

REAL ASSET MANAGEMENT

Australian Diversified Fixed Interest & Credit SMA Monthly Strategy Review – January 2024



RAM Australian Diversified Fixed Interest & Credit Strategy

- ◆ Directly held, actively managed income portfolio providing a regular yield.
- ◆ Predominantly floating rate.
- ◆ Diversified portfolio blending a range of security types.
- ◆ Strong focus on risk management.

Fixed Interest and Market Overview

Fixed Income and Credit markets commenced 2024 with more volatility. Markets had been rallying during December on expectation of a March US rate cut, but once again began to price the higher for longer scenario.

Australian Interest Rates had a volatile month with 10 year bond yields hitting 4.33% before closing at 4.01%. Listed credit spreads were stable whilst OTC credit markets rallied in line with Equity markets which had a positive month. Inflation is falling globally but remains sticky in domestic services and rents. Central Bank commentary remains a key driver of markets.

The Australian cash rate remained stable at 4.35% during the month, with medium term swap rates starting to price in rate cuts from late 2024.

Strategy Commentary

The portfolio was up 0.35% gross during the month, and over the last 12 months the strategy returned 5.29% gross. The strategy continues to deliver on its objective of regular tax effective income and long-term outperformance relative to the bank bill swap rate. Given the market movements and portfolio activity the forward-looking gross running yield has risen to approximately 6.14% per annum.

Fixed rate bonds returned 0.21% over the month, and 2.45% for the year ending December in a volatile year for bond markets. In all advanced economies the underlying economic performance has slowed but remains positive, supported by full employment and strong consumer spending.

During the month, ASX listed credit securities were relatively stable at 2.4% on average. We believe at this level hybrid credit spreads offer attractive relative and total value with 7%+ Internal Rate of Returns available on new issues from major banks. The credit outlook for Australian banks remains one of the strongest in the developed world. We maintained our defensive portfolio position and have moved to a more fully invested position over the last couple of months to maximize portfolio yield.

During December we kept portfolio exposures unchanged. Over recent months we have increased our portfolio fixed rate bond exposure towards 20% when longer dated government bonds were yielding > 4.5%. This reflects our view that economies are slowing and rates have peaked. In 2024 we expect to add to listed credit exposure reflecting the relative value and high absolute yields currently available.

As previously noted, Australian Banks credit quality remains strong with improving asset quality and a stable outlook. During February reporting season we will get to review the credit quality, operational performance and outlook for Australian banks.

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IMAP
MANAGED ACCOUNT
AWARD WINNER
AUSTRALIAN FIXED
INTEREST



Certified Responsible Investment



CERTIFIED BY RIAA

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Key Portfolio Characteristics

Item	Strategy
Portfolio Gross Yield to Maturity	5.64%
Portfolio Gross Yield	6.14%
RBA Cash Rate	4.35%
Floating rate exposure	80.0%
Minimum Issuer Credit rating*	Investment Grade

* Securities are subordinated to the senior rating and generally do not have credit ratings.

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Strategy Outlook

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Amid a rising to stable interest rate environment, the strategy is well placed to continue delivering on its Investment Objective to provide a tax effective yield at a premium to cash rates, with low levels of volatility. Given the strategies floating rate bias the income stream will continue to increase as base interest rates move higher.

Key themes impacting the outlook continue to be volatile interest rates, volatile inflation data and geopolitical risks. We note globally inflation appears to have peaked and markets are starting to price in rate cuts in late 2024. The full effect of higher interest rates is expected to more significantly slow economies during the first half of 2024. We note Australian Bank capital levels remain approximately double what they were pre GFC, leaving them well placed to absorb any future credit losses.

We retain our defensively positioned portfolio with 7% in cash, 20% in fixed rate bonds (mainly Government), 7% in Investment Grade floating rate bonds, 4% in Subordinated Debt, and 62% held in a concentrated portfolio of directly held ASX listed capital note securities, to deliver on the investment objective. We have intentionally been keeping credit spread duration short. Given the improving value and total return environment, we have been actively adding to both credit and duration over 2023.

ESG Exclusions

The following sector exclusions based on company revenue/GICS industry group apply to the investment universe:

Revenue: Gambling (0.0%), Tobacco Retailing (10%), Tobacco Manufacturing (0.0%), Pornography (0.0%), Armaments (0.0%), Coal Mining (0.0%). GICS sectors following are specifically excluded: Aerospace & Defence, Casinos & Gambling, Coal & Consumable Fuels, Tobacco/Nicotine Production.

Top 5 Holdings (Look through basis)

Government Fixed Rate Bonds (via ETF)
Corporate Fixed & Floating Bonds (via ETF)
Westpac Capital Notes (WBCPJ)
Cash
NAB Capital Notes (NABPH)

Portfolio Activity during the Month

Security	Activity	Comment

Strategy Performance as of 31st January 2024

RAM Diversified FI & Credit Strategy Performance	1 Month	3 Month	6 Month	1 Year	2 Years	3 Years	5 Years	Since Inception
Strategy cash return	0.33%	2.55%	2.54%	4.16%	2.66%	2.31%	2.20%	2.79%
Strategy Imputation Credits	0.01%	0.30%	0.59%	1.13%	0.87%	0.75%	0.70%	0.71%
Strategy Gross Return*	0.35%	2.84%	3.13%	5.29%	3.53%	3.05%	2.90%	3.49%

* After taxation for a zero percent tax payer who is entitled to a rebate of imputation credits. Performance figures show RAMs model performance quoted gross of fees. Client performance may differ due to a range of factors. Past performance is no guide to future performance. Inception date 31/12/2016.

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