FIIG The fixed income experts

Managed Income Portfolio Service (MIPS)

Quarterly Report – December 2022

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

- Globally, Central Banks (CB) continue to tighten monetary policy to combat inflation
- CB Governors express intention to continue tightening until inflation <=2.00%
- Market buys bonds fearing economic growth will be crushed
- Market sells bonds as inflation remains stubbornly high and economic news is mixed

Generation of both income & total return during the quarter

The MIPS Portfolio Management Team (PMT) endeavour 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.

Macroeconomics, base interest rates and investment strategy commentary

Throughout 2021 and 2022, up until our September 2022 quarterly report, the MIPS PMT stated that "all economic, health, fiscal and monetary policy road signs pointed to higher bond yields" … and that we had … "subsequently positioned portfolios short in duration to protect investor capital".

When yields rose in late September to near forecast (June 2022 quarterly report) levels, the short duration position was partially diluted, with our logic being that …."whilst many of the prior catalysts driving rising yields remain, including inflation, the key catalyst of change is that the previously 'belated' central bank monetary policy action has been replaced by hyper 'aggressive' action on a global and synchronised basis".

Rather than repeat key messaging contained within prior quarterly reports, we request readers review the September 2022 quarterly report alongside prior editions.

During the December quarter, the performance of bonds, best represented by the returns of key indices, appears to be in the initial stages of reversing the predominantly bearish trend prevalent since early 2021. Refer to Table 2.

Yields of benchmark Commonwealth Government Bonds have (somewhat) stabilised, testing, but never breaching, the highs in yield recorded in mid-June 2022 of 4.08% (3yrs) and 4.337% (10yrs).

This 'price (yield) action' within a range, as documented within Table 4, is what the PMT expected, as was expressed in our June 2022 Quarterly Report. It is the reason why we diluted the duration risk, remaining short, but nowhere near as aggressively short as we had been in the period pre September 2022.

We stated that … "A sustainable rally is likely premised upon evidence of sustainable falls in inflation. Subsequently we have extended duration longer, but still remain shorter than our benchmark index. We expect long dated bonds **to be range bound at these higher levels**. We will only extend longer than our benchmark index when evidence of sustainable falls in inflation is forthcoming".

MIPS Investment Returns

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

Total GROSS Returns to 31 December 2022	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	-0.20	0.49	0.24	0.47	-1.41	2.08	-0.10	1.25	2.15
Core Income	-0.72	0.54	0.03	0.07	-3.76	-0.56	-0.06	1.61	2.21
Conservative Income	-0.66	1.00	0.70	1.40	-4.16	-1.50	0.30	1.99	2.46
Customised Liquidity: Bank (FRN) 4	0.51	0.97	1.70	3.42	0.22	0.60	1.11	n/a	n/a

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

Benchmark Fixed Income Index Returns to 31 December 2022	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	0.25	0.75	1.17	2.35	1.26	0.64	0.55	0.79	1.01
Australian Fixed Interest 1-5 year	-0.65	1.05	0.77	1.54	-4.24	-2.87	-0.88	0.35	0.91
Australian Fixed Interest (All Maturities)	-2.36	0.25	-0.55	-1.10	-11.12	-7.23	-3.35	-0.71	0.35
S&P/ASX Corporate Bond BBB Rating Band index	-1.01	1.00	0.91	1.83	-9.54	-5.73	-1.83	0.53	1.23

^ Source: Dow Jones S&P Indices.

Our rhetoric expressed within that June 2022 Quarterly Report is still as relevant now as it was then, when we said that the RBA …"must raise rates to stifle demand to a point where it matches supply"… and that "we have confidence that their plan" … "will achieve that aim" … concluding that "quite simply, inflation has not yet peaked but it will, and it is forecast to mean revert aggressively under the weight of monetary policy change" and that (however) "the jury is still out. It is likely that before all global bond markets can rally sustainably investors will require more concrete evidence of a slowdown in demand lead spending, even to the point of recession" and that "given persistent global inflation, and most importantly, a very hawkish US Federal Reserve, volatility will likely continue".

Most recent key official cash rate moves during the December quarter, and current levels:

- Australia, + 0.25% in December, +3.10%
- United States, +0.50% in December, +4.375%
- Europe (European Central Bank - ECB), +0.50% in December, +2.00%
- Great Britain, +0.50% in December, +3.50%

What happened in the December 2022 quarter?

The (near) 3 year Australian Commonwealth Bond, having closed the September quarter @ 3.670%, weakened to a high of 3.890% on 24 October, then rallied to reach a low of 2.980% on the 5th of December, before weakening to 3.590% at quarter close, being 8 basis points higher than the yield it commenced the quarter.

The (near) 10 year Australian Commonwealth Bond, having closed the September quarter @ 3.915%, weakened to a high of 4.325% on 24 October, then rallied to reach a low of 3.275% on the 8th of December, before weakening to 4.075% at quarter close, being 16 basis points higher than the yield it commenced the quarter.

The bond market has been pushed and pulled by central bank rhetoric and action.

As central banks continued to tighten monetary policy throughout the quarter, and boldly stated they would continue tightening until inflation was crunched lower, often citing a 2.00% target, when annualised figures in Australia, the US and Europe (including Great Britain) exceeded 7.00%, 9.00% and 10.00% respectively, the market gave thought to the end game, particularly within Australia and the US. At what point in time, and at what official cash rate, would economic growth within western economies be squeezed, inflation subsequently mean revert, and long dated bonds become attractive? Or at what rate were 10 year bond rates (globally) representing a buy? The 3.00% to 4.00% range proved to be the answer. Within Europe, given energy price rises linked to an ongoing Ukraine/Russian conflict, the outlook is less clear.

The push lower in Australian 3 and 10 year Commonwealth Bond yields during the quarter commenced prior to the mid December MOM CPI release in the US. The core reading was a very low 0.20% MOM, and the headline annualised rate dropped to 7.10%, from above 9.00%.

Table 3: Gross IMP Performance versus Benchmark Indexes

Index & Blend Indexes	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	-1.01	1.00	0.91	1.83	-9.54	-5.73	-1.83	0.53	1.23
75% BBB, 25% 1-5yr	-0.92	1.02	0.87	1.76	-8.21	-5.01	-1.59	0.49	1.15
50% BBB, 50% 1-5yr	-0.83	1.03	0.84	1.68	-6.89	-4.30	-1.35	0.44	1.07
100% Bank Bill	0.25	0.75	1.17	2.35	1.26	0.64	0.55	0.79	1.01
Performance v Index & Blend Indexes									
Income Plus	0.81	-0.51	-0.67	-1.36	8.12	7.81	1.74	0.72	0.91
Core Income	0.20	-0.48	-0.84	-1.69	4.45	4.45	1.53	1.12	1.05
Conservative Income	0.17	-0.02	-0.14	-0.29	2.73	2.79	1.66	1.55	1.39
Customised Liquidity: Bank Bond (FRN) 4	0.26	0.22	0.53	1.07	-1.04	-0.04	0.56	n/a	n/a

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Table 4: Commonwealth (benchmark) Bond Yield volatility in the December 2022 Quarter

CGL Maturity	Source ^	Open	High	High date	Low	Low date	Close	Current #
(near) 3 Year	SFE 3 & 10	3.670%	3.890%	24/10/22	2.980%	5/12/22	3.590%	3.48%
(near) 10 Year	Year Futures	3.915%	4.325%	24/10/22	3.275%	8/12/22	4.075%	3.85%

^ 3yr: YTZ22 (Dec 22 deliverable) & YTH23 (Mar 23 deliverable)
^ 10yr: YUU22 (Dec 22 deliverable) & YUH23 (Mar 23 deliverable)
 # Current date: 5 January 2023

But the pull higher in yield was a function of the US Federal Reserve Chairman, Jerome Powell, quickly reiterating (yet again) that the road ahead was a long one. He stated in mid-December that:

- "we still have some ways to go" to revert to price stability
- adding that "we are getting close to a sufficiently restrictive rates level"
- but that "policy will have to be held at a restrictive level **for a sustained period**"
- further noting "that no rate cuts should be expected until the Fed is confident inflation is moving towards 2.00%".

The Fed had spoken, and long bond rates commenced climbing higher (again) toward their prior range highs in yield, testing the resolve of bulls and the confidence in the previously touted fast timeline to a fall in inflation.

During the December quarter, the PMT have held portfolio durations near half a year shorter than index for the Core and Conservative Income Investment Programs, as displayed in Table 5. The Income Plus Investment Program, diluted of as much Non-Investment Grade (NIG) exposure as was possible during this difficult period, was left far shorter.

Durations of portfolios will fall 0.25 naturally over the quarter. The PMT has near maintained the same differential between portfolio and index durations over the quarter since September. Refer to Table 5 within the September 2022 quarterly report.

Given the slight fall in yield for medium term bonds, best represented by the QOQ fall in the benchmark Commonwealth Bond 3 year rate of 8 basis points, alongside stable credit margins for Investment Grade (IG) corporate bonds, the short duration positioning has eroded (short term) performance marginally.

However, long term performance remains robust. Refer to Graph 1. Investors remain significantly ahead of benchmark indices.

Summary outlook

It is time to extend duration, and possibly longer than benchmark indices.

Whilst we continually stand by our long held (past two years) forecasts and our actual and intended investment strategy communicated in prior periods, best summarised as...

- A cyclical peak in the official cash rate @ 3.00% (June 2022 quarterly report post script notes)
- Australian demand for consumables to decline in the face of interest rate rises pressuring discretionary expenditure
- Given low unemployment, and labour shortages, the RBA will likely combat inflationary spikes successfully by incremental and (historically) minor monetary policy tightening without excessive damage to the economy

... we now look at the recent decline in inflationary numbers (December 2022 US MOM) as green shoots that will be followed by more sustainable (inflationary decline) gains.

The RBA, having slowed down the rate of change in monetary policy tightening, from 0.50% to 0.25%, and delivered the following statement (extract) re global inflation, provides supportive logic to our outlook conclusions:

- *The monthly inflation data for October showed an easing in the pace of core inflation in the United States and Canada. Headline inflation had also eased as energy prices had fallen, although food price inflation remained strong. Forward indicators pointed to a further moderation in goods price inflation as supply chains continued to normalise. The data suggested that inventories were returning to more typical levels, supplier delivery times were becoming shorter and shipping costs were continuing to fall.*

Table 5: Index and Blend Index Durations

Benchmark Index Name / Investment Manager / Program name	Benchmark Index Name / Blend Index splits	Index Modified Duration (MD)	Inv' Mandate Max MD	Inv' Mandate Min MD	Dec-2022 Qtr End MD	Difference MD v Index
Benchmark Index 1	S&P/ASX BBB Rating Band	4.17	N/A			
Benchmark Index 2	S&P/ASX AFI 1-5 Year	2.78				
MIPS Income Plus	100% Index 1	4.17	5.00	0.00	2.41	-1.76
MIPS Core Income	75% Index 1, 25% Index 2	3.82	5.00	0.00	3.23	-0.59
MIPS Conservative Income	50% Index 1, 50% Index 2	3.48	5.00	0.00	3.08	-0.40

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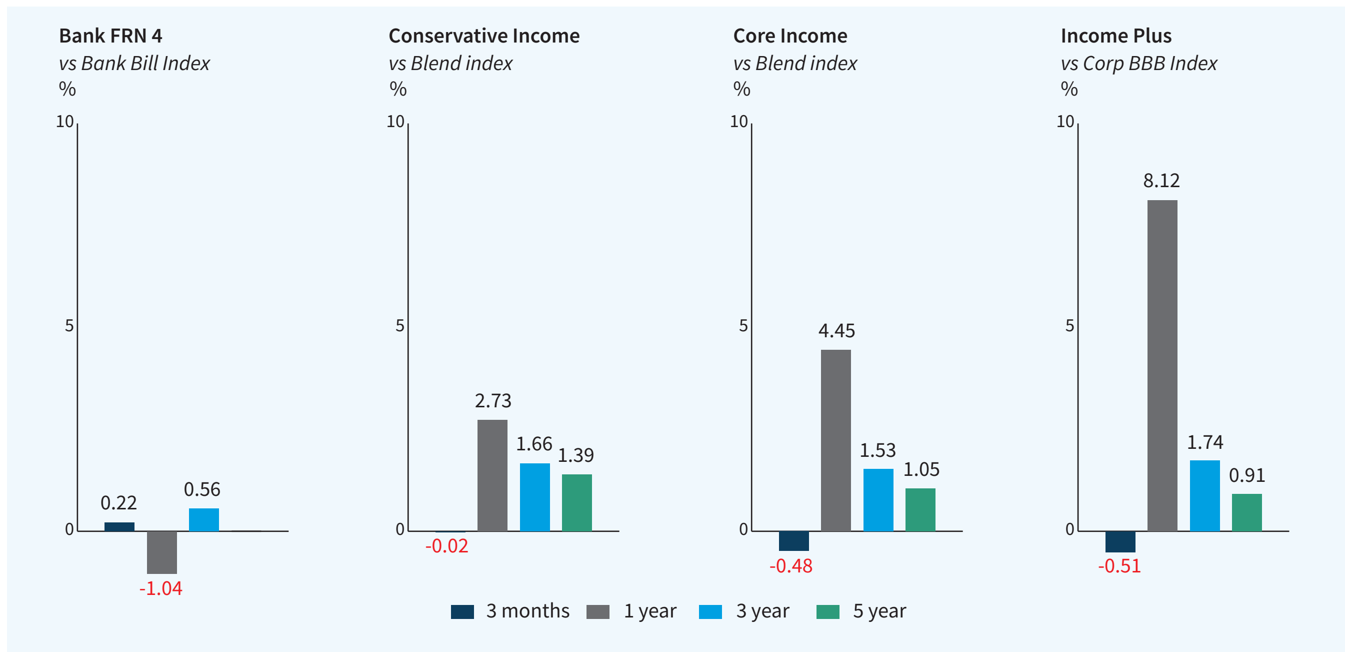
Graph 1: Performance v Benchmark Indices



- *By contrast, inflation in the services sector remained high, underpinned by strong demand and rapid wages growth, and, while services inflation appeared to have levelled out recently, it was unlikely to abate quickly. Members also noted that the situation in Europe was less encouraging, with little sign of inflation easing amid very strong energy price rises.*

Our interpretation is simple. Inflation is easing, although not evenly across the board. A key observation by the RBA is that 'supply chains continue to normalise'. Given supply chain breakdown was a key catalyst for the emergence of inflation immediately post the Covid-19 pandemic period start, 'normalisation' is an equivalently strong catalyst for inflation to commence falling.

We subsequently look to maintain a 'longer' duration profile in the foreseeable future unless there is a reason to increase our inflation forecasts. We will extend duration during the first quarter of 2023, and likely longer than benchmark indices, given our confidence that inflation has peaked, and is likely to fall under the weight of monetary policy change.

Whilst we are concerned about mounting evidence that Covid-19 vaccine efficacy in China has failed, we see this as a threat to domestic (Chinese) growth, not a threat to the normalisation of global product supply chain recovery. The Chinese may well continue to bar distribution of more effective vaccines available from the west, and their problem will subsequently likely continue. However, given widespread global use of those vaccines (ex-China), the threat to supply chain 'normality' reversion is minimal.

Credit and performance commentary

In the December Quarter, the MIPS PMT has delivered positive outright performance, but performance that is below benchmark indices. This is after a prolonged period of significant outperformance to June 2022, followed by matching the benchmark indices in the September 2022 quarter. The most recent quarterly performance is attributable to portfolios being insufficiently long on the yield and credit curves whilst yields fell marginally throughout the quarter.

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

Refer to Tables 1 through 3 for performance. Refer to Tables 5 and 6 for key summary exposure statistics.

Income Plus (IP)

The IP Investment Mandate (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 sector of asset.

In the December 2022 quarter, IP, at a +0.49% (gross) average return, underperformed the Core Income (CI) and Conservative Income (CV) Investment Programs for one key reason. Investors were positioned 2.41 years long, compared to a benchmark 4.17 years. IP remained shorter than the other two programs, predominantly due to insufficient bid/offer liquidity in target assets. The PMT continue intending holding a significant underweight NIG exposure (see Table 6) at near current levels (-36%). It is envisioned therefore that to negate this liquidity problem in the March 2023 quarter, duration extension may well involve holding a larger exposure to lower yielding but longer duration (liquid) commonwealth and state bonds.

The IP program did however near match the performance (both outright and v benchmark) of Core Income (CI), care of a holding

(39%) of near three times that of CI in NIG assets. Those NIG asset prices (at higher than IG yields) were stable and therefore delivered accrual advantage that offset the duration differential.

The PMT note that IP investors are still significantly in front of the BBB benchmark, having benefited from the PMT exiting long dated corporate debt assets before they rose in yield in 2021/22. Those gains have been marginally impacted in the most recent quarter as yields have stabilised at high levels. The opportunity to extend at advantage is still available and will be undertaken in the coming quarter.

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 December quarter, CI delivered +0.54% (gross) performance, underperforming its benchmark, primarily due to the slight underweight duration position of 3.23 years v 3.82 years held by the benchmark (table 5). Additionally, it held an underweight exposure to NIG assets that delivered lower accrual advantage, with lower yielding (non-subordinate debt) IG assets as substitutes.

Holding no subordinate debt (unlike the CV program), an asset sector that performed particularly well given credit compression during the quarter, as evidenced in Table 7 and discussed in the following section, CI underperformed the CV program.

The PMT intend to extend CI duration to match or exceed that of the index against which it is benchmarked. Like IP investors, CI investors can expect duration extension to be achieved through Commonwealth and State bond investment if corporate debt bid/offer prices are wide and/or illiquid.

Conservative Income (CV)

The CV 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 performance of the duration of the exposure held alongside the credit margin (CM) performance of the IG fixed senior corporate debt assets held alongside the CM performance of the subordinate bank floating rate debt assets held.

In the December quarter, CV delivered +1.00% gross (average) performance for investors, near exactly matching its benchmark index and outperforming both CI and IP Investment Programs. The excess performance over that of CI, despite having a marginal shorter duration, is primarily due to the significant contribution from credit margin contraction (see table 6) in major bank subordinate debt, in which it held between 17% and 20% exposure during the quarter.

The PMT intend to extend CV duration to match or exceed that of the index against which it is benchmarked. Like both IP and CI investors, CV investors can expect duration extension to be achieved through Commonwealth and State bond investment if corporate debt bid/offer prices are wide and/or illiquid.

All IPs

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 credit margins, due to the looming likelihood of an economic downturn. Whilst we do not predict a recession, we do predict GDP to fall as consumer discretionary expenditure is curtailed by higher monetary policy.

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. Currently we have set a preferred maximum of 2.50% exposure to singular names in any singular account.

We await a significant uplift in new issuance before we can contemplate investing at full limit across Income Plus accounts, which currently invest at an average 39% (-6% QOQ) exposure versus a 75% limit. Additionally, given the historical record of high default and restructure or default and recovery, lending may well be limited to a maximum of 3 year tenors. We suspect that exposure to UR and NIG debt will fall below 30% in the

Table 6: Key average exposure statistics by Investment Program

Key average exposure statistics by Investment Program @ 31 December 2022

Investment Program	IG, Non IG & Unrated Exposure held versus Investment Mandate limits								
	Minimum IM required IG Exposure	Total IG exposure held	Excess / (deficit) IG exposure	Maximum IM allowed UR/NIG Exposure	Total Non-IG & Unrated exposure held	Excess / (deficit) UR&NIG exposure	Modified Duration	Weighted Average Term to Maturity	Cash Held @ Quarter End
Income Plus	25%	61%	36%	75%	39%	-36%	2.41 yr	3.35 yr	9.15%
Core Income	75%	88%	13%	25%	12%	-13%	3.23 yr	4.22 yr	5.26%
Conservative Income	100%	100%	0%	0%	0%	0%	3.08 yr	4.21 yr	2.38%

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coming quarter within Income Plus, where we will seek to extend duration on IG yield curves, funded by sales of UR & NIG debt.

For CI accounts, whilst achieving diversity is less of a problem given the UR & NIG limit (senior only) is 25%, we still remain cautious. Whilst the pool of asset opportunity is theoretically sufficiently large to satisfy diversity, CI accounts are currently invested at an average of 12% (-4% QOQ) exposure to UR & NIG assets, versus a 25% limit, for the same reason explained above.

The ratio of UR & NIG exposure maximum between IP and CI is 3:1. Given IP is invested at 39%, a 13% exposure within Core is justified. It is currently a minor 1% below target, yet all portfolios for both programs will be further diluted of exposure to this sector in the coming quarter, as explained above.

The CV Investment Program will continue to contain a near maximum 20% exposure to IG subordinated debt issued by both major and minor banks. The MIPS PMT remain bullish this sector, given the bank profitability and a history of Net Interest Margin (NIM) maintenance during the most recent period of negative economic activity. This is statistically consistent with the credit risk sector metrics applied in IP and CI. See further commentary in the ensuing section.

IG Bank Senior and Subordinate Floating Rate Debt

Readers will note our long held view that the impending rise in the OCR would drive fixed rates higher and subsequently 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.

The RBA has clearly met our (and the markets) expectation of higher bank bill rates through raising the OCR to 3.10% throughout 2022. Although the RBA dragged the chain early in 2022, accrual gains for floating rate note holders have now soared. A more detailed discussion of future bank bill rate expectations pre the eventual move higher in the OCR are discussed in prior quarterly reports.

The PMT has elected to extend the Credit Spread Duration (CSD) <average maturity profile> positioning of all bank FRN Investment Programs to near 3.50 years, having previously delayed the move longer as CM's were weak. This impending strategy execution is consistent with our investment strategy communications made in prior quarterly reports, where we advised that in the long term "we perceive a 3.50 year CSD as the minimum point of perceived advantage of accrual and capital gain potential."

The credit margin movements for each market sector, at the (near) 5 year maturity date, are displayed in table 7 below. Clearly we have not 'missed (the potential CM contraction) boat'.

The latest move in monetary policy in December may well not be the last, yet because we are likely, given inflationary evidence, at least closer to approaching the last move, the direction of CM's become even more important.

It is debatable whether CSD extension is warranted at all given all bank FRN products in the 1-5 year maturity range will benefit equally from the surge in BBSW that has now occurred. As we advised in the prior quarter, what is important to note however, is that if not extending now, at historically advantageous CM's that deliver a steep credit curve advantage (above +2.00% in the <near> 5 year), investors forgo the opportunity to lock in high forward returns, derived from high CM's, that will not be available if CM's contract.

Summary

Table 7: Bank FRN Credit Margins

Bank (FRN) Investment Programs key (average) credit spread information: 5 year (or near) maturity dates			
	30/9/2022	31/12/2022	Changes
	Credit Margin	Credit Margin	Credit Margin
Major Bank Senior	0.97%	0.97%	0.00%
Minor Bank Senior	1.27%	1.30%	0.03%
Major Bank Subordinate	2.37%	2.21%	-0.16%
Minor Bank Subordinate^	2.80%	3.00%	0.20%
Major Bank Subordinate/ Senior ratio	2.4x	2.3x	

^ 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

As advised in prior quarterly reports throughout 2021 and up until June 2022, we expected fixed bond rates to rise and subsequently we maintained a short duration position to protect investor capital.

The September quarter afforded the opportunity for the MIPS PMT to commence a second (and more significant) round of extension of duration (term) across all Investment Programs at significantly higher yields than have been available for the prior two years. MIPS investors have benefited greatly through the avoidance of major capital loss that would otherwise have occurred if the portfolio management team had extended at earlier dates.

Whilst the market has rallied (somewhat) during the December quarter, the MIPS PMT believe that a further extension of duration is warranted given the factors that drove rates higher (inflation, easy money supply) are dissipating.

Whilst the opportunity to invest in longer dated corporate debt assets at higher rates is accompanied by further risk and volatility of return, the MIPS PMT believe that risk is warranted. We will continually monitor the markets for catalysts for yield change, and will adjust both credit and duration exposure accordingly.

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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.

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

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.

Investment Program Limits (selection)	Min/Max
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

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	0/75
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.