REAL ASSET MANAGEMENT

Australian Diversified Fixed Interest & Credit SMA
Monthly Strategy Review – August 2022

RAM
REAL ASSETS REAL RETURNS

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 August bond markets once again sold off with yields moving higher. Credit and equity markets where mixed but delivered positive returns over the month.

The short end of the yield curve continues to rise on the back of expectations central banks front end load the rate rises with larger than normal near-term increases expected. We expect the Australian cash rate to increase towards 2.85% by the end of the year.

ASX listed credit securities rallied with buyers returning to credit markets, although we note investor sentiment remains volatile as the market adjusts to a period of higher rates and inflation.

Strategy Commentary

The portfolio delivered a negative 0.05% gross return during the month and over the last 12 months the strategy returned -0.57% 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 yield to maturity has risen to over 4% per annum.

Fixed rate bonds delivered a negative 2.54% return during August and negative 11.5% for the year ending August 2022. The fixed rate bond market remains susceptible to large swings in the outlook for inflation and rates. Shorter term yields continue to move higher on expectation the RBA raises interest rates quickly. This has boosted the strategies yield to 4.0% on a gross basis , which is expected to increase over the year as the RBA increases rate further. We expect the RBA to continue increasing the cash rate towards 2.85% by December 2022. The market is increasingly pricing a 50/50 chance of US recession in 2023

During the month, ASX listed credit securities rallied and credit market liquidity improved. Average ASX listed credit spreads continued to fall, closing the month at around 2.52%. Credit spreads in OTC bond markets also rallied during the month.

During August profit reporting season confirmed the credit quality of the holdings in the portfolio remain stable. The highlight from a credit quality perspective was the continued simplification of AMP has resulted in a more streamlined business with excess capital levels. The surplus capital has reduced credit risks for investors and accordingly AMP Capital securities have continued to rally and been a key contributor to portfolio returns during the month.

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, credit impairments and residential property prices.

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

Investment Grade
Lonsec Research

2021 IMAP MANAGED ACCOUNT AWARDS
IMAP MANAGED ACCOUNT AWARD WINNER
AUSTRALIAN FIXED INTEREST

Australian Fixed Interest Winner
2020 IMAP MANAGED ACCOUNT AWARDS

Australian Fixed Interest Winner
2019 IMAP MANAGED ACCOUNT AWARDS

Other Asset Classes Winner
2018 IMAP MANAGED ACCOUNT AWARDS

Certified Responsible Investment

CERTIFIED RESPONSIBLE INVESTMENT
CERTIFIED BY RIAA

The RAM Diversified Fixed Income & Credit SMA has been certified by the Responsible Investment Association Australasia according to strict disclosure practices required under the Responsible Investment Certification Program.

RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that the RAM Diversified Fixed Income & Credit SMA adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and RAM Diversified Fixed Income & Credit SMA's methodology, performance and stock holdings can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.[1]

Key Portfolio Characteristics

Item	Strategy
Portfolio Gross Yield to Maturity	4.07%
Portfolio Gross Yield	4.18%
RBA Cash Rate	1.85%
Floating rate exposure	83.0%
Minimum Issuer Credit rating*	Investment Grade

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

[1] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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Strategy Outlook

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Amid a rising 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. Investor confidence and liquidity has improved during July.

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 – although appears to have peaked. 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 8% in cash, 17% in fixed rate bonds (mainly Government), 8.0% in Investment Grade floating rate bonds, 11.8% in Subordinated Debt, and 55% held in a concentrated portfolio of directly held ASX listed interest 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 via investing 5.2% of the portfolio during June, taking advantage of recent market movements.

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
		Nil changes during the month

Strategy Performance as of 31st August 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	-0.08%	0.58%	-1.02%	-1.03%	1.02%	1.08%	2.45%	2.69%
Strategy Imputation Credits	0.03%	0.12%	0.25%	0.47%	0.50%	0.54%	0.60%	0.59%
Strategy Gross Return*	**-0.05%**	**0.70%**	**-0.76%**	**-0.57%**	**1.52%**	**1.62%**	**3.06%**	**3.29%**

* 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.