

REAL ASSET MANAGEMENT

Australian Diversified Fixed Interest & Credit SMA Monthly Strategy Review – March 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 March. Markets were relieved, major economies are passing the low point in economic activity, whilst inflation continues to ease. The soft-landing scenario is playing out and rate cuts remain the most likely path for central banks.

Bond market volatility persisted with longer term bonds and swap yields falling. Listed credit spreads and OTC credit markets rallied in line with Equity markets which had a positive month. 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 continuing to price in rate cuts from late 2024.

Strategy Commentary

The portfolio was up 0.97% gross during the month, and over the last 12 months the strategy returned 6.80% 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 6.10% per annum.

Fixed rate bonds returned 1.10% over the month, and 1.47% for the year ending March 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 rate 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 rallied with spreads compressing to 2.3% 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. A number of new issues have come to market and we will review the securities for inclusion once trading commences.

As we move into 2024, overall economic activity remains resilient and growing. Banks' credit quality remains strong with healthy capital levels and low levels of arrears. Whilst some sectors of the economy remain challenged (construction/development), overall consumers appear to be coping with the cost of living increases over 2023, and the outlook is improving due to global evidence that inflation is indeed falling.

The income stream in the portfolio remains robust with high levels of absolute yields available. With the current yields to maturity available, we continue to have a positive outlook for expected returns in the vicinity of 5.5%-6.0% per annum based on current portfolio positioning.

Portfolio Manager: Michael Frearson



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	5.50%
Portfolio Gross Yield	6.10%
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 strategy's floating rate bias, the income stream will continue to increase as base interest rates move higher.

Key themes impacting the outlook continues 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 slow economies more significantly 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 2024.

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 March 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	0.72%	1.51%	3.13%	5.62%	3.72%	2.72%	2.84%	3.17%
Strategy Imputation Credits	0.25%	0.30%	0.60%	1.18%	0.97%	0.80%	0.72%	0.71%
Strategy Gross Return*	0.97%	1.81%	3.73%	6.80%	4.69%	3.52%	3.56%	3.88%

* 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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