REAL ASSET MANAGEMENT

Australian Diversified Fixed Interest & Credit SMA
Monthly Strategy Review – March 2023

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

Bond market volatility continued during March with risk aversion spiking and a flight to safety taking place. Key drivers where global banking sector volatility and a re-assessment of the path of interest rates in Australia and the US.

The short end of the yield curve stabilized with more benign commentary from central banks and increasing uncertainty. Global inflation data appears to have turned the corner allowing central banks time to pause and access the impact of rate rises to date.

Market pricing remains volatile with the market continuing to ebb and flow on the back of economic data, volatile equity/credit markets and central bank commentary.

Strategy Commentary

The portfolio delivered a positive 0.14% gross return during March and over the last 12 months the strategy returned 2.62% 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 has risen to approximately 5.4% per annum.

Fixed rate bonds rallied during March with the index returning 3.16% and stabilizing portfolio performance in line with our diversified strategy. This rally was driven by a combination of slowing economic data, but mainly the changed risk environment with heightened risk aversion amid the North American and European banking crisis. The fixed rate bond market remains susceptible to swings in the outlook for inflation and rates, as well as risk aversion.

During the month, ASX listed credit securities expanded from ~220bps towards 270bps. The sell off was a result of a spike in risk aversion amid a number of high profile banking collapses in America and Europe including Credit Suisse and Silicon Valley Bank. Due to the spike in risk aversion and negative sentiment we trimmed portfolio exposure to regional banks and diversified financials. In our experience its best to de-risk too early than too late with credit investments.

We continue to review global credit markets which are historically a key driver of Australian credit spreads. With a significant change in global monetary policy, quantitative tightening and a slowing growth outlook markets remain susceptible to large swings in investor risk aversion.

As previously noted, Australian Banks credit quality remains strong with improving asset quality. We also note the Credit Suisse/UBS events and AT1 write off is a Suisse solution to a Suisse problem and the terms of issue within Suisse AT1 securities facilitated the write off. As a result there is limited read through to Australian banks and capital securities which have a different structure, regulatory regime and most importantly have not had the long list of management failure and governance issues which plagued Credit Suisse/SVB.

During March we also reinvested ANZPF into the replacement security AN3PK. This security has a gross margin of 2.75% and 7 years until first call date implying a yield to maturity of ~6.52% per annum.

Portfolio Manager: Michael Frearson

Investment Grade
Lonsec Research

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 BY RIAA

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Key Portfolio Characteristics

Item	Strategy
Portfolio Gross Yield to Maturity	5.38%
Portfolio Gross Yield	5.44%
RBA Cash Rate	3.60%
Floating rate exposure	82.9%
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 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 rising interest rates, volatile inflation data and geopolitical risks. We note globally inflation is getting close to peaking and central banks are hinting they will slow the pace of rate rises. With an aggressive rise in interest rates and withdrawal of QE over the last 6 months we see increased risk of overtightening by central banks and volatility impacting markets. We note Australian 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 in domestic residential property prices.

We retain our defensively positioned portfolio with 12% 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, and raising cash levels more recently to reduce portfolio volatility in line with the Diversified FI & Credit SMA strategy objective.

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

Portfolio Activity during the Month

Security	Activity	Comment
BENPG, MBLPC, MQGPC, MQGPD	-0.7% - 1.5% Cash+ 4.5%	During March we de-risked the portfolio via trimming regional bank and diversified financial exposure within the portfolio. This activity was to take advantage of liquidity in the market and protect investor capital given the uncertainty from the Global Banking volatility and collapse of Credit Suisse and a number of smaller US banks.

Strategy Performance as of 31st March 2023

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%	0.12%	1.64%	1.85%	1.30%	3.67%	2.67%	2.79%
Strategy Imputation Credits	0.22%	0.26%	0.46%	0.76%	0.62%	0.60%	0.64%	0.64%
Strategy Gross Return*	**0.14%**	**0.39%**	**2.10%**	**2.62%**	**1.92%**	**4.27%**	**3.30%**	**3.42%**

* 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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