Managed Income Portfolio Service (MIPS)

Quarterly Report – June 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

- MIPS delivers strong relative performance
- The RBA falls on its bloody sword
- Labour wins a poisoned chalice
- Geopolitical tensions rise to uncomfortable levels
- Are we headed for recession?

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

The MIPS PMT has previously stated in all prior Quarterly reports throughout the 2021 and 2022 years, and prior to the advent of war in Ukraine, that all economic, health, fiscal and monetary policy road signs pointed to higher yields. The messages of those prior quarterlies continually served as the foundation of our investment strategy and continued to drive the exposure choices made for all MIPS investors in the June quarter of 2022 . Rather than repeat the extensive volume of information written in the March 2022 Quarterly report, the PMT request investors to consider re–reading it.

Yields have risen aggressively again in the June 2022 quarter. Prior to a recovery rally in late June, the bond market was in the grip of a savage bear market. Only fear of an eventual recession could save it.

Many of the prior catalysts driving rising yields remain. The health crisis and excessive fiscal stimulus has waned, but policy responses continued to fuel an inflationary fire that is proving difficult to control. Key catalysts for poor bond market performance continue to be:

- Rising geopolitical tension
- Isolationism at the expense of globalisation
- Rising inflation, as the competitive benefits of globalisation wane
- Belated central bank monetary policy action, despite overwhelming evidence of inflation

The economy that the newly elected Labour Federal Government is leading, is riddled with public and private debt in a rising interest rate environment, has inflation that officially exceeds 5.00% but is forecast to climb as high as 7.00%, is reliant on infrastructure built for a fossil fuel age, is highly dependent upon exports to an increasingly antagonistic foreign neighbour, and is being increasingly compromised by populism over capitalism.

Labour ran a great race, but they appear to have won a poisoned chalice.

Is it any wonder, given domestic and international uncertainty that all asset classes bar cash, are weak, and price volatility is accelerating? But do forecasts of a recession belie the immediate evidence at hand, namely that unemployment is at 50 year lows, economic growth remains strong, household savings are robust and consumer spending has shown minimal signs of slowing, as evidenced by the extremely strong EOFY sales?

MIPS Investment Returns

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

Total GROSS Returns to 30 June 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	-0.29	-0.34	-1.67	-3.26	-1.38	4.51	0.54	2.09	2.75
Core Income	-0.63	-1.36	-3.85	-7.37	-4.12	1.66	0.64	2.26	2.81
Conservative Income	-0.98	-2.12	-4.93	-9.34	-5.05	-0.07	0.84	2.44	2.94
Customised Liquidity: Bank (FRN) 4	-0.15	-0.75	-1.46	-2.88	-1.34	0.73	1.17	n/a	n/a

The fixed income experts

*Table 2: Benchmark Fixed Income Investment Returns^*

Benchmark Fixed Income Index Returns to 30 June 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	0.05	0.07	0.09	0.18	0.10	0.08	0.33	0.74	0.95
Australian Fixed Interest 1-5 year	-0.77	-1.92	-5.06	-9.67	-6.25	-2.72	-0.89	0.62	0.97
Australian Fixed Interest (All Maturities)	-1.75	-4.47	-11.09	-20.06	-12.25	-6.35	-2.85	0.28	0.84
S&P/ASX Corporate Bond BBB Rating Band index	-1.93	-4.68	-10.80	-19.58	-12.24	-3.90	-1.46	1.00	1.64

^ *Source: Dow Jones S&P Indices.*

The (near) 10 year Australian Commonwealth bonds rose as high as 4.50% during the quarter and all but the shortest maturity based fixed bond products suffered significant negative performance.

The significance of the increase in yields and decline in the value of domestic government bonds and corporate credit is evident in Table 2. Whilst the bond asset class 'absolute' performance is poor, the MIPS Investment Program performance is 'relatively' strong as evidenced by Table 3.

The MIPS PMT considers the following questions the most relevant for investment strategy formulation in coming quarters.

- Are we headed for a domestic and or global recession in western economies? If so, when and for how long, and where does the yield curve invert?
- What is long term (the next 10 years) average inflation likely to be? At what date will it likely peak?
- What is a fair real return above that average inflation? And what volatility can we expect in that margin?

Having considered these questions we then determine a fair (BBB) corporate credit yield given application of a credit margin (CM) above the results.

We stand by our forecasts previously advised, repeating our message of the March 2022 Quarterly report, that concludes with a cyclical peak in the official cash rate @ 2.50%, in mid-2024, with GDP to remain positive. However, given inflation forecasting, we think we are moving to a 2.50% official cash rate very quickly, likely by early 2023, and subsequently maintaining it for an extended period. We conclude that a recession will be averted.

- Australian consumer gearing levels are significantly high and demand for consumables, will decline in the face of interest rate rises pressuring discretionary expenditure.
- Tighter monetary policy will have a significantly larger and faster impact upon forward consumer spending and economic growth, and therefore inflation, than in previous cycles.
- 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.
- A recession will be averted. A 'soft bounce'.

Real interest rates

Real interest rates are currently negative.

With inflation at 5.10% (March 2022 quarter) and forecast by the RBA for it to peak at above 7.00% in the second quarter of 2023, and the 10 year bond rate at 3.77% at June 2022 quarter end, the real rate of return is currently @ -1.33% but falling further!

The severity of the negative real rate, in conjunction with the long term (10 year) historical rate sitting at +0.70% see (Table 4), implies investor confidence that the recent high levels of inflation, that is forecast to not yet have reached cyclical peak,

Table 3: Performance versus Indexes

Indexes & Blend Indexes (BI's)	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	-1.93	-4.68	-10.80	-19.58	-12.24	-3.90	-1.46	1.00	1.64
BI 1: 75% BBB, 25% 1-5yr	-1.64	-3.99	-9.36	-17.10	-10.74	-3.60	-1.32	0.90	1.47
BI 2:50% BBB, 50% 1-5yr	-1.35	-3.30	-7.93	-14.62	-9.24	-3.31	-1.17	0.81	1.31
100% Bank Bill	0.05	0.07	0.09	0.18	0.10	0.08	0.33	0.74	0.95
Performance v Indexes & BI's									
Income Plus v BBB Index	1.64	4.34	9.12	16.32	10.86	8.41	1.99	1.09	1.11
Core Income v BI 1	1.01	2.63	5.52	9.73	6.62	5.27	1.96	1.36	1.33
Conservative Income v BI 2	0.37	1.18	3.00	5.28	4.19	3.24	2.02	1.64	1.63
Customised Liquidity: BB (FRN) 4 v BBill Index	-0.20	-0.83	-1.55	-3.05	-1.44	0.65	n/a	n/a	n/a

Table 4: Historical CPI, Nominal and Real Australian Interest Rates

Year	EOY Annual Inflation	June 30 3 year bond rate	3 year Real Rate of return implied	June 30 10 year bond rate	10 year Real Rate of return implied
2011	3.30%	4.75%	1.45%	5.17%	1.87%
2012	1.80%	2.40%	0.60%	3.02%	1.22%
2013	2.40%	2.60%	0.20%	3.55%	1.15%
2014	2.50%	2.70%	0.20%	3.71%	1.21%
2015	1.50%	2.08%	0.58%	2.99%	1.49%
2016	1.30%	1.55%	0.25%	2.13%	0.83%
2017	1.90%	1.91%	0.01%	2.42%	0.52%
2018	1.90%	2.06%	0.16%	2.70%	0.80%
2019	1.60%	0.96%	-0.64%	1.40%	-0.20%
2020	0.80%	0.25%	-0.55%	0.94%	0.14%
2021	2.90%	0.40%	-2.50%	1.53%	-1.37%
Averages	1.99%	1.97%	-0.02%	2.69%	0.70%
2022	5.10%	3.13%		3.77%	-1.33%
Average ex^	2.02%	2.33%	0.31%	3.01%	0.99%

^ Average ex the 2020 and 2021 years given that bond rates were held artificially low by the RBA through monetary policy and investment strategies employed to fight the health crisis.

are not sustainable. Otherwise investors would continue to sell (long) bonds and drive yields higher. The MIPS PMT, as explained above, are of that opinion, but suspect the market is pricing for an aggressive turnaround in inflation that is overly optimistic.

When analysing historical real rates, we prefer to use a six month advance methodology. We use the 31 December and 30 June dates for annual inflation and the 10 year note yield respectively given bond traders will endeavour to transact in bonds given their forward predictions of inflation.

Observations of the 10 year period to the end of calendar year 2021 include:

- Inflation trending lower from above 3.00% to between 1.00% and 2.00%, with a brief period of deflation at the height of globalisation in June 2020.
- Real rates of return trending lower consistent with inflation subsequently falling
- Real 3 and 10 year rates averaging -0.02% and +0.70% respectively over those 10 years
- ^ ex 2020 and 2021 data, real 3 and 10 year rates averaging a higher +0.31% and +0.99% over those 8 years

If we determine that the market will mean revert to average historical real rates of return, and apply those two averages to our inflation forecasts, we can determine our base case forecasts for nominal 3 and 10 year bond rates, and subsequently the yield curve shape going forward.

Use of long term real interest rates as a forecasting methodology of nominal rates must be undertaken in consideration of the trend in the direction of inflation as well. It is evident that over the last ten years that the market will aggressively bid for

Applying historical real rates to forecast inflation

Table 5: CPI and nominal bond rate forecasts using historical real returns

Year	Period	CPI forecast next 3 years	CPI forecast next 10 years
1	to June 2023	6.10%	6.10%
2	to June 2024	3.50%	3.50%
3	to June 2025	3.00%	3.00%
4	to June 2026	n/a	2.75%
5	to June 2027		2.50%
6	to June 2028		2.25%
7	to June 2029		2.25%
8	to June 2030		2.25%
9	to June 2031		2.00%
10	to June 2032		2.00%
CPI Avg		4.20%	2.86%
Real Premium		-0.02%	0.70%
Bond Rate expected		4.18%	3.56%
Real Premium ex^		0.31%	0.99%
Bond Rate expected		4.51%	3.85%

^ Average ex the 2020 and 2021 years given that bond rates were held artificially low by the RBA through monetary policy and investment strategies employed to fight the health crisis.

nominal bonds if it believes inflation is trending lower. That aggression results in a contraction of real rates.

We have determined that annual calendar year end 2023 inflation will finish at ~6.10% and that inflation will trend lower, and quickly, as the RBA tightens monetary policy. Although hardly a flawless assumption it is logical, given the trend increase of CPI since June 2021 (3.80% annualised) to March 2022 (5.10% annualised) and the RBA forecast of a 7.00% peak in June 2023, alongside noting that the catalysts for inflation, namely the reversal of globalisation, are not exhibiting evidence of change.

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.

Our forecasts determine an inverted yield curve and a bond range of:

- 3 years @ ~ 4.18% to 4.51% &
- 10 years @ ~ 3.56% to 3.85%

Economically, an inverted yield curve traditionally implies a recession looming. Our yield curve shape forecast is however consistent with a soft landing. GDP will fall, but not below zero. The curve will invert, but briefly. Inflation will fall, but doubts about the timeline to the new lower range, will deliver volatility and opportunity.

The estimations of significance become that of the speed in which inflation is estimated to fall. Particularly in year 2, given 3 year government bond rates are now approaching 3.00%. If we have confidence that the RBA will raise monetary policy quickly from here on in, our confidence in the peak yields forecast for both 3 and 10 year bonds is bolstered.

To date the RBA has raised the official cash rate three times in the June quarter, and given their predictions for inflation peaking next year at an (annualised) 7.00% for the June 2023 quarter, we see no reason that they will stop and pause. To do so would send the wrong signal to the indebted consumer, who may borrow further (at perceived accommodative rates) to defer the problem of excessive consumption that must be curtailed.

The MIPS PMT advised investors in the 2021 period that the RBA was behind the curve and yields of long dated assets would subsequently rise. But it was a difficult period in economic history and judging the RBA's capability to correctly read future inflation and set policy correctly based upon past errors, muddied by the water of a health pandemic and the collapse of globalisation, would be harsh.

The collapse of globalisation may well mean that the heady days of 2.00% inflation are well behind us. The RBA must raise rates to stifle demand to a point where it matches supply in this new world. We have confidence that their plan, eloquently and specifically communicated in media releases over the last quarter will achieve that aim.

The MIPS PMT subsequently envisage extension of the duration of exposure of all MIPS Investment Programs, above 3.00 years, and likely toward 4.00 years, as volatility in fixed rate bond yields delivers opportunities at forecast levels. We will not wait for exact levels to be reached. We will invest longer as 3 year bonds approach 3.75% and 10 year bonds exceed 3.25%. That opportunity is upon us now in the long end of the yield curve but not currently in the short end.

That extension has already commenced, as evidenced by Table 6 (below).

As in the quarter ended June 2022, further duration extension will likely initially commence through investment in commonwealth and state bonds before converting to corporate credit via switch.

Credit and performance commentary

The MIPS PMT have clearly delivered performance that has exceeded benchmark indices. That performance is attributable to being positioned short on both the yield and credit curves whilst yields rose throughout the quarter, as evidenced by the negative return of all indices and especially the Corporate BBB index which lost a very significant -6.65% in the June 2022 Quarter.

Refer to tables 1 through 3.

The Income Plus (IP) and Core Income (CI) Investment Programs, each with the capacity to invest in Unrated (UR) and Non Investment Grade (NIG) Credit, outperformed the 100% Investment Grade (IG) exposed Conservative Income (CV) Investment Program.

- The IP and CI attribution is simple. UR and NIG assets, accompanied by IG selected assets, outperformed

Table 6: Key average exposure statistics by Investment Program

Key average exposure statistics by Investment Program @ 30 June 2022									
	IG, Non IG & Unrated Exposure held versus Investment Mandate limits								
Investment Program	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%	43%	18%	75%	57%	-18%	2.17 yr	2.86 yr	3.21%
Core Income	75%	77%	2%	25%	23%	-2%	2.66 yr	3.33 yr	6.45%
Conservative Income	100%	100%	0%	0%	0%	0%	2.68 yr	3.86 yr	2.93%

benchmarks, delivering accrual gains and capital stability and minor negative absolute returns. They performed well compared to benchmarks because there was minimal price deterioration as a function of restructure and default, and they were extremely short duration assets. CI underperformed IP because it had lower accrual returns care of a higher exposure to IG assets, and the assets selected were of slightly longer duration.

- The CV attribution is equivalently simple. The IG assets selected outperformed benchmarks because their duration was shorter. All IG Bank Subordinate Debt held was in floating rate structures, and despite CM's widening during the quarter, delivering very slight negative returns, their contribution is significant.

The 'underweight' UR and NIG positioning, in both IP and CI portfolios, is not a function of retaining a negative opinion of the direction of the UR and NIG sector CM's per se, but a function of achieving appropriate exposure diversity. 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 57% 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. For CI accounts, achieving diversity is less of a problem given the UR & NIG limit (senior only) is 25%. The pool is sufficiently large to satisfy diversity and subsequently CI accounts are currently invested at an average of 23% (unchanged QOQ) exposure versus a 25% limit

The CV Investment Program contains a marginal underweight exposure position to IG subordinated debt, of approximately 17% versus a 20% limit. 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 fixed rates would rise and subsequently floating rate note (FRN) product would outperform. That has been the case, yet FRN holders via Bank FRN credit product, have suffered losses as a function of CM deterioration exceeding accrual advantage as base BBSW rates stagnated at very low levels due to the RBA 'dragging' the monetary policy chain.

Readers will also note our long held bullish outlook for bank subordinate CM's and our suggestion that senior debt CM's will likely not experience any further gains. The Credit Spread Duration (CSD) or average maturity profile positioning of all bank FRN Investment Programs was extended to near 3.50 years during the March 2022 Quarter, consistent with our investment strategy communications made in the December 2022 Quarterly report that "we perceive a 3.50 year CSD as the minimum point of perceived advantage of accrual and capital gain potential", but that recent price action "warranted respect".

Our outlook and execution has proven to be overly optimistic for subordinate debt and returns for our benchmark customised liquidity program (BB4) were -0.75% for the June 2022 Quarter. The negative return is despite maintaining a relatively short CSD profile compared to our Investment Program minimum limit of 2.75 year.

Going forward, our positioning will remain short, and whilst we see this CM weakness as a strategic (long term) opportunity (to extend) we await a tactical (short term) catalyst to reverse the current trend. Otherwise we will let all portfolios gravitate toward lower maturity date limits to protect investor capital.

The CM movements for each market sector, at the (near) 5 year maturity date, are displayed in Table 7.

Table 7: Bank FRN Credit Margins

Bank (FRN) Investment Programs key (average) credit spread information: 5 year (or near) maturity dates			
	31/3/2022	30/6/2022	Changes
	Credit Margin	Credit Margin	Credit Margin
Major Bank Senior	0.67%	1.00%	0.33%
Minor Bank Senior	0.88%	1.34%	0.46%
Major Bank Subordinate	1.51%	2.43%	0.92%
Minor Bank Subordinate^	1.75%	2.70%	0.95%
Major Bank Subordinate/ Senior ratio	2.3x	2.4x	

^ *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*

We continue to maintain a bullish outlook, but there are two key dependencies:

- CM performance
- Accrual rate set (BBSW) performance

As explained above, and in contrast to the MIPS PMT optimism, bank debt CM's have continually drifted wider into the June 2022 quarter end. Major Bank Subordinate Debt CM''s lost most value. There is reason now however, to be increasingly bullish.

Finally, the RBA has commenced tightening and subsequently BBSW rates are climbing aggressively. Whereas prior to this quarter, when near 100% of accrual returns of all FRN bank debt products were comprised of the market value of CM's, and BBSW was rate setting near zero, the tables have been turned significantly.

The move in monetary policy has driven a surge in 90 day BBSW from near zero in the March Quarter to near 2.00% currently. That is with official cash at 1.35%. As noted previously, we expect monetary policy tightening to continue into early 2023, with official cash rates to climb toward 2.50%, where it will be maintained unless inflation falls aggressively below forecasts. We expect 90 day BBSW to climb to and exceed and maintain a minimum 3.00% within that timeframe.

It is debatable whether CSD extension is warranted at all given all bank FRN product in the 1-5 year maturity range will benefit equally from the surge in BBSW. What is important to note however, is that if not extending now, at historically advantageous CM's that deliver a steep credit curve advantage, 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

As advised in prior Quarterly reports, evidence supports the high probability that the low interest rate environment is behind us. The difference now is that bond yields have finally succumbed to the evidence of supply chain bottlenecks that is causing inflationary concern globally. Globally, key central banks have commenced tightening monetary policy aggressively.

This recent quarter has afforded the opportunity for the MIPS PMT to commence extension of term risk of 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 not positioned portfolios so short. That short positioning has additionally secured a higher level of liquidity to facilitate the commencement of a longer duration exposure strategy.

The MIPS PMT continue to believe that duration management going forward will be important, but increasingly, given the advantage afforded by higher yield for longer term products, our management focus will shift back to prioritising credit management. The current environment has presented opportunities to invest in longer dated corporate debt assets at higher rates, and whilst this is accompanied by further risk and volatility of return, the MIPS PMT will continually monitor the markets for catalysts for yield change, and will adjust both credit and duration exposure accordingly.

Post script

As this report was being finalised, Australian unemployment statistics for June 2022 print at a record low of 3.50%, a figure not seen since 1974, care of the creation of near 90,000 new jobs. June 2022 CPI in the USA printed at 9.10% (annualised) and the market now expects the Federal Reserve to tighten official cash by 1.00% imminently. The Bank of Canada did just that overnight. If anything, all this evidence supports the likelihood that the Australian official cash rate is under even more pressure than documented here-in and could therefore be expected to rise above our 2.50% estimate. The probability of it hitting 3.00% is increasing. This will add a marginal increase to base bond rate forecasts but does also bolster the likelihood of yield curve inversion.

FIIG The fixed income experts

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 8 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.