FIIG The fixed income experts

Managed Income Portfolio Service (MIPS)

Quarterly Report – September 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 tighten monetary policy to combat inflation
  – RBA hikes 3 times in the quarter
- Federal Government and fiscal repair
  – Potential for delayed stage 3 tax cuts
- MIPS extends duration aggressively in volatile and (predominantly) weak bond markets
  – As bond yields rise to long communicated targets
- Heightened geopolitical tension
  – UK fiscal failure post EU exit
  – Russian nuclear bluster and conflict in Crimea

Generation of both income and 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 bond yields and that subsequently the duration (average length) of all portfolios would be maintained aggressively short during this period to protect investor capital.

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 early part of the September quarter 2022. Rather than repeat the extensive scribe within our history of quarterly reports, the PMT direct readers to consider re–reading them all.

One key investment strategy difference from prior quarterly reports was advised in the June 2022 report. The MIPS PMT would, in the advent of yields rising to forecast levels, commence extending duration. The forecast yield levels were based upon the summation of real return mean historical data over inflation forecasts, which pointed to an inverted yield curve. Rather than repeat messaging, the PMT direct readers to consider re –reading the June 2022 Quarterly report.

Yields have risen markedly again in the September 2022 quarter, and, as advised as was our intention, the MIPS PMT has extended duration aggressively.

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.

During the quarter, near all central banks tightened monetary policy as each economy under their influence experienced significant inflationary spikes, attributable to the ongoing collapse of supply chain efficiency afforded by globalisation, broken by the Covid-19 pandemic, and the energy price surge predominantly attributable to the war in Ukraine. Refer to the June 2022 Quarterly report for extensive discussion.

MIPS Investment Returns

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

Total GROSS Returns to 30 September 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	-0.57	-0.25	-0.59	-1.17	-3.48	3.57	-0.25	1.71	2.41
Core Income	-0.84	-0.47	-1.83	-3.62	-5.79	0.76	-0.14	1.83	2.40
Conservative Income	-0.86	-0.27	-2.39	-4.70	-5.93	-0.85	0.13	2.10	2.56
Customised Liquidity: Bank (FRN) 4	0.31	0.72	-0.04	-0.07	-0.90	0.53	1.07	n/a	n/a

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

Benchmark Fixed Income Index Returns to 30 September 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	0.14	0.42	0.49	0.99	0.52	0.28	0.38	0.71	0.93
Australian Fixed Interest 1-5 year	-0.75	-0.25	-2.17	-4.29	-6.70	-3.25	-1.29	0.40	0.84
Australian Fixed Interest (All Maturities)	-1.56	-0.68	-5.15	-10.04	-13.21	-7.74	-3.97	-0.03	0.72
S&P/ASX Corporate Bond BBB Rating Band index	-1.33	-0.03	-4.71	-9.20	-12.66	-5.17	-2.20	0.74	1.40

^ Source: Dow Jones S&P Indices.

Official Cash Rates (OCR) rose the following amounts, on the following dates, to the following levels, respectively, for the following, but not exhaustive, global central bank list:

- Swedish Riksbank, +1.00%, 21 September, 1.75%
- US Federal Reserve: +0.75%, 22 September, 3.00% (min) – A further hike in early November is expected
- Bank of England: +0.50%, 24 September, 2.25%
- RBNZ: +0.50%, 5 October 2022, 3.50%

Within those domiciles, the catalyst for raising the OCR has been the persistent climb in inflation. The most recent and representative example is within the Eurozone where the September 2022 month end preliminary inflation was 10.0% following the finalised August 2022 monthly figure of 9.10%.

The RBA had, until quarter end September, tightened official cash 5 times in the prior 5 months, commencing with a 0.25% rise on May 4th. There were 3 back to back rate rises of 0.50% in the September quarter.

And, as I write this report, the RBA tightened a further 25 basis points on October 4th, lifting the official cash rate to 2.60%.

Most importantly, the RBA, having tightened by 0.50% in each month from June through to September, have now slowed down the rate of increase to 0.25%. This indicates that the RBA is confident that their aggressive action to date will curb discretionary expenditure and that they believe their inflation forecasts for 2023 and 2024 are on the money.

However, the jury is still out. It is likely that before all global bond markets can rally sustainably, and that includes the Australian market, investors will require more concrete evidence of a slowdown in demand lead spending, even to the point of recession in many (if not most) western economies. Given persistent global inflation, and most importantly, a very hawkish US Federal Reserve, volatility will likely continue.

We note, as many commentators have noted … "that whilst we do not know when the Federal Reserve will stop hiking, what we do know is … that with every BIG rate hike into this series of rate hikes, the probability of eventual PAUSE is more likely".

Domestically, whilst the RBA Governor indicated that there is still scope for more rate rises in the future, the "soft" approach on Tuesday (4 October 2022) was "in contrast to the big bang approach being adopted by the US Federal Reserve" where wages are growing considerably compared to Australia. So, importantly, the domestic market will now keenly watch labour price statistics for any sign there is real growth that will contribute to higher inflation. Additionally, the market will await any austerity move by the federal government, possibly by scaling back stage three of domestic tax cuts. Such a move would bolster fiscal repair and potentially reign in consumer spending further.

The PMT advised in the June 2022 Quarterly Report that the RBA …"must raise rates to stifle demand to a point where it matches supply" … and that … "we have confidence that their plan, eloquently and specifically communicated in media releases

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	-1.33	-0.03	-4.71	-9.20	-12.66	-5.17	-2.20	0.74	1.40
75% BBB, 25% 1-5yr	-1.19	-0.09	-4.08	-7.99	-11.17	-4.68	-1.98	0.65	1.26
50% BBB, 50% 1-5yr	-1.04	-0.14	-3.44	-6.76	-9.68	-4.20	-1.75	0.57	1.12
100% Bank Bill	0.14	0.42	0.49	0.99	0.52	0.28	0.38	0.71	0.93
Performance v Index & Blend Indexes									
Income Plus	0.76	-0.22	4.12	8.03	9.18	8.73	1.96	0.97	1.00
Core Income	0.34	-0.39	2.24	4.37	5.38	5.45	1.84	1.18	1.14
Conservative Income	0.18	-0.13	1.05	2.07	3.75	3.35	1.87	1.53	1.44
Customised Liquidity: Bank Bond (FRN) 4	0.17	0.30	-0.53	-1.06	-1.42	0.25	n/a	n/a	n/a

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Table 4: Commonwealth (benchmark) Bond yield volatility in the September 2022 quarter

CGL Maturity	Source ^	Open	High	High date	Low	Low date	Close	Current #
(near) 3 Year	SFE 3 & 10	3.365%	3.930%	27/09/22	2.705%	3/08/22	3.670%	3.30%
(near) 10 Year	Year Futures	3.720%	4.185%	29/09/22	2.960%	3/08/22	3.915%	3.72%

^ 3yr: YTU22 (Sep 22 deliverable) & YTZ22 (Dec 22 Deliverable)
^ 10yr: YUU22 (Sep 22 deliverable) & YUZ22 (Dec 22 Deliverable)
 # Current date: 5 October 2022

over the last quarter 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".

For clear early signs of the impact of monetary policy domestically, we need look no further than the residential property market. Asset prices and turnover is weak.

It would appear that our confidence in the RBA is matched by the market, for immediately following the rate hike of 4 October, bonds rallied aggressively after quite extreme volatility throughout the September quarter.

But again, the jury is still out! 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.

The (near) 3 year Australian Commonwealth bond, having closed the June quarter @ 3.365%, rallied in July to reach a low of 2.705% on the 3rd of August, before weakening to a high of 3.93% on the 27th of September and closing @ 3.67% at September quarter end. It has now rallied near 40 basis points to be 3.30% at 5 October.

The (near) 10 year Australian Commonwealth bond, having closed the June quarter @ 3.72%, rallied in July to reach a low of 2.96% on the 3rd of August, before weakening to a high of 4.185% on the 29th of September and closing @ 3.915% at September quarter end. It has now rallied near 20 basis points to be 3.72% at 5 October.

Volatility in long dated bond rates globally throughout the quarter has mostly been a function of both actual inflation, expected inflation and actual and expected central bank policy monetary response to combat it. Early September saw US Treasury yields particularly weak in expectation of the Federal Reserve tightening policy higher than previously expected. The market got that result (75 basis points) on 22 September, yet the tail end of the month was heavily influenced by the Bank of England buying £65bn of long dated debt to 'protect' the UK pension industry. A 120 basis point rally in the 30 year Gilt (bond) ensued from a high of 5.12%.

In the June 2022 quarterly report, the MIPS PMT forecast 3 and 10 year yields to climb as high as 4.51% and 3.85% respectively. And we stated that we intended to … "extend 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 delivered opportunities at forecast levels" … noting especially that we will "not wait for exact levels to be reached, investing longer as 3 year bonds approach 3.75% and 10 year bonds exceed 3.25%". Clearly that opportunity presented itself.

Bond yields rose aggressively and given the PMT inflationary forecasts tabled in the June 2022 Quarterly Report had not changed, the PMT saw the bond market weakness as a buying opportunity.

Looking past all the volatility, the bond market posted negative returns for the quarter. The 3 year and 10 year government bonds were (near) 30 and 20 basis points higher over the quarter. The significance of that increase in yields and decline in the value of domestic government bonds and corporate credit is evident in Table 2. Whilst best labelled 'mild weakness' by comparison to the extreme weakness of the FYE 2022, the asset class performance was negative nonetheless.

As opposed to prior quarters, where MIPS investors enjoyed significant (relative) outperformance of benchmark indices, having extended duration closer to that of the indexes, the most recent quarterly (gross) performance has near matched the indices. Refer also to Table 3 and Graph 1.

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		Sep' Qtr End MD	Difference MD v Index
			Max MD	Min MD		
Benchmark Index 1	S&P/ASX BBB Rating Band	4.35	N/A			
Benchmark Index 2	S&P/ASX AFI 1-5 Year	2.82				
MIPS Income Plus	100% Index 1	4.35	5.00	0.00	2.55	-1.80
MIPS Core Income	75% Index 1, 25% Index 2	3.97	5.00	0.00	3.32	-0.65
MIPS Conservative Income	50% Index 1, 50% Index 2	3.59	5.00	0.00	3.26	-0.33

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As evidenced by Table 5, all MIPS investors, but particularly Income Plus investors, are, despite duration extensions QOQ, not yet 'longer' than their benchmark index durations.

Bank Bill indices posted increased positive returns of merit, benefiting from the rise in the OCR. Bank bill rates and associated bank floating rate debt, alongside performance of our flagship BB4 product will be discussed in further detail in the final section of this report.

Summary outlook

Looking forward, 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 @ 2.50% (June 2022 main report), but possibly as high as 3.00% (June 2022 Post script notes) to occur very quickly, likely by early 2023, and it to be maintained for an extended period.
- 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. We predict a 'soft bounce'.

Each summary observation and expectation would appear to be coming to fruition.

Now that the RBA has slowed down the rate of change of monetary policy tightening, we see even more reason to be confident in our forecasts.

- We expect to maintain a 'longer' duration profile in the foreseeable future unless there is reason to increase our inflation forecasts. We will extend duration longer (into weakness), and longer than benchmark indices, only when we are very confident that inflation has peaked, is likely to fall and gains are sustainable.

Domestically our main focus will be upon:

- Monitoring the labour market to determine if there is any notable 'real' wage pressure.
- Inflation data, with the September Quarter results due in late October.

Internationally, our focus will be upon monitoring events in Ukraine.

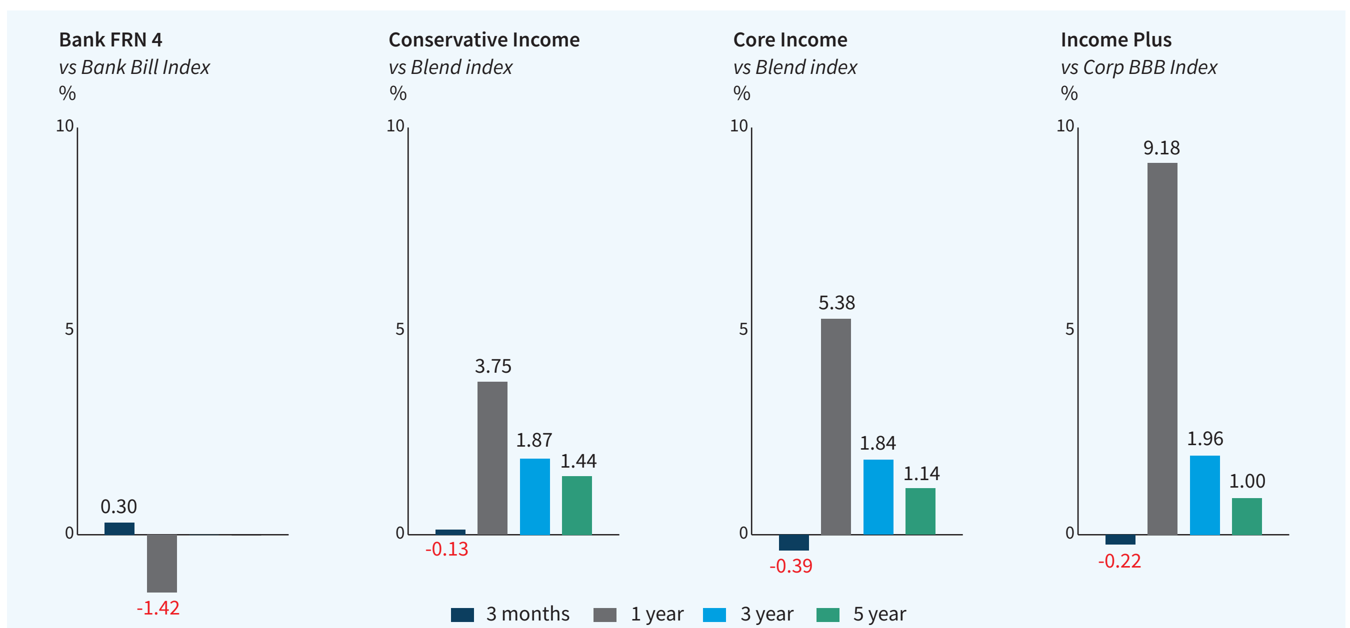
- Should the conflict escalate, all bets are off. Expect inflationary pressure to mount further.
- Should the conflict de-escalate, the seeds of reversion to some form of pre-war globalisation structure, and lower inflation, may sprout. However that will be a long road.

Credit exposure and performance

In the September Quarter, the MIPS PMT has delivered performance that has near matched benchmark indices after a prolonged period of significant outperformance.

That performance is attributable to positioning portfolios long on the yield and credit curves whilst yields rose throughout the quarter, as evidenced by near matching the 'long' benchmark indices that experienced a minor negative return over the quarter.

Graph 1: MIPS Gross Performance v Benchmark Indices^



^ Noting Investment Program Blend Indices used are explained in Tables 3 & 5

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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 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 assets. In the September quarter, IP outperformed the other two programs for one key reason. Despite extension of duration across all programs, including extension of IP duration from 2.17 years to 2.55 years, it remained shorter than the other two programs. With yields rising during the quarter, offsetting the advantage of higher accrual gains in the NIG and UR sector holdings (of 45% and 30% underweight), it posted a minor negative 0.25% return.

Core Income (CI)

The CI IM allows a maximum capacity of 25% exposure to UR and NIG Credit. Subsequently the Investment Grade (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 buy UR & NIG asset performance, although that sector can be notoriously volatile, and more so by IG credit and the duration of that credit exposure. In the September quarter, CI underperformed the other two programs because it was both longer in duration (3.32 years) and held no subordinate debt (unlike CV), an asset sector that performed particularly well given credit compression in bank subordinate debt, as evidenced by Table 7 and discussed in the following section. The PMT note that the CI program duration was extended from 2.66 years to 3.32 years during the September Quarter.

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 September quarter, CV outperformed CI, and near matched IP, because it held 17% exposure to Subordinate Floating Rate Bank Debt, that rallied strongly, as discussed in the following section. At quarter end it had a duration of 3.26 years, up from 2.68 years at June Quarter end, very similar to that of CI. Whist yields rose during the quarter, the offsetting advantage of higher exposure to bank subordinate debt explains this programs outperformance of CI and near matching performance to IP, despite IP being 0.71 years shorter in duration.

All programs

Unlike the rhetoric expressed in the June and March 2022 Quarterlies, the 'underweight' UR and NIG positioning, in both IP and CI portfolios, is now actually 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 IP accounts, which currently invest at an average 45% (-12% 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 45% in the coming quarter within IP, where we will seek to extend duration on IG yield curves, funded by saes 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

Table 6: Key average exposure statistics by Investment Program

Key average exposure statistics by Investment Program @ 30 September 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%	55%	30%	75%	45%	-30%	2.55 yr	3.39 yr	7.38%
Core Income	75%	84%	9%	25%	16%	-9%	3.32 yr	4.28 yr	6.15%
Conservative Income	100%	100%	0%	0%	0%	0%	3.26 yr	4.46 yr	1.26%

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cautious, Whilst the pool of asset opportunity is sufficiently large to satisfy diversity, CI accounts are currently invested at an average of 16% (-6% 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 45%, a 15% exposure within CI is justified. It is currently a minor 1% over 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 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 the impending rise in the OCR would drive fixed rates higher and subsequently floating rate note (FRN) product would outperform. They will also note our dual long held view that subordinate bank CM's would rally. In the prior quarter FRN holders via Bank FRN credit product, suffered losses as a function of bank subordinate CM deterioration exceeding accrual advantage as base BBSW rates stagnated at very low levels due to the RBA 'dragging' the monetary policy chain. Well, the RBA is no longer dragging the chain.

Whilst our early execution was initially overly optimistic, our monetary policy estimates were correct in the longer term. Investors have been rewarded with a sharp turnaround in the sector. BBSW has climbed aggressively higher, delivering BB4 investors a 0.72% quarterly return, reversing the negative return of the prior quarterly period.

The positive return is attributable to a rise in BBSW and stable CM's. We maintain our positive CM outlook and subsequently expect the sector to deliver higher returns in the next quarter again. Given some quarterly compounding assets were rate set late in the quarter, not benefiting from the full 1.50% rise in the OCR and BBSW for the full quarter, let alone the additional 0.25% added to the OCR on October 4, we expect higher accrual returns in the next quarter again.

Given the positive outlook for both accrual returns and credit margins, 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 trending weaker. This impending strategy execution is consistent with our investment strategy communications made in prior quarterly reports, as far back as December 2021, 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 CM 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'.

Table 7: Bank FRN Credit Margins

Bank (FRN) Investment Programs key (average) credit spread information: 5 year (or near) maturity dates			
	30/6/2022	30/9/2022	Changes
	Credit Margin	Credit Margin	Credit Margin
Major Bank Senior	1.00%	0.97%	-0.03%
Minor Bank Senior	1.34%	1.27%	-0.07%
Major Bank Subordinate	2.43%	2.37%	-0.06%
Minor Bank Subordinate^	2.70%	2.80%	0.10%
Major Bank Subordinate/ Senior ratio	2.4x	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

The latest move in monetary policy has now driven a surge in 90 day BBSW from near zero in the March Quarter to > 3.00% currently. That is with official cash at 2.60%. As noted in the prior quarterly report, this was our expectation.

It is debateable 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 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, 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, we expected fixed bond rates to rise and subsequently we maintained a short duration to protect investor capital.

This recent quarter has afforded the opportunity for the MIPS PMT to commence a second and more significant round of 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 PMT 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 difference now is the concern of a recession negatively impacting CM's.

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.

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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.

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