian Hybrid Securities Index (Net)

In February, we participated in two new primary issues. The first was Westpac's new February 2035 subordinated bond (callable in 2030), which priced at +152—aligning with ANZ's similar issuance last month.

The second was IAG's 12.3-year non-call 7.3 subordinated bond, callable in June 2032. Strong demand, exceeding four times the final issue size of $500 million, resulted in pricing at +168.

These bonds currently yield 5.63% and 5.79%, respectively. However, the immediate capital gains from price improvement, particularly in the IAG issue, enhance their value within our portfolio.

While February saw several other primary bond issuances, we maintained our strict selection criteria, as many were from foreign issuers or corporates that did not align with our portfolio's quality standards.

Portfolio Holdings

(as at 28 February 2025)

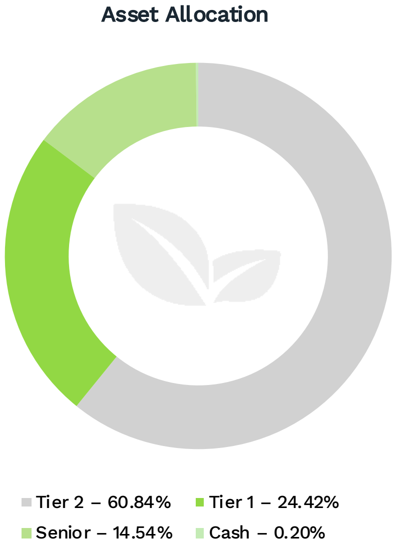

FIGURE 2.

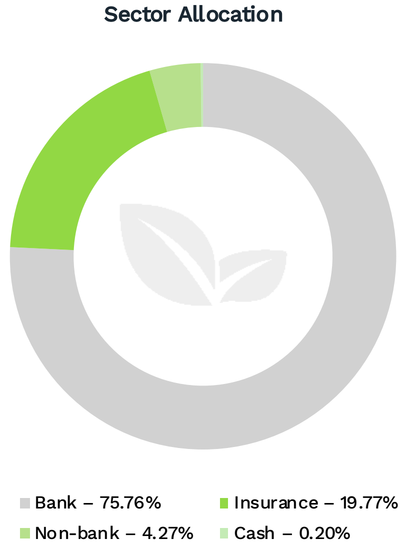

FIGURE 3.

Is It Time for Investors in Bank Equities to Turn to Bonds?

The recent decline in Australian bank share prices following results updates suggests that investors are reassessing valuations considering slowing growth, potential margin pressures, and broader economic conditions. Despite this, price-to-earnings (P/E) ratios for the Big Four banks remain elevated, and their dividend yields, while historically attractive, appear relatively low compared to past levels. Indeed, based on current market expectations for dividends in 2025, the dividend yields of CBA, NAB, Westpac & ANZ are 3.16%, 4.88%, 4.89% and 5.72% respectively.

Key Considerations for a Switch to Bonds:

1. Relative Valuation and Income Generation

   a) If P/E ratios remain high while dividend yields remain compressed, bank equities may struggle to deliver the income many investors seek.

   b) By contrast, subordinated bank bonds and hybrids currently offer competitive yields with less capital volatility. Recent primary issues have priced attractively, with some yielding above 5.5%—a level that may appeal to income-focused investors.

2. Risk-Adjusted Returns

   a) Equity markets remain susceptible to earnings downgrades, particularly if economic conditions tighten or credit losses rise.

   b) Bonds, particularly investment-grade financials, provide more stability, predictable cash flows, and seniority in the capital structure.

3. Medium-Term Macro Trends

   a) The RBA's monetary policy outlook is key. If rate cuts materialise, equity investors may look for growth potential, but the economic data is not showing broads signs of stress at present.

   b) Credit spreads remain attractive, and the relative safety of bonds might draw capital away from equities, particularly if the economic cycle weakens.

There appears to be a genuine opportunity for equity investors to rotate into bonds, especially for those prioritising yield and capital preservation over potential but uncertain capital gains in bank shares. The switch may be most appealing to investors who are cautious about valuations, expecting limited upside in bank equities, or seeking to de-risk their portfolios in the medium term.

Hybrid Income Fund

Monthly Report – February 2025

Expert Management

The HIF provides access to specialist management, with extensive expertise in regulated capital products including hybrids and subordinated debt.

Senior Portfolio Manager

Nicholas Chaplin is an authority in the Hybrid and capital issuance market having structured, originated, distributed, and educated on many issues since 1998.

Nick has originated over $200 billion in hybrid & capital issues. From 2009 to 2021, Nick was Head of Hybrid & Structured Capital at NAB and prior to that he was Head of Hybrid Origination at Westpac.

Portfolio Manager
Chair, Investment Committee

John Corr has worked in the finance industry for 40 years and is a highly regarded authority in portfolio risk management. He has experience in banking, broking, proprietary trading and funds management. John was a founder and CIO of Aurora Funds Management.

Portfolio Analyst

Ned Silva joined the Diocese Development Fund as an Investment Analyst in 2020, managing Hybrid and Subordinated Capital. In 2023, he moved to ANZ's Capital Markets Debt Syndicate, before joining Seed in 2024.

Unit Pricing:	Daily
Applications:	Daily
Distributions:	Monthly
APIR Code:	EVO3184AU
Management Fee:	0.55% per annum
Performance Fee:	Not Applicable
Website:	Click here
Offer Document:	Click here
How to Apply:	Click here
Contact Details:	Click here

Fund Information

The Hybrid Income Fund strategy was established in September 2015.

Hybrid Income Fund (HIF) actively invests in a diversified portfolio of financial capital with a heavy weighting to Australian-regulated capital instruments. The underlying securities include hybrids (Tier 1 capital notes and convertible preference shares), Tier 2 bonds, subordinated debt, senior debt, mutual capital instruments and cash. The Fund typically holds ~40 positions whose underlying issuers are banks, insurance companies and non-bank lenders.

Fund Objective

HIF aims to provide returns that exceed the Hybrid Benchmark on a net basis over the suggested investment timeframe (five+ years). The Fund has a meaningful track record of exceeding its target after fees through active management with low volatility and access to franking credits.

Our Product Universe

The universe for the Hybrid Income Fund portfolio includes prudential capital instruments issued by Banks, Insurers, and non-bank financial corporations as well as other instruments from these issuers such as senior bonds. Prudential capital includes hybrids and subordinated bonds (sometimes referred to as Tier 1 and Tier 2 securities respectively). Senior bonds add significant additional liquidity to the portfolio as well as adding important product diversity.

The Investment Strategy

The investment manager intends to apply a tactical approach in terms of which securities it invests in and the timing of such investments with a focus on delivering a robust risk adjusted yield through market and interest rate cycles.

The investment manager will:

- Manage interest rate risk by holding predominantly floating rate instruments;
- Provide portfolio diversity by security type, credit risk, duration and issuer;
- Aim to distribute franking credits;
- Aim to provide regular income.

Platform Availability

Unit Price and Core Data

The unit price on 28 February 2025 was $1.0827. This is inclusive of the February distribution which will be paid in early March. The unit price is published daily on our website here.

Franking credits provide an additional return which will depend on the investor's own tax situation. Currently, 15% of the portfolio is receiving full franking value. The remainder is receiving full cash returns. Franking credit exposure is reduced with additional investment in Tier 2 securities or senior bonds as these are debt instruments for tax purposes.

Fund returns are made up of three key aspects: 1) regular distributions (either taken as cash or reinvested according to your preference, 2) franking credits associated with these distributions, and 3) changes in the capital value (unit price) over time.

We continually measure the relative value of the prime asset classes of the fund and adjust weightings actively. On 28 February, the fund was holding 24.4% Tier 1 instruments (including both listed and wholesale), 60.8% Tier 2 instruments, 14.5% senior bonds, and 0.2% cash. Figure 2 on Page 2 depicts these current allocations.

The average credit rating of the portfolio is investment grade at BBB+.

Glossary

The following details are provided to assist in understanding of terms used in this report:

Credit Spread Duration: Measures the sensitivity of a bond's price to changes in its credit spread. This measure reflects the potential change in the bond's value in response to a 100-basis point (1%) change in the credit spread. For example, if credit spreads tighten by 100 bps for a portfolio with a credit spread duration of 2.5 years, it will result in a + 2.5% return assuming all else is equal.

Interest Rate Duration: The weighted maturity of a fixed-income investment's cash flows, considering all coupon interest payments and the maturity date - used in the estimation of the price sensitivity of fixed-income securities for a given change in interest rates i.e. shorter duration bonds are less sensitive to interest rate movements than long bonds.

Running Yield: The ratio of interest to the current market price of the bond, stated as a percentage. For example, a bond with a current market price of $100 that pays $6 per year in interest would have a running yield of 6%.

Yield to Call: A yield on a security calculated by assuming that interest payments will be paid until the call date, when the security will be redeemed at the call price.

Yield to Maturity: A yield on a security calculated by assuming that interest payments will be made until the final maturity date, at which point the principal will be repaid by the issuer. Yield to maturity is essentially the discount rate at which the present value of future payments (investment income and return of principal) equals the price of the security.

General Disclosures

The material contained within this Report (The Report) has been prepared by Seed Funds Management Pty Limited (ABN 25 675 247 506) (Seed), a Corporate Authorised Representative (no 001308397) of its related body corporate, Seed Partnerships Pty Ltd (ABN 32 606 230 639) the holder of AFSL No. 492973. It is issued by the Responsible Entity of the Fund, Evolution Trustees Limited (ABN 29 611 839 519, AFSL 486217) (Evolution). Seed receives a management fee for managing the Fund.

Figures referred to in The Report are unaudited.

The Report is not intended to provide advice to investors or take into account an individual's financial circumstances or investment objectives. This is general investment advice only and does not constitute advice to any person. Neither Evolution nor Seed guarantee repayment of capital or any particular rate of return from the Fund. Neither Evolution nor Seed gives any representation or warranty as to the reliability, completeness or accuracy of the information contained in The Report.

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