FIIG The fixed income experts

Managed Income Portfolio Service (MIPS)

Quarterly Report – September 2023

Welcome. This report contains a selection of summary information relevant to the fixed income market, informing readers of the major influences impacting the price of the assets from which the performance of portfolios is derived.

Key Observations

- Australia has a new Reserve Bank Governor
- Key Central Banks (CB's) tighten policy
- OPEC reduces oil supply
- Bond yields weak as inflation optimism wanes
- Federal Government budget briefly in surplus

Generation of both income & total return during the quarter

The MIPS Portfolio Management Team (PMT) endeavours to generate the highest possible income and total returns for investors commensurate with the risk profile chosen from a menu of three alternate Investment Programs or Customised Investment Mandates (IM).

FIIG Australian Bond Fund launched at quarter end

The MIPS PMT has been appointed as Investment Managers of the new FIIG Australian Bond Fund (the Fund) and will be implementing the same Investment Strategies used with great success to manage MIPS Individually Managed Account (IMA) exposure over the last 8 years. The Fund IM limits exposure to Investment Grade (IG) assets only and does not allow the use of derivatives. The Fund will subsequently comprise exposure to a highly diversified pool of government, semi-government, corporate and bank debt, including exposure to Asset Backed Securities. Simplistically, it is a 'longer duration' version of the Conservative Income Investment Program, structured in Trust form. The management fee for the Fund is set at 0.58% and provides income through quarterly distributions. MIPS investors who have followed the Quarterly Report (QR) series will see merit in the timing of the launch that coincides with a forecast peak in inflation and therefore long bond yields, and the potential for reversal of fortunes for the bond asset class.

If you wish to read more about the Fund, do so by this link: fiig.com.au.

Macroeconomics, base interest rates and investment strategy

The MIPS PMT, citing rising global inflation as the key catalyst, maintained a consistently bearish outlook for the bond asset class throughout the 2021–2022 period, and near most of 2023, as evidenced by both communications within our QR's and positioning portfolios short in duration to protect investor capital.

Whilst duration was 'tactically' extended prior to the December 2022 (peak) inflation print (released January 2023) it was very quickly reversed into the subsequent strong bond market rally, because (paraphrasing the March 2023 QR)...

"we (the PMT) didn't expect an easy road toward very low inflation and suspected that there is not sufficient reason to hold longer maturity bonds at or near current levels."

In the June 2023 Quarter, despite a 0.72% rise in the 10-year Australian Commonwealth Government Bond (10YRACGB) rate to 4.02%, the PMT stated that to justify extending duration again inflation would need fall or be perceived to fall very quickly toward 3.30%. We determined this was too optimistic.

Citing our real return regression analysis published in the June 2022 QR, we concluded that 4.30% inflation was achievable by mid-2024 and therefore (paraphrasing the June 2023 QR)…

"we suspect 10-year bonds will approach a level of 4.50% where they will become more compelling to own and we will

MIPS Investment Returns

Table 1: Average Gross Individually Managed Portfolio (IMP) performance per Investment Program

Total GROSS Returns to 30 September 2023	1 mth	3 mths	6 mths	6 mths annualised	1 yr	2 yrs p.a.	3 yrs p.a.	4 yrs p.a.	5 yrs p.a.
Income Plus	-0.42	1.08	0.76	1.53	4.81	0.60	4.01	0.86	2.20
Core Income	-0.78	0.70	-0.38	-0.75	4.01	-0.87	1.86	0.89	2.29
Conservative Income	-0.75	1.01	-0.21	-0.41	4.66	-0.78	0.87	1.13	2.52
Customised Liquidity: Bank (FRN) 4	0.42	1.58	3.00	6.08	5.42	2.20	2.12	2.12	n/a

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*Table 2: Benchmark Index Fixed Income Investment Returns^*

Benchmark Fixed Income Index Returns to 30 September 2023	1 mth	3 mths	6 mths	6 mths annualised	1 yr	2 yrs p.a.	3 yrs p.a.	4 yrs p.a.	5 yrs p.a.
Bank Bill	0.34	1.08	1.99	4.01	3.57	2.02	1.36	1.16	1.28
Australian Fixed Interest 1-5 year	-0.51	1.02	-0.69	-1.37	2.97	-1.92	-1.18	-0.25	0.88
Australian Fixed Interest (All Maturities)	-1.78	-0.53	-3.72	-7.30	1.46	-5.88	-4.53	-2.60	0.14
Corporate Bond BBB Rating Band	-0.92	1.32	-0.37	-0.73	5.59	-3.67	-1.64	-0.36	1.61

^ Source: S&P Dow Jones Indices.

subsequently be considering a duration move LONGER than index in the coming (September) Quarter."

Lo and behold, 10-year bonds have hit a peak of 4.59% in yield and closed the September quarter at 4.50% exactly.

Rather than repeat further key messaging contained within all prior QRs, we request readers review the June 2023 QR alongside all prior editions, especially the June 2022 to March 2023 publications.

All reports are available via fiig.com.au.

Bond market returns for the September 2023 quarter are best described as a mixed bag.

Consistent with the change in the shape of the yield curve, as shown in Table 4, short and medium term (duration) indexes delivered positive returns, whilst long term (duration) index returns were negative. Credit outperformed base government debt, as evidenced by the Corporate Bond BBB rating Band Index outperforming the AFI indexes. Refer to Table 2.

Yields of benchmark ACGB 3 and 10- year (maturing) bonds, after rallying briefly, rose 0.10% and 0.48%, respectively. Refer to Table 4.

All MIPS Investment Programs delivered positive returns during the quarter, although they underperformed their benchmark indices marginally.

What happened in the June quarter?

Global bond yields pushed higher, essentially because:

- Trend net falls in inflation were not perceived sufficiently strong enough to encourage long dated investment.
- Globally, many CB's tightened monetary policy further, unsatisfied with the rate of change in key economic statistics, culminating in the conclusion that inflation was not falling fast enough to keep rates on hold.
- OPEC announced (July 2023) oil supply restrictions with the express intention of pushing prices higher. QOQ WTI Crude has risen $US23-15 from $70-64, or ~ 33%.
- A potential US government shutdown, although averted when Congress passed a stop-gap funding bill at the 11th hour in September, ensuring government wheels keep turning until at least mid-November, concerned markets. The agreement came at the expense of compromise for Ukrainian conflict funding support, which is further concerning. The outlook is now muddied by growing ranks of Republicans focused upon isolationist policy.
- The new RBA Governor, Michele Bullock, took office in September and has overseen maintenance of the Official Cash Rate (OCR) @ 4.10% in her first board meeting (3 October).

Key Global monetary policy changes during the quarter /

Table 3: Gross IMP Performance versus Benchmark Indexes

Index & Blend Indices to 30 September 2023	1 mth	3 mths	6 mths	6 mths annualised	1 yr p.a.	2 yrs p.a.	3 yrs p.a.	4 yrs p.a.	5 yrs p.a.
100% BBB	-0.92	1.32	-0.37	-0.73	5.59	-3.67	-1.64	-0.36	1.61
75% BBB, 25% 1-5yr	-0.82	1.25	-0.45	-0.89	4.94	-3.23	-1.52	-0.33	1.43
50% BBB, 50% 1-5yr	-0.72	1.17	-0.53	-1.05	4.28	-2.80	-1.41	-0.31	1.24
100% Bank Bill	0.34	1.08	1.99	4.01	3.57	2.02	1.36	1.16	1.28
Performance v Index & Blend Indices to 30 September 2023									
Income Plus	0.50	-0.24	1.13	2.26	-0.78	4.28	5.65	1.22	0.60
Core Income	0.04	-0.55	0.07	0.14	-0.92	2.36	3.38	1.22	0.87
Conservative Income	-0.03	-0.16	0.32	0.64	0.38	2.02	2.27	1.44	1.27
Customised Liquidity: Bank Bond (FRN) 4	0.08	0.50	1.01	2.07	1.85	0.18	0.76	0.96	n/a

^ Source: S&P Dow Jones Indices.

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Table 4: Australian Commonwealth Government Bond (ACGB) volatility in the September 2023 quarter

ACGB Maturity	Source ^	Open	High	High date	Low	Low date	Close	Current #
(near) 3-year	SFE 3 & 10-year Futures	3.99%	4.28%	7 Jul	3.65%	4 Sep	4.09%	4.14%
(near) 10-year		4.02%	4.59%	28 Sep	3.85%	19 Jul	4.50%	4.58%

^ 3yr: YTU23 (September 23 deliverable) open, YTZ23 (December 23 deliverable) close
^ 10yr: YTUU23 (September 23 deliverable) open, YUZ23 (December 23 deliverable) close
 # Current date: 07 October 2023

official cash rates:

- UK (BoE): tightened / 5.00% -> 5.25%
- Europe (ECB): tightened / 3.50% -> 4.00%
- AUS (RBA): unchanged @ 4.10% <tightening bias>
- Canada (BoC): tightened / 4.75% -> 5.00%
- New Zealand (RBNZ): unchanged @ 5.50% <tightening bias>
- USA (Federal Reserve): tightened / 5.125% -> 5.375%

Central Banking commentary during the quarter included many examples of both hawkish and dovish rhetoric, with divergence of opinion re rate setting and forward inflation estimation:

- BoE MPC member Mann believes future inflation shocks to the upside will be more frequent … and "more resilient domestic demand and persistent price pressures ... (will) require a more restrictive monetary policy stance" than is currently set.
- Conversely, at the US Federal Reserve, member Barr espoused that the US central bank is "likely at or very near" a level of interest rates that is sufficiently restrictive and that the bigger question is how long rates will need to stay high, as the full effects of past increases on the economy "are yet to come in the months ahead."
- Closer to home, the RBA Governor stated within the minutes of the October (3) board meeting that whilst satisfied that inflation was falling sufficiently toward 2025 target levels, the outlook was deemed uncertain, and further time was required to assess the impact of policy moves to date. The conclusion was that "further tightening of monetary policy may be required". The October 2023 release of third quarter inflation statistics is therefore crucial.

As we stated in our June 2023 QR: "***Yet again, it is, has and always will be about current and future inflation***".

During the September 2023 Quarter, the PMT extended duration positions slightly longer but just short of index duration levels, and refrained from extending longer than index given the macro-economic environment and bond yield volatility described above. Refer to Table 5.

The PMT may make longer term 'strategic' duration extensions or short term 'tactical' ones. A strategic move envisions holding the longer duration position in place for a longer period of time. A tactical move envisions holding the position for a short period of time.

In the coming quarter duration will be extended strategically because of evidence that inflation is trending down and long dated bonds at current book value entry levels likely represent positive real yield opportunity.

We note key economic commentators are forecasting that the trend of fall in inflation continues.

Westpac economics, with the benefit of July and August monthly CPI data releases in hand, at 4.90% (YOY) and 5.20% (YOY) respectively, forecast September quarter YOY CPI in Australia to be 5.30% ***(a slight stall in downward momentum), but more importantly, they forecast December 2023 YOY CPI @ 4.30%***.

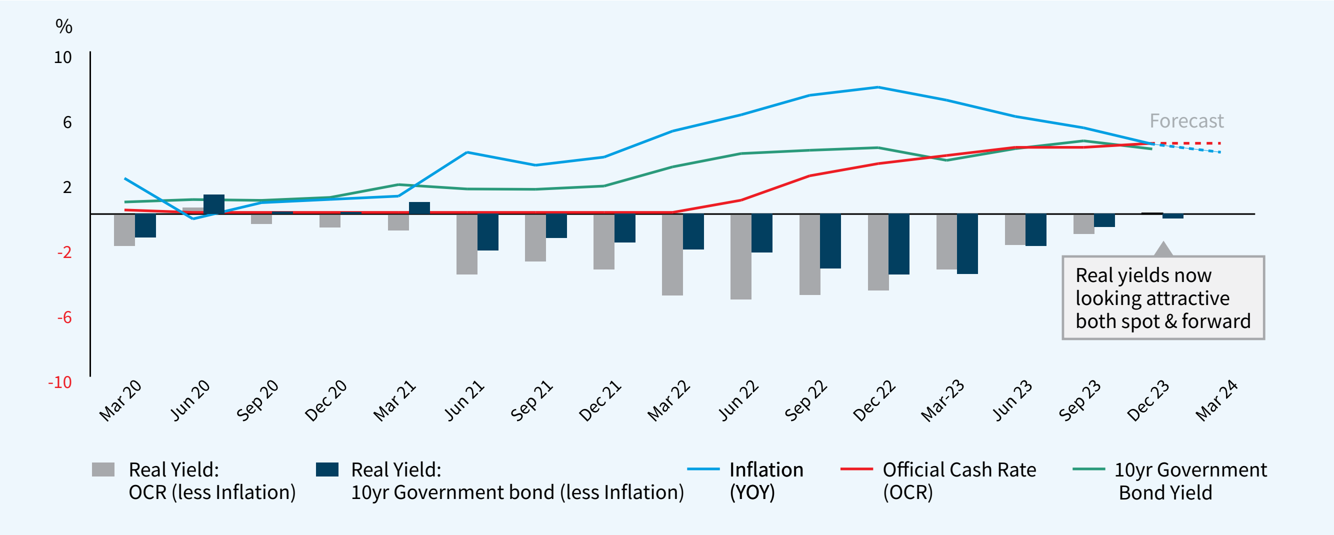
At current entry levels of 4.50% for 10-year bonds, that represents a real yield +0.20% against next quarters inflation estimate. Further, a subsequent fall in inflation of only 0.50% further below the Westpac December 2023 YOY forecast, to 3.80% YOY, would deliver a real positive entry yield of +0.70%, being the long term average historical real yield (ex Covid period) identified and discussed at length within our June 2022 QR, available via: fiig.com.au.

In summary, we make the following simplistic observation. The

Table 5: Index and Blend Index Durations at September quarter end

Benchmark Index Name / Investment Manager / Program Name	Benchmark Index Name / Blend Index Splits	Index Modified Duration (MD) @ 30 Sept 2023	Inv' Mandate		Sept Qtr End	Difference MD v Index
			Max MD	Min MD		
Benchmark Index 1	S&P/ASX BBB Rating Band	3.97	N/A			
Benchmark Index 2	S&P/ASX AFI 1-5 Year	2.74				
Income Plus	100% Index 1	4.03	5.00	0.00	2.77	-1.26
Core Income	75% Index 1, 25% Index 2	3.66	5.00	0.00	3.41	-0.25
Conservative Income	50% Index 1, 50% Index 2	3.36	5.00	0.00	3.35	0.00

Graph 1: Inflation & Real Rates of Return since March 2020



market was at one stage in (14 March) 2023 buying 10-year ACGB at 3.02% whilst the most recent (December 2022) YOY inflation was at 7.80%, implying a real yield of -4.78%.

Why then, would the ACGB 10-year bond NOT represent value at 4.50% when YOY inflation has fallen to 6.00% (June 2023) and monthly data forecasts it is to fall further to 5.30% YOY for the September Quarter and leading economists forecast December Quarter CPI @ 4.30%!

The most recent bout of long bond yield rises is attributable to continuing CB hawkish activity, coupled with the OPEC threat to oil prices and the US budget impasse.

The MIPS PMT see it all as a buying opportunity, for OPEC cannot simply restrict supply and push prices too high in a world where demand is already weak. Consumption of oil will just decrease. US government funding will pass eventually, with a lift in the debt ceiling and a compromise over domestic expenditure and foreign aid being reached.

That said, there is a key interim risk:

There appears to be a foundation of weakness set for the Australian Dollar (AUD) in the foreseeable future. US/AUD interest rate differentials and weakening commodity price forecasts (based upon Chinese economic growth weakness) deliver implications for inflation that are not positive. Therefore the speed of trend of inflation reversal lower may be impacted. Yet we believe the trend is in place.

Summary outlook

The MIPS PMT envisage the rise in long dated bond yields, coupled with declining inflation, culminating in a reversal of negative real yields, as a buying opportunity. Yields are sufficiently attractive to strategically extend duration across all MIPS Investment Programs, and the Fund. Subsequently all exposure will be positioned longer than respective indexes in the coming quarter.

This is the first time since 2019 that the MIPS PMT will be investing LONG duration and it is a significant change in Investment Strategy.

Whilst 10-year benchmark ACGB's are still trading at negative real yields of ~-0.70% (given the latest YOY inflation <using the MOM release> is 5.20% to August 2023), and the MOM trend has reversed slightly (to July 2023 it was 4.90%), inflation is still trending lower from the peak of December 2022 (7.80%).

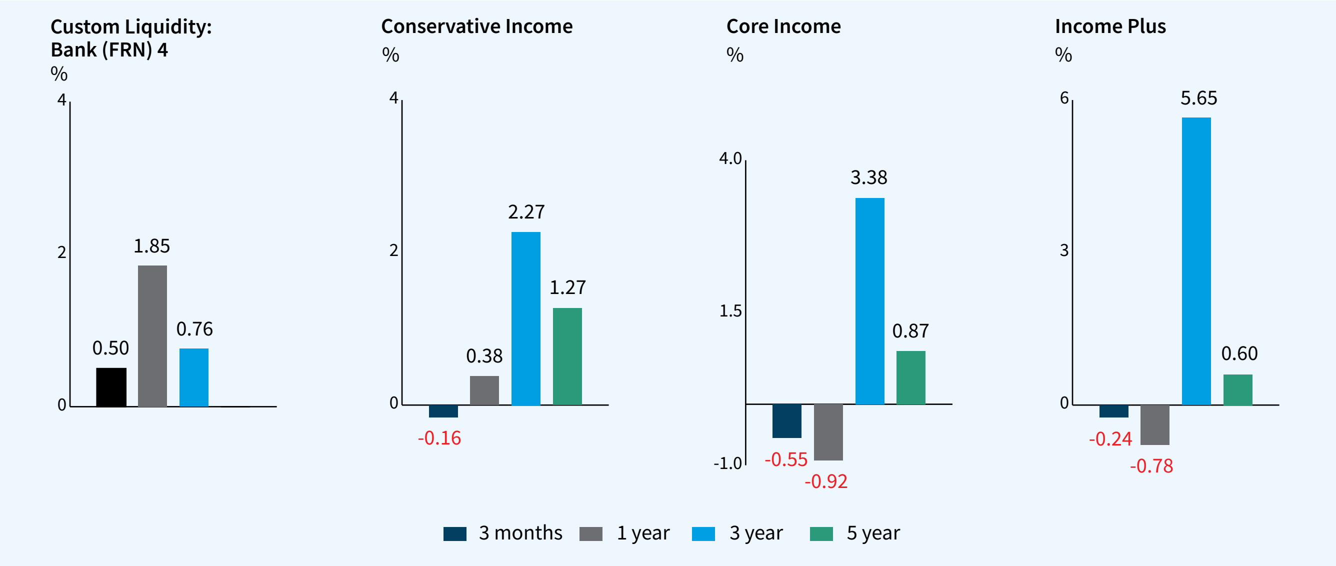
The PMT ask readers to reference the June 2022 QR again. If the average 10-year real rate of return of +0.70% is to hold, at the current 10-year ACGB yield (see Table 4) of 4.50%, inflation has been priced to fall immediately, or very quickly, toward 3.80%.

Given monetary policy tightening by the RBA to 4.10% to date, with potentially another round (of 0.25% if inflation disappoints on 25 October) demand will continue to be stifled and so too will inflation (eventually).

What is undoubtedly true is that at face value, benchmark ACGB 10-year bond yields at 4.50% at September Quarter end are far more attractive than they were at June Quarter end when they yielded 4.02%, and certainly far more attractive than at March 2023 Quarter end when they yielded 3.30%.

The MIPS PMT repeats the messaging of the June 2023 QR, noting that going long would be a function of yields climbing whilst inflation steadied or improved, or inflation falling whilst yields remained the same. In either scenario, the significant negative real yield of -1.60% had to be unwound before investment long on the yield curve made logical sense.

Graph 2: Performance^ v Benchmark Indices to 30 Sept 2023



^ Out/Under performance v benchmark is per annum (p.a.) for periods >= 1 year, and notional for periods <=1 year (3 months).

Performance commentary

In the September 2023 Quarter, the MIPS PMT has delivered positive absolute performance, whilst relative performance (v benchmark index) was moderately negative.

The following commentary very generally attributes performance within each of the following Investment Programs, referencing the key elements of each program IM.

Refer to Tables 1 through 3 for performance. Refer to Table 5 for key summary exposure statistics.

Income Plus (IP)

The IP IM allows a maximum capacity of 75% exposure to Unrated (UR) and Non-Investment Grade (NIG) Credit. Historically the performance of the program would rise and fall on the performance of that asset sector.

In the September Quarter 2023, IP's +1.08% (gross) average return marginally underperformed its 100% Corporate BBB benchmark index which returned 1.32%. Whilst IP duration was kept significantly shorter than both the CI and CVI Investment Programs, and the BBB Index duration, the inability to sell underperforming UR assets (30% exposure and 45% under limit maximum) contributed negatively to performance. Insufficient bid side liquidity in short maturity UR assets targeted for sale remains.

The PMT notes that IP has outperformed its benchmark index in the long term and very strongly over the last 3 years. The significant underweight UR and NIG exposure (Table 6) at near current levels (45%) will be maintained at a minimum. The PMT is faced with the difficult task of selling these short duration UR and NIG assets to fund purchases of longer IG assets to meet stated Investment Strategy duration lengthening targets.

Core Income (CI)

The CI IM allows a maximum capacity of 25% exposure to UR and NIG credit. Subsequently, the IG exposure must sit at a minimum of 75%. Additionally, all investments must rank as senior obligations. Historically the performance of the program is influenced less by UR & NIG asset performance, although that sector can be notoriously volatile, and more so by IG credit and the duration of that credit exposure.

In the September Quarter, CI delivered a +0.70% (gross) performance, underperforming its benchmark by 0.55%.

CI holds 11% of exposure to illiquid short dated UR and NIG (senior) assets that, not dissimilar to the IP investment strategy, are also targeted for sale and have underperformed IG assets. Additionally, it has no IM capacity to invest in subordinate debt, unlike CVI which benefited from the yield uplift of that sector.

Despite underperforming its benchmark this quarter, CI continues to maintain an outstanding long-term outperformance of its benchmark.

Conservative Income (CVI)

The CVI IM is 100% IG, with an allowance for a maximum of 20% exposure to IG Subordinate Debt. Historically, the performance of the program would rise and fall on the duration exposure and CM performance of IG fixed senior corporate debt assets held, alongside the CM performance of the subordinate bank floating rate debt assets held.

In the September Quarter, CVI delivered a +1.01% gross (average) performance for investors, falling marginally short of matching its benchmark index performance. CVI performed near the best of the three programs because no UR or NIG assets are held, and the subordinate debt (Table 7) exposure to major banks, held

Table 6: Key average exposure statistics by Investment Program at September quarter end

Key average exposure statistics by Investment Program at 30 September 2023									
	IG, NIG & UR Exposure Held verses Investment Mandate Limits								
Investment Program	Minimum IM required IG Exposure	Total IG exposure held	Excess / (defecit) IG exposure	Maximum IM allowed UR/NIG Exposure	Total NIG & UR exposure held	Excess / (defecit) UR & NIG exposure	Modified Duration	Weighted Average Term to Maturity	Cash Held @ Quarter End
Income Plus	25%	70%	45%	75%	30%	-45%	2.77	3.48	2.19%
Core Income	75%	89%	14%	25%	11%	-14%	3.41	4.22	2.67%
Conservative Income	100%	100%	0%	0%	0%	0%	3.35	4.23	2.07%

at near an average of maximum capacity of 20% of exposure, performed well. See the next section.

The CVI Investment Program maintains the best long-term record of all the Investment Programs with excellent outperformance of its benchmark index for all time horizons out to 5 years.

All Investment Programs

The 'underweight' UR and NIG positioning, in both IP and CI portfolios, continues as a function of a negative opinion of the direction of the UR and NIG sector CM's. We wish to extend duration but cannot do so on NIG and UR yield curves. The looming likelihood of tepid economic growth is a contributory factor.

Additionally, the pursuit of achieving appropriate exposure diversity remains. The universe of opportunity in the UR and NIG issuance sector has been thin for some time. The MIPS PMT will not compromise diversity requirements to pursue an uplift in percentage exposure to this sector and have set a maximum of 2.50% exposure to singular names in any singular account.

We await a significant uplift in quality and diversity of new issuance before we can contemplate investing at full limit across IP and CI accounts. Additionally, given the historical record of high default and restructure or default and recovery, lending may well be limited to a maximum of three year tenors. We expect that exposure to UR and NIG debt will continue to fall in the December Quarter within IP and CI programs.

In prior quarters, the PMT has stated the CVI Investment Program will continue to contain a near maximum 20% exposure to IG subordinated debt issued by both major and minor banks. Whilst the MIPS PMT remain positively disposed to this sector, lower exposure levels, in the order of <=%15 of FUM, will be targeted in coming quarters, given the significant rally of subordinate debt CM's during the September Quarter to 2.20 times Senior CM's (@ +100 for 5 year term risk).

See further commentary in the ensuing section.

IG Bank Senior and Subordinate Floating Rate Debt

Our headline customised liquidity Investment Product, is the Bank FRN (4) Investment Program. The IM allows investment in Major and Minor Bank Senior and Subordinate FRN's. Prior to the rise in the OCR, the performance of the program would rise and fall on the CM performance of the more volatile subordinate debt component. In recent quarters, as the RBA has tightened monetary policy aggressively, bank bill rates have climbed and the accrual component is delivering the lion's share of returns.

In the September Quarter of 2023, the Bank FRN 4 IP returned +1.58% (gross), 0.50% above the Bank Bill Index return of 1.08%. The performance is attributable to the contraction in Major Bank FRN CM's, as evidenced within in Table 7.

Readers will note our long held view that the impending rise in the OCR would drive fixed rates higher and subsequently the floating rate note (FRN) product would outperform on an accrual basis. They will also note our dual long held view that subordinate bank CM's would rally, mean reverting to an expected ≤2.00% CM for benchmark near 5-year major bank subordinated debt products.

As advised in the June 2023 QR, that CM change has now occurred.

Essentially, rolling forward, we expect a 2:1 ratio will be maintained between Subordinate and Senior CM's at ~+200

Table 7: Bank FRN Credit Margin changes over quarter

Bank (FRN) Investment Program Key (average) Credit Spread @ 5-year Maturity Dates			
	30/6/2023	30/9/2023	Changes
	Credit Margin	Credit Margin	Credit Margin
Major Bank Senior	0.88%	0.87%	-0.01%
Minor Bank Senior	1.05%	1.10%	0.05%
Major Bank Subordinate	2.09%	1.89%	-0.20%
Minor Bank Subordinate	2.44%	2.68%	0.24%
Major Bank Subordinate / Senior Ratio	2.4x	2.2x	

^ *The universe of Minor Bank Subordinated debt is on average 0.5 year longer in maturity than the universe of opportunity in Major Bank Subordinated Debt*

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and +100 for (respectively) 5 year major bank Subordinate and Senior Debt.

The RBA has clearly met our (and the markets) expectation of higher bank bill rates by raising the OCR to 4.10% throughout 2022 and now 2023. Although the RBA dragged the (monetary policy) chain early in 2022, accrual gains for floating rate note holders have now soared.

Monetary policy appears stable at 4.10% for the time being, but will possibly move to 4.35% should the RBA be disappointed with lower inflation momentum.

The weak AUD could deliver an inflation uptick surprise, yet the trend is showing momentum lower, and the RBA has voiced confidence that they will achieve inflation targets (of 3.00%) by late 2025 and that policy is currently sufficiently tight.

Unlike prior quarters, the PMT is now not inclined to constantly roll up the yield curve to extend Credit Spread Duration (CSD: average maturity profile) on Subordinate Debt yield curves. Those CM's have rallied close to target levels and further gains from here on in may well take a period of time. Subsequently a CSD of < 3.00 years in Subordinate Debt exposure is warranted. Subsequently, when extending CSD, we will do so along Senior curves.

We repeat our messaging of the prior quarter….

The latest move in monetary policy in June 2023 delivered an accrual uplift of significance. Whilst it may well not be the last, there is evidence of improvement in inflation, and subsequently accrual levels may now be approaching a peak in the cycle. However, the OCR is unlikely to be reversed until inflation is heading on trend to below 3.00%, so investors in this sector can expect accrual gains to continue for some time.

As we forecast as far back as within the June 2022 QR, we do not expect inflation to mean revert (to within RBA's comfort zone of between 2.00% and 3.00%) until late 2024.

Summary

The economic and investment landscape has changed dramatically.

Throughout 2021 and up until June 2022, inflation was rising and central banks, particularly the RBA, 'were dragging' the monetary policy 'chain'. The PMT subsequently maintained a short duration position to protect investor capital.

Since late 2022, the PMT has extended Investment Program duration to near match benchmark index duration at every opportunity where long dated benchmark bonds approached target yields of 4.00%. This target was communicated within the June 2022 QR and has been the mainstay focus given an expectation that inflation would peak at or near 7.00% (YOY).

During the last six months, the opportunity to invest in longer dated assets – including corporate debt assets – at higher rates, was accompanied by further risk and volatility of return. The MIPS PMT believed that the risk was warranted, and investors are now enjoying the benefits of that risk taken by their Portfolio Managers.

The PMT will continually monitor the markets for catalysts for yield change, and will adjust both credit and duration exposure accordingly.

The MIPS PMT envisage that long dated nominal bond yields, whilst currently delivering a slightly negative real yield, are becoming increasingly attractive as monetary policy is likely approaching a peak given evidence that inflation is now falling.

The MIPS PMT subsequently anticipate that duration extension LONGER than benchmark indexes will be undertaken across all MIPS Investment programs in the December Quarter of 2023.

Postscript

As this report is completed on Monday, October 9th, further news includes:

- A bumper US (non-farm payroll) employment report that is accompanied by no change in the unemployment rate. Significantly, employment strength is accompanied by an increase in participation. A strong employment report in January 2023 was the catalyst for hawkish commentary by the Federal Reserve Chairman Powell, that subsequently saw bond yields rise significantly (off a low base). Refer to our March 2023 QR. US 10-year Treasury Notes weakness since then, to above 4.50%, lessens the impact of this subsequent report. A climb in participation even more so.
- A conflict breaking out in Israel, where war has been declared by that nation against the Palestinian militant group Hamas. Any geopolitical tension is always concerning for markets. The region is not however important for oil production and there is subsequently no expected inflationary impact. Oil prices spiked briefly higher immediately. The history of conflict in the region is long. The concern now becomes one of elaboration of ties for funding of Hamas by Iran and subsequently a larger theatre of conflict developing. We watch this space and hope for conflict resolution in the short and longer term.

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Portfolio Management Team

Kieran Quaine
Head of Managed Income Portfolio Service

Kieran has in excess of 30 years' experience in senior roles in the fixed income market, primarily as a fund manager in charge of investing multiple billions of dollars across a wide range of investment mandates. His experience includes roles as a proprietary interest rate trader, debt originator, syndicator and in institutional debt sales, with his expertise in the unrated market likely unsurpassed. He has been with FIIG Securities for over 13 years and is the Head of the Managed Income Portfolio Service.

Megan Romeo
Portfolio Manager

Megan Romeo has over 10 years' experience in the financial market data segment with a focus on the Asia Pacific Fixed Income markets. Prior to joining FIIG, Megan was the Valuations Product Manager at S&P Capital IQ which required local Fixed Income market knowledge and a technical understanding of the asset class in order to tailor a Fixed Income market data solution to participants across Asia Pacific. She has been with FIIG Securities for over 7 years, all of which have been with the Managed Income Portfolio Service.

MIPS Example Portfolios

Conservative Income Investment Program
Investment objective

This program provides a portfolio that only invests in investment grade securities while investing across the capital structure. Like the fundamentals of the fixed income asset class, this portfolio, or program option, aims to provide investors with strong levels of capital preservation and regular income flow.

Core Income Investment Program
Investment objective

This program aims to provide a portfolio that is primarily focused on investment grade securities, investing in the most senior parts of the capital structure. Like the fundamentals of the fixed income asset class, this portfolio, or program option, aims to provide investors with strong levels of capital preservation and regular income flow.

Income Plus Investment Program
Investment objective

This program aims to increase the investment return through a larger allocation to high yield securities while still retaining the benefits of a fixed income portfolio. This program allows the Portfolio Management team to invest, with more flexibility along the capital structure and credit ratings spectrum. This additional scope allows the team to identify strong risk returning investments. This is achieved through extensive credit analysis on both the issuer/ guarantor(s) of the bond as well as the security itself.

Investment Program Limits (selection)	Min/Max
Investment Grade	0/100
Sub Investment Grade/Unrated	0/0
Senior Debt	80/100
Subordinated Debt	0/20
FIIG Arranged Bonds	0/25
Number of bonds	10/no max
Modified Duration	0/5
Investment Grade	0/100
Sub Investment Grade/Unrated	0/25
Senior Debt	100/100
Subordinated Debt	0/0
FIIG Arranged Bonds	0/35
Number of bonds	10/no max
Modified Duration	0/7
Investment Grade	0/100
Sub Investment Grade/Unrated	0/75
Senior Debt	80/100
Subordinated Debt	0/20
FIIG Arranged Bonds	0/60
Number of bonds	10/no max
Modified Duration	0/5

Notes:

ABS: The Investment Programs may contain Asset Backed Securities (ABS) including Residential Mortgage Backed Securities (RMBS). All ABS generate income from pools of loan receivables that are secured over real assets. They are issued in a Floating Rate Note (FRN) structural form. Please refer to Section 3 of the MIPS Information Memorandum for more detail regarding the parameters of each program.

IMP: Individually Managed Portfolio.

FRN: Floating Rate Notes.

Gross performance: Total yield earned per relevant program for period pre management and custody fees.

Investment Grade (IG): An asset is IG if it is rated >= BBB- (S&P) or equivalent by one of three internationally recognised credit rating agencies that include Standard and Poor's (S&P), Moody's or Fitch.

Non Investment Grade (NIG): An asset is NIG if it is rated < BBB- (S&P) or equivalent.

Unrated (UR): An asset is UR if it is not rated by any one of three internationally recognised credit rating agencies.