FIIG The fixed income experts

FIIG Managed Income Portfolio Service (MIPS)

Monthly Commentary Report - 31 January 2025

Objective

The Managed Income Portfolio Service (MIPS) provides wholesale investors with access to an actively and professionally managed fixed income portfolio that combines total return, capital stability, and regular income. The service aims to deliver meaningful improvements in returns and liquidity over traditional cash and term deposits through expert management and strategic asset allocation.

Performance[1] as at 31 January 2025

Investment Mandate	Return Type	1 Month	3 Month	6 Month	1 Year	3 Years	5 Years	Since Inception
Conservative Income	Gross	0.43%	2.15%	2.88%	6.24%	3.31%	2.63%	3.71%
	Benchmark*	0.47%	2.11%	2.61%	5.26%	1.64%	1.17%	3.32%
	Excess	-0.04%	0.04%	0.27%	0.98%	1.67%	1.46%	0.39%
Income Plus	Gross	0.46%	2.56%	3.53%	7.65%	4.87%	3.02%	4.49%
	Benchmark*	0.53%	2.47%	3.06%	6.47%	2.07%	1.56%	4.22%
	Excess	-0.07%	0.09%	0.47%	1.18%	2.80%	1.46%	0.27%
Customised Bank[2]	Gross	0.46%	1.44%	2.92%	6.57%	4.73%	3.46%	3.77%
	Benchmark*	0.38%	1.11%	2.24%	4.47%	3.31%	2.04%	2.10%
	Excess	0.08%	0.33%	0.68%	2.10%	1.42%	1.42%	1.67%

Overview

MIPS offers direct bond ownership of a diverse range of quality assets – including Australian Government, Corporates, Bank and Asset Backed Securities – tailored to meet various investment preferences and risk tolerance as outlined in each investment mandate.

Structure
- Individually Managed Account (IMA)

Currency
- Australian dollar

Derivatives
- Not permitted

Suggested investment timeframe
- At least three years

MIPS Inception date
- 1 May 2015

Investment Team
- Kieran Quaine
Head of Investment Management & Portfolio Manager (FIIG Australian Bond Fund)
- Megan Romeo
Head of MIPS & Portfolio Manager (IMAs)
- Garreth Innes
Portfolio Manager (FIIG Monthly Income Fund)

Conservative Income Mandate Characteristics

Number of Holdings: 36

Modified Duration: 3.28yr

Yield to Maturity: 5.06%

Inception Date: 1 July 2016

Management Fee: 0.54% p.a. (incl. GST)

Minimum Investment: $1m

Income Plus Mandate Characteristics

Number of Holdings: 33

Modified Duration: 3.20yr

Yield to Maturity: 5.47%

Inception Date: 1 May 2015

Management Fee: 0.64% p.a. (incl. GST)

Minimum Investment: $1m

Customised Bank Mandate Characteristics

Number of Holdings: 29

Term to Maturity: 2.86yr

Yield to Maturity: 4.66%

Inception Date: 1 Aug 2015

Management Fee: *by agreement*

Minimum Investment: $10m

***Benchmarks: Conservative Income** 50% S&P/ASX Australian Fixed Interest 1-5 Year Index & 50% S&P/ASX Corporate Bond BBB Rating Band Index (modified duration: 3.5yr), **Income Plus** S&P/ASX Corporate Bond BBB Rating Band Index (modified duration: 4.2yr), **Customised Bank** S&P/ASX Bank Bill Index (modified duration: 0.1yr)

[1] Weighted average returns are based on invested portfolios subscribing to the same investment mandate, weighted by portfolio net asset value (NAV)
[2] Customised Bank is an aggregation of customised MIPS portfolios only investing in senior and/or subordinated debt issued by Australian Domestic Banks
[3] Weighted average metrics are based on invested portfolios subscribing to the same investment mandate, weighted by portfolio net asset value (NAV)

Commentary

The yield on the 10-year Australian Government Bond fell to 4.41% following the release of the latest Consumer Price Index (CPI) report on 28 January. The headline CPI rose by 0.2% last quarter (lower than the market expected), bringing the annual rate down to 2.4% indicating that the disinflation process in Australia has gained significant momentum. Additionally, the trimmed mean CPI - a key measure of underlying inflation – increased by 0.5% for the quarter, while the annual rate eased to 3.2%. The report further highlights a notable reduction in goods inflation, now at 0.8% annually (down from 1.4%) with government policies such as energy rebates and rental subsidies playing a substantial role in mitigating inflation. Moreover, the decline in wages growth has contributed to lower input costs in the services sector, further easing inflationary pressures. In addition to the positive inflation data, the unemployment rate has remained steady at 4.0%, indicating a relatively tight labor market. This combination of easing inflation and stable unemployment creates a conducive environment for the RBA to seriously consider their first rate cut in February. This move would be aimed at supporting economic growth and ensuring that inflation remains within the target range.

President Donald Trump's initial series of executive orders, aimed at reshaping U.S. domestic and foreign policies, have introduced significant uncertainty into global markets, leading to increased volatility. This uncertainty is further compounded by the ongoing Israeli-Gaza conflict and the Russia-Ukraine war, both of which have heightened geopolitical risks. The recent ceasefire between Israel and Hamas, while a positive development, continues to leave the region volatile and unstable. Similarly, the Russia-Ukraine conflict continues to disrupt global supply chains and elevate energy prices, contributing to inflationary pressures worldwide. Also in the U.S., interest rates were kept at 4.25%-4.50% at the January meeting. Initially, markets reacted negatively to the removal of a line about inflation progress, but U.S. Federal Reserve Chair Powell clarified it wasn't a signal and anticipates easing will continue over 2025, leading to a recovery in equities and bond yields.

These factors collectively may result in a flight to quality, with investors favoring bonds over riskier assets. The heightened geopolitical risks and economic uncertainties are likely to support bond prices as investors seek capital stability. As a result, Australian bonds could see increased demand, further supporting their prices in the current volatile environment.

Positioning

Duration across all investment mandates was extended during the month. To this end, an allocation to the newly issued United Energy Distribution Holdings Pty Ltd (UED) 7-year senior fixed rate bond (rated A-) was secured in the primary market. UED operates within Victoria's electricity distribution sector, providing essential services to a large customer base. This addition adds to the industry, tenor and credit rating diversity within the corporate sector of the portfolios.

A minimal exposure to Unrated (UR) and Non-Investment Grade (NIG) assets was maintained given shallow market volume and limited diversification opportunities. Whilst several Asset Backed Securities (ABS) deals were announced to the market in January, the issues have yet to launch. Exposure to the Investment Grade (IG) ABS sector will be increased for all mandates that permit exposure in lieu of higher yielding corporate assets. The number of mandated ABS deals in January suggests that the volume of deals launching in 2025 could be similar to the volume of activity seen last year. This resurgence in issuance indicates confidence among issuers and investors, setting a positive tone for the months ahead.

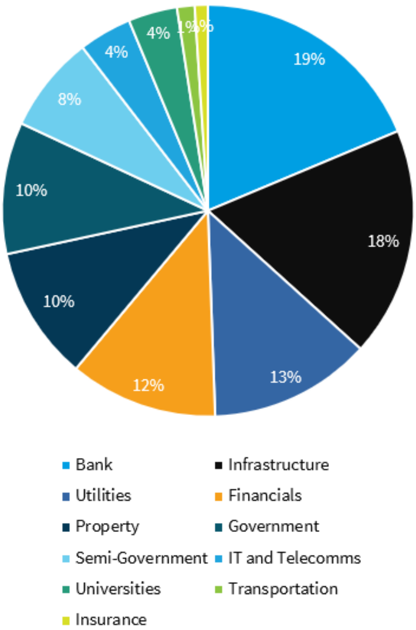
The Customised Bank mandate again continues to perform– both outright and relative to its benchmark index – as bank subordinate debt continues to perform well, benefiting from contracting credit margins. The Investment Team favoured a higher weighting to subordinate debt exposure versus senior during the month.

Outlook

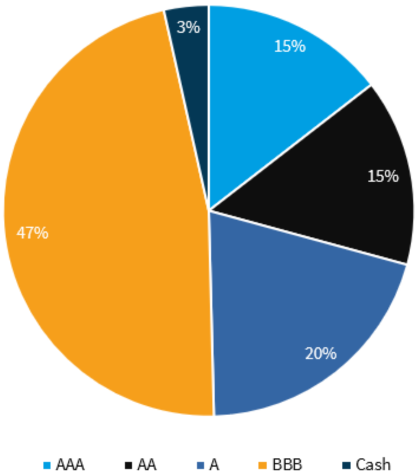
The next few weeks are expected to present a dynamic environment shaped by several key factors as market participants digest the impact Trump, tariffs, DeepSeek and RBA headlines will have on bond markets. During periods of market weakness, extending duration will be a focus. The RBA's potential easing measures will be closely monitored, and mortgage holders will be insistently watching to see if their lenders pass on rate cuts in full. This could have significant implications for consumer spending and overall economic growth in Australia. Economic data will continue to be assessed to determine the appropriate level of exposure, balancing the desire for yield with appropriate risk management.

Conservative Income

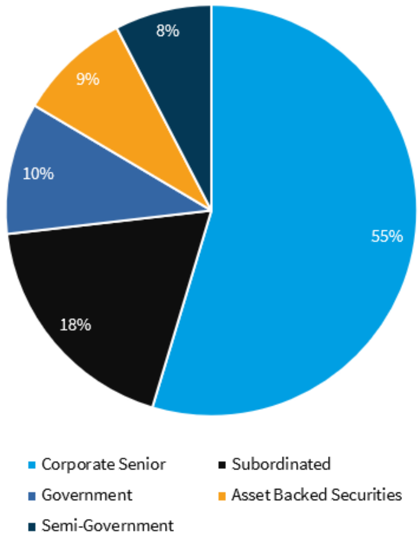
Sector Allocation
as at 31 January 2025



Credit Quality
as at 31 January 2025

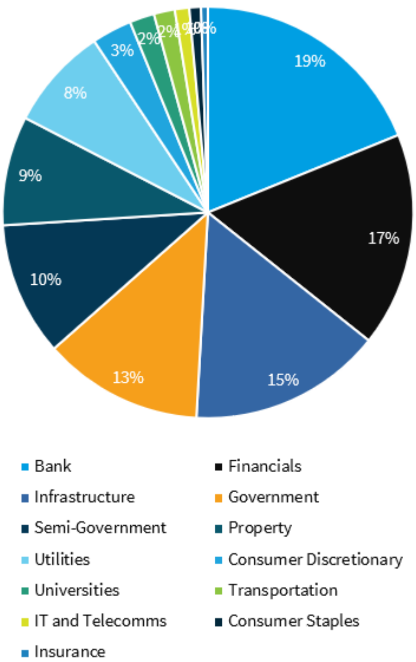


Capital Structure Allocation
as at 31 January 2025

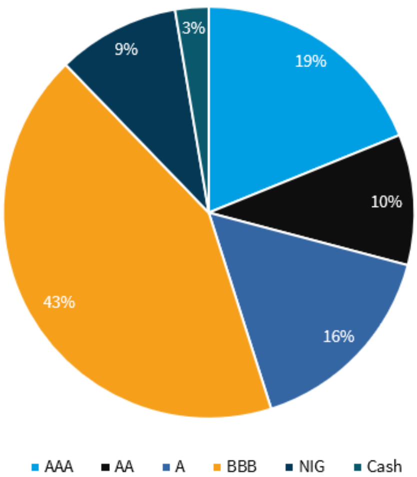


Income Plus

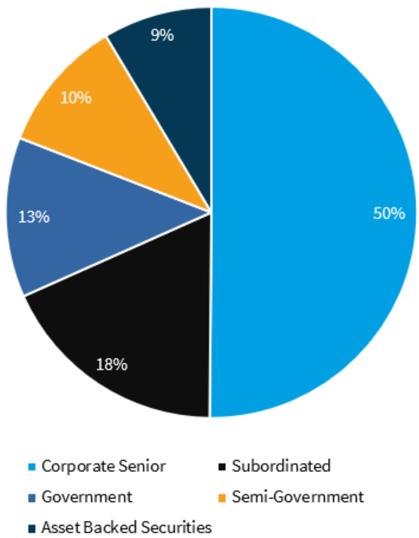
Sector Allocation
as at 31 January 2025



Credit Quality
as at 31 January 2025

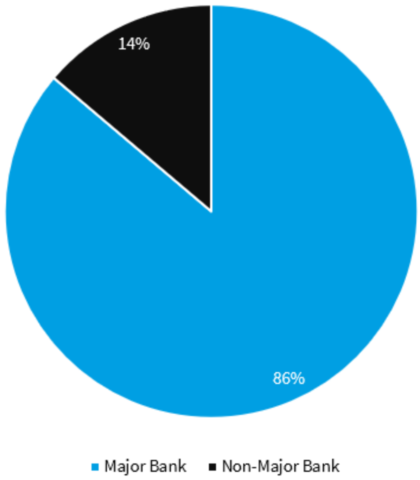


Capital Structure Allocation
as at 31 January 2025

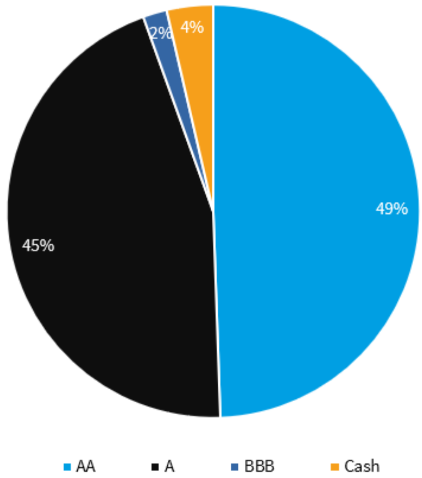


Customised Bank

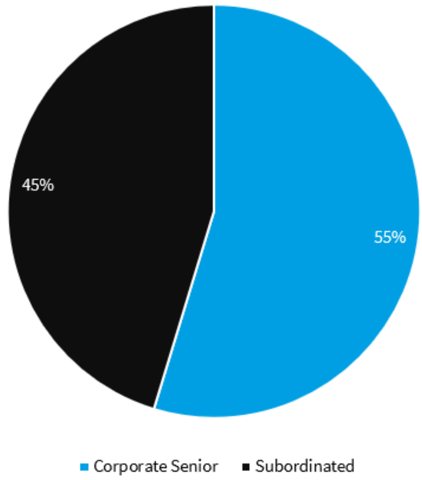
Sector Allocation
as at 31 January 2025



Credit Quality
as at 31 January 2025



Capital Structure Allocation
as at 31 January 2025



Investment Mandate Limits

Conservative Income

Provides wholesale investors with exposure to a diversified portfolio of risk averse Investment Grade (IG) Senior and Subordinate fixed income securities, which additionally produce reliable and regular income that can be distributed or retained for reinvestment.
Minimum investment: $1m | Management Fee: 0.54% p.a. (including GST)

Number of Bonds	Minimum 10	Currency	Australian dollar	Derivatives	Not permitted
Investment Grade	100%	Subordinated Debt	Up to 20%	FIIIG Arranged Bonds	Not permitted
Non-Investment Grade	Not permitted	Asset Backed Securities	Up to 20%	Modified Duration	Up to 5yr

Income Plus

Provides wholesale investors with a potentially higher return than the Conservative Income investment mandate through exposure to a diversified portfolio of both IG and Non-IG fixed income securities, which additionally produce reliable and regular income that can be distributed or retained for reinvestment.
Minimum investment: $1m | Management Fee: 0.64% p.a. (including GST)

Number of Bonds	Minimum 10	Currency	Australian dollar	Derivatives	Not permitted
Investment Grade	Minimum 80%	Subordinated Debt	Up to 20%	FIIIG Arranged Bonds	Not permitted
Non-Investment Grade	Up to 20%	Asset Backed Securities	Up to 40%	Modified Duration	Up to 5yr

Customised

MIPS offers the ability to create a bespoke Australian dollar fixed income portfolio solution for clientele seeking specific key investment objectives, that include, but may not limited to, objectives that can encompass return targets, income distribution, liquidity reliance, credit exposure and duration limitations, diversification minimums and Environmental, Social and Governance (ESG) considerations.
Minimum investment: $10m | Management Fee: by agreement

The fixed income experts

NOTES

ABS: The Investment Mandate 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 investment mandate. 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