

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

During April bond markets continued to sell off due to expectations of rising inflation and increases in cash rates.

Fixed rate bonds yields increased due to a global recalibration of yields in the face of multi-year highs in inflation and central bank cash rate increases. This trend continued during April with fixed rate bonds delivering large negative returns globally. Within Australia the short end of the yield curve has again steepened significantly with the market pricing in imminent rate hikes by the RBA moving towards 1.50% by the end of the year.

ASX listed credit securities rallied moderately, with average credit margins moving from 2.05% to 1.93% over the month.

Strategy Commentary

The portfolio delivered a negative 0.13% gross return during the month and over the last 12 months the strategy returned +0.63% 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.

Fixed rate bonds delivered a negative 1.5% return during April (down 7.5% for the year ending April 2022). The fixed rate bond market has priced in an aggressive rate tightening cycle by the RBA. We note the shorter end of the curve has started to price this in also with 3 month (0.71%) and 6 month (1.45%) bank bill swap rates moving sharply higher over the month – which will directly flow into a higher income streams for the portfolio. This has boosted the strategies yield to 2.74% on a gross basis, which is expected to increase over the year as the RBA increases rates. We expect the RBA to continue increasing the cash rate towards 1.50%-1.75% by December 2022.

During the month, ASX listed credit securities rallied moderately following weakness last month. Geopolitical risks from Europe continued to impact markets although in general Australian equity markets have fared better than global stock indices. The Australian economic outlook is not materially impacted by the European risks besides rising risk premiums, inflation from supply shocks/elevated energy costs, and commodity exporters are benefitting from higher pricing. Key drivers this month include bank profit reporting and the upcoming Federal election.

As previously noted, Australian Banks credit quality remains strong and improving, and we remain positive on the outlook for hybrid securities. Banks will benefit from a rise in interest rates, although the driver over 2022 is expected to become the medium term outlook for rates and residential property prices. Current forecasts assume a soft landing for housing with only moderate ~10% falls in property value across the country.

During the second half of 2022 we see an increased flow of new issues from banks both to refinance the large pool of hybrid securities reaching call dates during 2022, and also to partly top up capital levels in line with APRA's revised targets. Within the current portfolio CBAPD Capital notes are the first to reach call date in December 2022.

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	2.55%
Portfolio Gross Yield	2.74%
RBA Cash Rate	0.10%
Floating rate exposure	82.7%
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 low interest rate environment, the strategy is well placed to continued delivering 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 increase as base interest rates move higher.

Key themes impacting the outlook continue to be domestic and global economic impact from COVID-19 (China Lock-Downs), rising interest rates and geopolitical risks. Rising inflation from supply side disruptions remains a risk to the path of interest rates with the current geopolitical risks resulting in significant disruption to energy, commodities, agricultural products and shipping. Bank capital levels remain approximately double what they were pre GFC leaving them well placed to absorb any future credit losses and manage a moderate fall of domestic residential property prices.

We retain our defensively positioned portfolio with 12% in cash, 18% in fixed rate bonds (mainly Government), 8.0% in Investment Grade floating rate bonds, and 62% held in a concentrated portfolio of directly held ASX listed interest subordinated notes through to capital note securities, to deliver on the investment objective. We have intentionally been keeping credit spread duration short, to reduce portfolio volatility in line with the Diversified FI & Credit SMA strategy objective. Given the low and rising cash yield we have been progressively adding to credit exposure.

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)
Cash
National Bank Subordinated Notes (NABPE)
Corporate Fixed & Floating Bonds (via ETF)
Westpac Capital Notes (WBCPJ)

Portfolio Activity during the Month

Security	Activity	Comment
	No activity	

Strategy Performance as of 30th April 2022

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	-0.14%	-1.02%	-0.50%	0.16%	2.58%	2.11%	2.80%	2.89%
Strategy Imputation Credits	0.01%	0.12%	0.23%	0.47%	0.51%	0.56%	0.61%	0.60%
Strategy Gross Return*	-0.13%	-0.90%	-0.28%	0.63%	3.09%	2.67%	3.41%	3.50%

* 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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