Managed Income Portfolio Service (MIPS)

Quarterly Report – March 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

- Inflation, inflation, inflation
- Russia invades Ukraine and oil prices spike higher
- The US Federal Reserve tightens monetary policy to combat inflation
- The RBA exercises monetary policy 'patience' as inflation exceeds expectations

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

Global bond market yields pushed aggressively higher in response to evidence of continually higher global inflation. That inflation, previously singularly attributable to global supply chain disruptions brought on by the Covid-19 health crisis, has now been exacerbated by an acceleration in oil and gas prices as a function of Russia invading Ukraine. Costs of production and transportation of goods globally and domestically became more expensive immediately. Australian QOQ inflation for December 2021 was +1.30%, implying an annualised rate in excess of 5.00%. Tight labour markets persist and skill shortages in many industries will likely drive labour prices higher with Australian unemployment hovering at long term historical lows of near 4.00%. Excessive emergency fiscal expenditure alongside ultra-low and extremely accommodative monetary policy has contributed to pushing inflation higher. With most western economies growing strongly, fiscal policy has been reigned in, yet the reversal of monetary policy emergency settings has debatably lagged.

Within the US, inflation has climbed to exceed 7.00% annually and the US Federal Reserve (the Fed) has responded by tightening official monetary policy by 0.25% during the quarter, with the Federal Funds Target Rate (FFTR) range now 0.25% to 0.50%. Additionally, it has officially signalled guidance to the market place that it expects it will tighten a further six times during 2022. The Fed has now, somewhat belatedly, followed New Zealand, Canadian and English central banks, that, faced with the same inflationary evidence, tightened policy in the latter half of 2021.

The RBA, despite mounting (core) inflationary evidence to the contrary, have persisted with forecasting inflation to mean revert to within the 2.00% to 3.00% inflation tolerance band, subsequently exercising 'patience' and holding monetary policy stable at the emergency levels of 0.10% initially set during the onset of the Covid-19 health crisis. They are now appearing to be the lone wolf cut away from the global central banking pack.

The AUD has remained strong, despite interest rate differential changes of significance, because of increased global demand for Australian commodity exports. The Federal Government has subsequently raked in higher corporate tax receipts and guidance on forward deficit positioning has improved.

MIPS Investment Returns

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

Total GROSS Returns to 31 March 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	-1.11	-1.33	-2.85	-5.60	1.06	3.67	1.25	2.42	3.10
Core Income	-1.79	-2.47	-3.90	-7.63	-1.22	2.01	1.87	2.83	3.36
Conservative Income	-2.05	-2.80	-3.52	-6.91	-1.70	1.48	2.16	3.06	3.34
Customised Liquidity: Bank (FRN) 4	-0.61	-0.71	-0.86	-1.72	-0.15	2.42	1.76	n/a	n/a

*Table 2: Benchmark Fixed Income Investment Returns^*

Benchmark S&P/ASX Fixed Income Index Returns to 31 March 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	0.00	0.02	0.02	0.05	0.04	0.08	0.46	0.85	1.02
Australian Fixed Interest 1-5 year (AFI 1-5 year)	-2.04	-3.15	-4.53	-8.69	-4.24	-1.47	0.31	1.28	1.49
Australian Fixed Interest (AFI All Maturities)	-4.16	-6.62	-8.06	-14.98	-6.11	-4.01	-0.31	1.61	1.96
Corporate Bond BBB Rating Band (BBB)	-3.89	-6.11	-7.95	-14.79	-5.93	-0.89	1.03	2.33	2.86

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

The market has less faith than the RBA, and have repriced domestic government bonds significantly higher in yield over the quarter. The weakness in domestic bond yields was initially evident in yield curve steepness, but soon the market sold all but the shortest dated assets aggressively and 3 year government bond yields climbed.

The significance of the decline in the value of domestic government bonds in the quarter ended 31 March 2022 is evident in Table 2. The S&P/ASX Australian Fixed Interest (AFI All Maturities) Index (duration of 6.10 years) declined in value by a massive 6.62% during the quarter. The higher yielding S&P/ASX Corporate Bond BBB Rating Band (BBB) Index, despite a lower duration (of 4.66 years) declined in value by a near equivalently poor 6.11%.

Domestically, the Australian (near) 10 year Commonwealth Government Loan (CGL), as represented by the 21 June 2031 Maturity, having closed the calendar 2021 year @ 1.66%, closed the March 2022 quarter @ 2.80%.

Absolute bond market returns, as evidenced in Table 2, have been poor. Both benchmark base government yields and credit margins (CM's) are rising and subsequently bond prices have fallen, delivering negative performance across the entire yield curve ex the shortest of all products – bank bills. The longer the tenor of the index, and the lower the credit grade average of the universe of constituents, the poorer the performance.

Whilst the bond asset class 'absolute' performance is poor, the MIPS Investment Program performance is 'relatively' strong.

For the year to 31 March 2022, the three MIPS Investment Programs have outperformed their respective (refer Table 3) benchmark bond market index returns by an average of near 5.00%, with a range of outperformance of between 3.00% and 7.00% depending on program design.

The MIPS PMT has previously stated in all prior quarterly reports throughout 2021, and prior to the advent of war in Ukraine, that all economic road signs point to higher yields and that the yield for the 'near' 10 year CGL may extend above 2.25% (was 1.90% at the time) given those growing inflationary fears, and that ***only then*** does 'the option to extend duration become more attractive'. Now, with the addition of the war in Ukraine during the quarter, the expectation of weakness in yields over the prior estimates is only logical.

Given the situation in Ukraine, which appears likely to be a prolonged conflict with potentially expanded theatres, it is fair to set an even higher yield estimate for the Australian 'near' 10 year bond, in view of the likelihood of further supply chain disruption and likely higher and persistently higher inflation due to increased energy costs. The addition of impending labour force wage pressure cannot be discounted. The recently released federal budget is additionally accommodative and the RBA continues to 'drag the monetary policy chain' - 'tolerating' higher inflationary prints to support a sustained economic recovery post the Covid-19 health crisis - because it believes it will be able to reign that growing inflation 'in' eventually when it commences tightening policy.

Table 3: Performance versus Indexes

S&P/ASX Indexes & Blend Indexes	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.
100% BBB	-3.89	-6.11	-7.95	-14.79	-5.93	-0.89	1.03	2.33	2.86
75% BBB, 25% AFI 1-5 year (Blend Index 1)	-3.43	-5.37	-7.10	-13.26	-5.51	-1.04	0.85	2.07	2.52
50% BBB, 50% AFI 1-5 year (Blend Index 2)	-2.97	-4.63	-6.24	-11.74	-5.09	-1.18	0.67	1.81	2.18
100% Bank Bill	0.00	0.02	0.02	0.05	0.04	0.08	0.46	0.85	1.02
MIPS Program Performance v S&P/ASX Indexes & Blend Indexes									
Income Plus v 100% BBB	2.78	4.78	5.10	9.19	6.99	4.56	0.22	0.09	0.24
Core Income v Blend Index 1	1.64	2.90	3.20	5.63	4.29	3.04	1.02	0.77	0.84
Conservative Income v Blend Index 2	0.91	1.83	2.72	4.83	3.39	2.66	1.49	1.25	1.16
Customised Liquidity: Bank (FRN) 4 v Bank Bill	-0.61	-0.73	-0.88	-1.77	-0.19	2.34	1.30	n/a	n/a

Supply chain problems and the onset of an energy crisis explain why prices of most goods and services have risen. Why those higher prices have been met with excessive demand, is explained by easy monetary policy and low retail interest rates.

Why lend when you are not rewarded with an interest rate that exceeds inflation? Why put off buying today when the price is likely to be (much) higher tomorrow?

Quite simply, real interest rates are negative and everyone is now a borrower and no one is a lender. Balance needs be restored.

So, what is the correct 'balance'? The MIPS PMT agree with the statement of Michael Hartnett, chief investment strategist at Bank of America, who when describing the reasons for the reversal of fortunes in the bond market, stated that the switch in (demand) is function of "deflation to inflation, globalisation to isolationism, monetary to fiscal excess, capitalism to populism, inequality to inclusion and US dollar debasement".
He additionally stated, and we agree, that "the US central bank will have to confront the reality that it is ***hysterically behind-the-curve***".

He forecasts US 10 Year Treasury bonds to hit 4.00% by 2024. At current (and historical) AUD/US treasury curve spreads, that implies an AUD 10 year government bond yielding at least 4.50% in the same time frame.

Investment Strategy forecasting and key considerations:

- What is the 'long' term average inflation likely to be over the next three and ten years?
- What should we as investors demand as a fair risk free interest rate premium over inflation?
- What is a fair real rate?
- What premium should we demand for both shorter and longer term horizons?
- What rate is therefore attractive for short (1 year), medium (3 years) and long (10 year) horizons?
- What is the likely volatility of bond yield opportunity around these forecasts?

In summary, given global economic circumstances, the MIPS PMT expect that inflation will not easily be reversed in the short term, and given the December 2021 result (1.30%) already exceeds 5.00% annualised, that it is fair to assume that a level of inflation above the RBA tolerance band (2.00% to 3.00%) of at least 1.00% is likely to persist in the medium term. Given the RBA charter, inflation staying at this level in the long term is less likely. Real rates of return in the last two years have collapsed, because quantitative easing strategies saw central banks buy swathes of government bonds at lower and lower yields to stimulate economic growth in the health crisis. ***It was a false economy***.

With QE now in reverse, real rates could easily mean revert to historical normality toward at least 1.00% and 2.00% for medium term and longer terms respectively. ***Given those forecasts, 3 year and 10 year Australian Government Bonds could easily and justifiably climb to 4.00% and 5.00% respectively.***

However, the MIPS PMT forecasts at this stage are not that dire.

We expect that impending incremental monetary policy moves by the RBA will have a significantly larger impact upon forward consumer spending and economic growth, and therefore inflation, than in previous cycles. The Australian consumer is, on average, more heavily geared than in prior cycles, and, without excessive real wage rises family budgets will become stretched quickly and demand for consumables, and therefore prices of consumables, will decline. The MIPS PMT suspect this will occur even if mortgage rates only push a modest 2.50% higher from current levels. House prices will stagnate and partially reverse excessive gains made since early 2020, and the subsequent reversal of the 'wealth affect' will impact economic growth.

Given the burden bore by the Federal Government during the health crisis, and the fragility of reliance upon continued commodity price strength for tax receipts and deficit repair, the fiscal purse strings will likely remain tight, and subsequently potentially weaker consumer demand will not be bailed out as it was during the Covid-19 health crisis.

Given the current economic evidence, and forecasts above, the MIPS PMT see Australian 'near' 3 and 10 year government bonds as starting to represent value toward 3.50% and 4.00% respectively. Inflation may spike higher, and force volatility around this expected mean level, but the RBA, having seen unemployment fall to near 4.00%, will likely combat inflationary spikes successfully by incremental and (historically) minor monetary policy tightening without damage to future

Table 4: Key average exposure statistics by Investment Program

Key average exposure statistics by Investment Program @ 31 March 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%	44%	19%	75%	56%	-19%	2.08 yr	3.35 yr	2.63%
Core Income	75%	78%	3%	25%	22%	-3%	2.74 yr	3.40 yr	3.98%
Conservative Income	100%	100%	0%	0%	0%	0%	2.57 yr	3.60 yr	3.89%

employment levels. If they need temporarily spike the official cash rate higher, to combat inflation, the yield curve would likely invert, given consumer tolerance for absorbing higher funding rates will be short lived.

At this juncture we see official cash gravitating toward 2.50% over the period toward mid-2024, with the first move a 40 basis point hike from the current 0.10% level following the June 2022 RBA Board meeting.

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 and above forecast levels. Whilst that extension has already commenced, as evidenced by Table 4, it was minor, off an extremely low duration position base and done so before further inflationary evidence emerging from the Ukraine crisis was entirely evident.

Credit and performance commentary

During the quarter ended 31 March 2022, and consistent with strategy observations made in the prior section, the MIPS PMT pursued the first stage of gravitation away from an 'extremely' short duration strategy that dominated 2021 and early 2022 exposure positioning. The average duration exposure across all Investment Programs was extended during the March quarter, at the beginning of March, by 0.32, 0.50 and 0.43 for the Income Plus, Core Income and Conservative Income Investment Programs respectively, increasing average duration to near 2.50 years. Refer to Table 4.

The duration extension was undertaken with the advantage of higher yields, as 10 year government bonds first exceeded our initial target of 2.25% and traded toward 2.50%, initially under inflationary pressure that was subsequently exacerbated by the Ukraine conflict. Extensions were made through the purchase of 5 year federal and state government bonds, across all investment programs. This is the first time that the duration of any investment program has exceeded 2.26 years in the lasts nine months.

Referring to both Table 1 & 2, 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 BBB index which lost a very significant 6.11% in the March quarter.

Within June, September and December 2021 quarterly reports, we advised an expectation that:

- Base Federal Government bond yields would rise
- The Corporate Unrated (UR) and Non Investment Grade (NIG) sector CM rally had likely run its course
- The Corporate IG sector CM rally was 'exhausted'
- Because further duration and CM gains would unlikely be significant, the average maturity exposure (or duration) would be kept short across all programs to avoid potential capital loss.

During most of the first quarter of 2022 we maintained that short duration and short credit exposure, and the results are (relatively) strong.

- During the March quarter, the benchmark AFI All maturities Index (6.10 years duration), delivered a return of -6.62%.
- The BBB Index, whilst shorter in duration (at 4.66 years) near matched that underperformance, delivering -6.11%.
- The shorter AFI 1-5 year Index (at 2.71 years duration) delivered a return of -3.15%.

Our prior quarterly report estimates and assumptions were correct.

- The longer the tenor and the lower the (Investment) grade of credit, the lower the returns.
- The negative returns driven by base federal government bond yields climbing (in the order of 1.00% across the board) has been exacerbated by the addition of widening CM's.

Income Plus however, exposed to UR and NIG assets, faired very well, given those assets held were extremely short, as noted in Table 4. Duration of Income Plus portfolios was kept at an average 1.76 years duration most of the quarter, moving to 2.08 years only at near quarter end once yields had risen.

Income Plus, Core Income and Conservative Income Investment Programs posted negative quarterly returns of -1.33%, -2.47% and -2.80% respectively. Despite this poor 'absolute' performance, attributable to the asset class devaluing across the board as bond yields rose across the yield curve, the performance was 'relatively' strong.

Income Plus outperformed the 100% BBB Index by 4.78%, Core outperformed the blended 75% BBB / 25% AFI 1-5 year indexes by 2.90% and Conservative Income outperformed the blended 50% BBB / 50% AFI 1-5 year indexes by 1.83%.

The 'relatively' strong performance, is attributable to maintaining a short duration, and subsequently a short credit spread duration throughout the quarter that saw all bond market assets devalued given market concerns about impending rises in official interest rates primarily to combat a surge in inflation. Short dated credit, bearing less capital at risk, devalued, but not as significantly as long dated credit, hence Income Plus performed 'relatively' well compared to Core and Conservative Income.

All Investment Program model portfolios are constructed consistent with the MIPS Investment Strategy, which pursues high diversity across non correlated industries, particularly where exposed to the UR assets sector, mitigating downside returns associated with poor performance for any singular credit.

Whilst there were significant duration changes and marginal credit exposure changes in the March 2022 quarter, the Income Plus and Core Income Investment Programs continue to retain a short maturity profile alongside an underweight

exposure to UR and NIG assets in favour of an overweight exposure to IG assets.

The ‘underweight’ UR and NIG positioning, in both Income Plus and Core Income 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 56% (+ 3.00% 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.

For Core Income 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 Core Income accounts are currently invested at an average of 22% (unchanged QOQ) exposure versus a 25% limit.

The Conservative Income 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 Income Plus and Core Income, but it is driven predominantly again by the reduced opportunity of meaningful supply. See further commentary in the ensuing section titled ‘IG Bank Senior and Subordinate Floating Rate Debt’.

IG Bank Senior and Subordinate Floating Rate Debt

Readers will note our long held bullish outlook for bank subordinate CM’s, believing that the benchmark (near) 5 year major bank subordinate debt assets CM’s can rally below 100 basis points above bank bills, but that it will be a ‘slow grind’. They will also note our suggestion that senior debt CM’s will likely not experience any further gains.

Our outlook has proven to be overly optimistic for subordinate debt and returns for our benchmark customised liquidity program (Bank FRN) 4 were -0.71% for the March quarter, contributing to the annual result for the year ended March 31 turning negative at -0.15%. The longer term record remains healthy @ +2.42% and +1.76% over the 2 year and 3 year history respectively, and adds credibility to this sector and product design being a suitable yield and liquidity enhancement vehicle over the alternative of investing in Term Deposits.

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

In contrast to the MIPS PMT optimism, bank debt CM’s that were weak into calendar year end, continually drifted wider into the March quarter 2022 end. Major Bank Subordinate Debt CM’s lost most value.

Table 5: Bank FRN Credit Margins

Bank (FRN) Investment Programs key (average) credit spread information: 5 year (or near) maturity dates			
	31 Dec 2021	31 Mar 2022	Changes
	Credit Margin	Credit Margin	Credit Margin
Major Bank Senior	0.62%	0.67%	0.05%
Minor Bank Senior	0.80%	0.88%	0.08%
Major Bank Subordinate	1.36%	1.51%	0.15%
Minor Bank Subordinate^	1.69%	1.75%	0.06%
Major Bank Subordinate/ Senior ratio	2.2x	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.

We see this CM move as an opportunity to extend. We note that RBA rhetoric communicating ‘patience’ before tightening has held spot rate sets of base bank bills at near historic lows, so accrual returns of all FRN bank debt products are near made up entirely of the current market value of CM’s. We note that fixed rates offered for equivalent term bank debt will yield higher, and that breakeven of floating rate product performance, versus fixed term equivalents, depends on the forward expectations for official cash rate rises, and thereby bank bill rate set rises, to be delivered.

We expect monetary policy tightening to commence in June 2022, and progressively for official cash rates to climb toward 2.50% over the period to 2024. Bank Bill rates will trade at a higher margin. This expectation is not ‘overly’ bearish given December 2023 through to December 2024 bank bills futures are currently trading at 3.50%.

The Credit Spread Duration positioning of all bank FRN Investment Programs was extended to near 3.50 years during the March Quarter, from near 3.00 years at calendar year end. This is consistent with our strategy communications made in the December quarterly report where we stated 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.

Summary

As advised in prior quarterly reports, evidence supports the high probability that the extreme 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 already tightened policy and we expect the RBA to move to tighten in 2022.

This environment 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 become increasingly important. 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

This report was written for the purpose of reviewing the prior quarter, and was written prior to the release of the RBA board minutes on Tuesday 7 April. The RBA has within those minutes all but confirmed they are on a path to tightening official policy, signalled through dropping their reference to ‘patience’ for more inflationary evidence to unfold beforehand.

We expect that the March quarter 2022 CPI data, to be released late in April, will not only be sufficiently high to justify recent bond market yield highs – 3 and 10 year (June) futures on the Sydney Futures Exchange (SFE) have traded as high as 2.80% and 3.05% - but to justify the RBA moving official rates even as early as May, despite a looming federal election.

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.

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.