

### FIXED INTEREST AND MARKET OVERVIEW

During August bond markets once again sold off with yields moving higher. Credit and equity markets were 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 positive 0.62% gross return during the month and over the last 12 months the strategy returned +2.63% 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 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 and we do not have any long duration exposure in the portfolio. Shorter term yields continue to move higher on expectation the RBA raises interest rates quickly. 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.

Due to the increase in both base interest rates and credit margin we now consider the listed credit sector attractively valued offering an attractive 4.5%-5.5% p.a. forward looking return.

### RAM Australian Listed Interest Rate Securities Strategy



#### Portfolio Manager: Michael Frearson

- ◆ Directly held, actively managed income portfolio providing a regular yield at a premium to cash.
- ◆ Floating rate, with regular distributions. Maximum 25% fixed rate.
- ◆ Concentrated corporate credit portfolio blending a range of directly held security types and structures ranging from senior debt (XTB's) through to complex hybrid subordinated securities.
- ◆ Strong focus on risk management.

### Key Portfolio Characteristics

Item	Strategy
Portfolio Gross Yield to Maturity	4.43%
Portfolio Gross Yield	4.52%
RBA Cash Rate	1.85%
Floating rate exposure	100.0%
Minimum Issuer Credit rating*	Investment Grade

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

### Top 5 Holdings

Cash

Commonwealth Bank Capital Notes (CBAPD)

ANZ Capital Notes (ANZPI)

WBC Capital Notes (WBCPJ)

ANZ Capital Securities (ANZPF)

# REAL ASSET MANAGEMENT

Australian Listed Interest Rate Securities SMA  
Monthly Strategy Review – August 2022



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## STRATEGY OUTLOOK

Amid a low and rising 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 100% floating rate nature 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 still hold an elevated position in cash (15%) and concentrated portfolio of directly held ASX listed interest rate securities ranging from Subordinated Notes through to Capital Note securities, to deliver on the investment objective. We stagger the maturity profile to assist with portfolio stability. Given the low and rising cash yield we have been progressively adding to credit exposure focusing on shorter dated lower risk opportunities.

## PORTFOLIO ACTIVITY DURING THE MONTH

Security	Activity	Comment
		Nil changes during the month

## STRATEGY PERFORMANCE AS AT 31<sup>st</sup> August 2022

RAM Listed Interest Rate Securities SMA Performance	1 Month	3 Month	6 Month	1 Year	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Inception (pa)
Strategy cash return	0.59%	0.79%	0.28%	1.82%	2.63%	1.93%	2.91%	3.14%
Strategy Imputation Credits	0.04%	0.19%	0.40%	0.81%	0.76%	0.81%	0.94%	0.94%
<b>Strategy Gross Return*</b>	<b>0.62%</b>	<b>0.99%</b>	<b>0.68%</b>	<b>2.63%</b>	<b>3.39%</b>	<b>2.74%</b>	<b>3.85%</b>	<b>4.08%</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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