

# REAL ASSET MANAGEMENT

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



### RAM Australian Diversified Fixed Interest & Credit Strategy

Contact: SMA@ram.com.au

- ◆ 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 delivered positive returns during February. Equity markets also moved slightly higher following a generally positive profit reporting season in Australia.

Bond market volatility persisted with 10 year bond yields trading between 3.95% to 4.29% before closing at 4.13%. 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 0.49% gross during the month, and over the last 12 months the strategy returned 5.90% 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 6.12% per annum.

Fixed rate bonds returned -0.3% over the month, and 3.51% for the year ending February in a volatile year for bond markets. Central bank commentary remains mixed. In all advanced economies the underlying economic performance has slowed but remains positive, supported by full employment and strong consumer spending. Bond markets continue to wax and wane between rates cuts imminent and the 'higher for longer' story. We expect this to continue in the coming months until it is clear the Fed can begin its easing cycle.

During the month, ASX listed credit securities were relatively stable at 2.3% on average. We believe at this level hybrid credit spreads offer attractive relative value with 7%+ Internal Rate of Returns available on new issues from major banks. A number of new replacement securities came to market from both major and regional banks but we declined to participate due to relative value. We will review the securities for inclusion once trading commences.

During February reporting season the credit quality of major banks was confirmed with stable outlook. Asset quality remains robust but a few of the major banks reported flat results from falling NIM (Net Interest Margin) and rising costs with both CBA and WBC being the biggest offenders. Mortgage growth is slow with high levels of competition for both loans and deposits impacting profitability. Overall capital levels remain robust and pleasingly consumer and business arrears is holding up better than feared given the magnitude of the rate rising cycle that has been delivered.

### Portfolio Manager: Michael Frearson



**IMAP**  
MANAGED ACCOUNT  
AWARD WINNER  
AUSTRALIAN FIXED  
INTEREST



### Certified Responsible Investment



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### Key Portfolio Characteristics

Item	Strategy
Portfolio Gross Yield to Maturity	5.65%
Portfolio Gross Yield	6.12%
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 are actively been 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 29<sup>th</sup> February 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	0.45%	1.68%	2.93%	4.78%	2.96%	2.58%	2.93%	3.11%
Strategy Imputation Credits	0.04%	0.29%	0.59%	1.13%	0.89%	0.75%	0.70%	0.68%
<b>Strategy Gross Return*</b>	<b>0.49%</b>	<b>1.97%</b>	<b>3.52%</b>	<b>5.91%</b>	<b>3.85%</b>	<b>3.33%</b>	<b>3.63%</b>	<b>3.79%</b>

\* 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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