FIIG The fixed income experts

Managed Income Portfolio Service (MIPS)

Quarterly Report – June 2018

Welcome. This report contains a selection of summary information relevant to the fixed income market, informing readers of the major influences upon the prices of the asset universe from which the MIPS team select exposure, and therefore derive performance, for all customised accounts and the three investment programs under management: Conservative Income, Core Income and Income Plus.

Key Observations

- US Federal Reserve tightens monetary policy to 1.875%
- Don't mention the (emerging trade) war
- RBA holds fire whilst the Federal government delivers minor fiscal stimulus
- ECB ends quantitative easing and progresses toward a tightening cycle

Economic Summary and Outlook

Within the United States

The US Federal Reserve (US Fed) increased the official cash rate to a mid-point of 1.875% following their May meeting. This is the seventh increase since the tightening cycle began and the second since the end of quantitative easing. Meeting communications confirmed the Reserve members intentions to tighten two more times in 2018, three further times in 2019 and once more again in 2020. A further 1.50% in total.

While the market may debate the potential for deviation from this intended path in the future, as and when economic data is released, be it weaker or stronger than expectations, clearly the directional intention of the US Fed is set, and it is set in concrete. There are very good reasons why. Buoyed by significant fiscal stimulus in the form of tax cuts and spending initiatives approved by Congress in late 2017 and early 2018, the current excellent US economic performance and momentum is expected to continue.

The May employment data is indicative of US economic performance. Including upward revisions to prior releases, 248,000 new jobs were added in May, and the unemployment rate fell to 3.80%. The month on month average employment growth over the last 3 months is now approximately 185k, near 80k in excess of that required to keep unemployment stable. At this rate of growth it is conceivable that a sub 3.00% unemployment rate, not seen since the 1950s, could be achieved. The US Fed's prior 2019 year end forecast of 3.60% now appears a foregone conclusion.

The Fed's 'Beige Book' noted that "labour conditions tightened across the country" and there were "shortages of qualified workers" across a broad range of industries, with employers "responding to talent shortages by increasing wages". The implication is inflation, and various indices monitored and relied upon by the US Fed have ticked up concurrently, giving a clear indication that the prospective rise in inflation above 2.00% may not be temporary unless met with strong monetary policy. Global money markets are backing the confidence in economic strength that the US Fed has forecast, and continues to forecast. The US 10 Year Treasury Note yield rose during the quarter from ~2.75% to peak at 3.09% before closing at ~2.95%.

There were clearly other influences of significance during the quarter, not the least being the uplift in the oil price, the coincident geopolitical maneuvers in the Middle-East, the meeting with North Korea and probably most importantly,

MIPS Investment Returns

The average <u>gross</u> returns for MIPS Investment Programs are contained in the table below.

Total Gross Returns to 30 June 2018	3 months	6 months	1 year	2 years (Annualised)
Income Plus	0.90%	2.22%	4.30%	5.31%
Core Income	0.76%	1.69%	4.11%	4.14%
Conservative Income	0.80%	1.56%	4.04%	n/a
Bank Bond (FRN) Investment Program 3[1]	0.54%	1.39%	3.35%	4.04%

[1] Total Gross Returns to 8 March 2018

the emerging tariff trade war with China (and the rest of the globe). Whilst all that and more is discussed in the 'global' economic summary and outlook section, let's not deviate from the main attributable reason as to why yields are (currently) rising in the US: Employment is extremely strong and is forecast to become stronger, labour prices are rising and the US Fed is responding aggressively.

Within Australia

Could the Australian economy possibly be more different? Three monthly meetings of the RBA considered Australia's current economic evidence and forecasts, before the setting of monetary policy. On each occasion it was determined that current employment growth was not strong enough to bolster wages (growth), de-gear excessively leveraged household budgets, boost discretionary spending and thereby pose any threat to inflation on the upside. Additionally, there are real pressures upon bank funding costs which are resonating in higher consumer borrowing rates.

This evidence would appear to give no reason for the RBA to tighten monetary policy. So, could they ease? Before that question is answered, consideration of the total economic landscape is appropriate.

The long awaited Federal government fiscal stimulus package via company and personal tax cuts and their significant infrastructure expenditure intentions are not different from the strategy pursued successfully within the US. That strategy kick started significant employment growth. Australia may not be that different after all, possibly just a little later to the table and a little more cautious than the US. And that caution is reflected in the forecast outcome that is essentially moderate growth (3.00% GDP) in the next two years and unemployment falling to 5.25% by mid next year, from 5.50% currently.

Given this, the RBA has less reason to ease.

But realistically, if unemployment at 5.00% is the magic number needed to boost discretionary spending, it would appear a long way off. Given the fiscal stimulus is moderate, and the cost of borrowed capital for banks is rising, the prospect of an easing by the RBA (eventually) is not without foundation.

Given the historically low level of current monetary policy the RBA has further reason to rely upon fiscal stimulus to generate economic growth. The recent history of stimulatory monetary policy to this point in time has driven a domestic property price uplift without a coincident economic uplift. We suggest that the RBA, whilst very satisfied with macro-prudential controls on lending to date, will await further evidence to ensure that any monetary policy stimulus would not result in the same outcome. Whilst the federal government now forecasts a budget surplus of 1.30% of GDP in 2021-22, perhaps 'easing' that budget is more likely if improvements in unemployment were to falter.

So, while debate rages about monetary policy, which we suspect will remain stable for a considerable period of time, perhaps the question to ask is …. can the federal government ease the current economic situation by loosening the purse strings? Yes they can, but do they have the political fortitude?

Table 1. Index returns for quarter end 30 June 2018

S&P/ASX Australian Bond Index	Quarter End Return
BBB Rating Band	0.58%
(All Maturities & Credit Grade) Fixed Interest	0.83%
Bank Bill	0.49%
Corporate Bond 0-5 Year	0.67%

Notes: The "all maturity" index has a duration of > 5.00 years, whilst the 0-5 year Corporate is < 2.50 years and the Bank bill index is 0.25 (or 3 months) in length.

Globally

It is worth setting aside various 'smaller' influences upon global economics first. Whilst serious, the air strikes in Syria, the abandonment of the Iran nuclear agreement and even the meetings between US President Trump and North Korea's despot Kim Jong-un, are somewhat difficult to unravel as singular influences upon bond market interest rate direction. Any heightened middle-east tension will usually impact the oil price and a 20% rise in oil over the quarter (Brent finishing up at ~$80 a barrel) identifies exactly that result. But the longer term implications are more difficult to determine other than to say should the oil price rise and stabilize at a higher price, then that is inflationary. There would appear to be little evidence of significant contractual commitment between the US and North Korea to determine anything other than that the tension in the South China Sea is, for the short term at least, somewhat less concerning and therefore more stabilising for all markets.

The most significant global economic news is the rising cross border trade tension between the US and the rest of the world. The US is changing the recent (long history) playing field by imposing new tariffs, and the rest of the world is responding. This is not just a US/China trade war, although most of the media attention is devoted to detailed tit-for-tat responses between the two countries as the significant players. Industry and product import lists, trade volume statistics and percentage tariffs to be imposed have been released constantly during the quarter, but unravelling the impact is easier than analyzing the data at a micro-economic level. **Tariffs are a tax and taxes impede growth.**

The broad consensus view of the potential impact upon the global economy as a result of trade tension was possibly best expressed by European Central Bank (ECB) President Draghi, when he stated at the meeting of global central bank chiefs during June - "There have been lessons one can learn from the past …. and they are all negative".

There have been a number of important developments within the Eurozone. Italian sovereign bonds suffered a significant price decline in response to political turmoil. Spanish and German inflation printed somewhat on the higher side of expectations, and again their sovereign bond prices were softer. Across the channel to the UK and whilst the path to Brexit is still complicating future trade, the current tight labour market, evidenced by the unemployment rate at 4.20%, is the likely the catalyst for a path of tightening in monetary policy by the Bank of England. Undoubtedly all somewhat bearish for bonds, possibly best summarized again by ECB President Draghi's statement that (in Europe) …. "We see unit labour costs on an upward path".

But, most importantly within the Eurozone, on 7 June the ECB announced that the end to quantitative easing is fast approaching, then subsequently tapered the Asset Purchase Program (APP) to half of the prior months volumes, accompanied by statements from various representatives advising concern over wage growth and inflation and inferences of tightening policy faster than the market has priced in.

The US and the Eurozone are clearly on a monetary policy tightening path.

Key Contributors to June quarter end returns

Consistent with our medium term strategy, all investment programs retained a “short duration” and “long (short dated) credit exposure” position during the quarter. This is known as a ‘short credit spread duration” strategy. As evidenced in our prior report, the Portfolio Management Team (PMT) did extend duration slightly at the start of the period, in the order of a quarter of a year, believing the steep yield curve shape encouraged investment slightly longer. This was the first duration extension since base interest rates started to rise post the last easing in monetary policy in August 2016. We stated that the economic evidence suggests the RBA will hold monetary policy at current levels for longer and that whilst the next policy move is still predicted as up, the market had priced that in sufficiently.

During the last quarter base interest rates rallied (fell) very slightly, as evidenced by Chart 1. So whilst the duration extension strategy implementation contributed positively to total returns, the capital gain derived was marginal. This is evidenced by the differential between the returns for longer and shorter maturity profile indexes, as per Table 1.

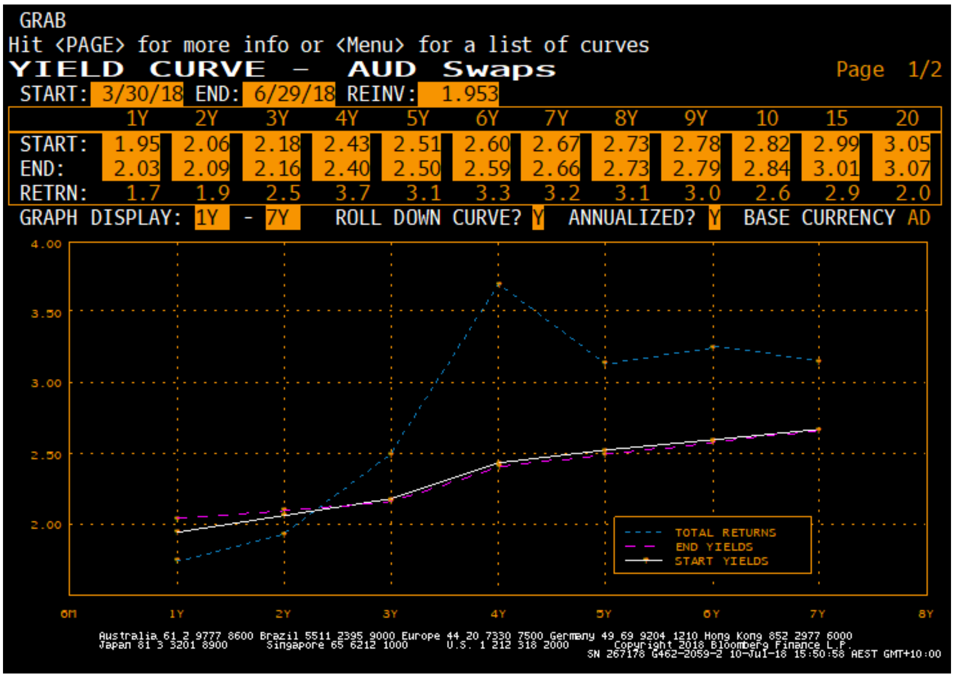
There is only a 0.34% performance differential for the quarter between the significantly longer all maturity index and the shortest of all indexes – the bank bill index. Performance returns subsequently came almost entirely from interest rate accrual, with attribution by investment category explained by Table 2.

Table 2. Period returns, by investment category, for each investment program model portfolio

Investment performance attribution - quarter end June 2018					
Investment Category	Average actual period percentage return	Average Credit Margin Change	% exposure to investment category		
			Income Plus	Core Income	Conservative Income
Cash	0.35%	0.00%	1%	2%	2%
IG (ex RMBS)	0.88%	-0.05%	39%	90%	90%
NIG + UR (ex RMBS)	1.06%	-0.25%	41%	8%	0%
RMBS IG	1.18%	0.02%	12%	0%	8%
RMBS NIG	1.88%	0.01%	6%	0%	0%
Expected Return GROSS			1.05%	0.89%	0.90%
Fee (quarter)			0.26%	0.21%	0.21%
Expected Return NET			0.78%	0.68%	0.69%

Notes: (1) Index: IG = Investment Grade, NIG = Non-investment Grade, UR = unrated, RMBS = Residential Mortgage Backed Securities. (2) Individual IMA returns may differ from the returns published in this table as a function of dispersion between the actual holdings and the model portfolio due to supply constraints. The PMT endeavor to replicate the model portfolio as closely as is possible at every juncture of opportunity.

Chart 1. Quarter on Quarter change in the Australian Interest Rate Swap yield curve



Clearly the decision earlier in the year to allocate a percentage of capital into the RMBS sector has delivered an enhanced return for those investment programs exposed. For Income Plus investors the PMT has effectively diluted NIG + UR exposure for the purpose of investing in the RMBS sector. It has paid dividends. NIG RMBS delivered almost twice the return of IG corporate exposure. The IG category underperformed the NIG + UR (ex RMBS) asset categories.

Interest rate outlook

The last quarter exhibited low base interest rate curve volatility and the PMT believe the next quarter is likely to deliver the same outcome. As expressed in the last quarterly report, whilst interest rates have predominantly climbed since August 2016, they have been stable now at the heightened level for an extended period of time. It would appear there is little clear economic evidence of any significant employment growth, or immediate wage or price pressure to encourage the bond bears, nor would it seem, sufficient evidence of an impending slowdown in the current (albeit moderate) economic growth to encourage bond bulls to invest heavily at current interest rate levels. As evidenced by Chart 1, referencing the opening and closing shape of the yield curve, there has been an absolute minor change in base interest rates.

Volatility, for base interest rates at least, is likely to remain low.

We expect that given monetary policy is being tightened in the US and Europe, but likely to be stable in Australia for some extended period of time, that it will be the $A that declines as the compensating factor. This has already occurred but could easily extend. The Australian yield curve would, based upon historic evidence, be expected to steepen in such an environment, yet with a AAA rating and a strengthening fiscal position, alongside moderate economic growth and low inflation, the Australian base (federal government) interest rate curve could justifiably sit lower (below global peers) for longer.

In summary, the PMT will again look to extend duration longer, but will now await any weakness (or rise) in yields before implementation. Again, as per the prior quarterly report, the curve is near steep enough to entice investment longer on the curve.

Bank Bond (FRN) Investment Program (BBIP) outlook

The widening of bank bill rates above official cash had a brief respite during the quarter, briefly contracting from around 60 basis points to 40 basis points, before resuming a widening path. Refer to Chart 2. This section should be read in conjunction with the explanations delivered in the prior quarterly report, as the same observations hold true.

Credit margin deterioration is attributable to demand not matching supply at the old price point (the old credit margin). The margin widens until the supply is absorbed. Supply in this case is the bank bills and bank bonds issued, and demand is the capital invested in those products. In the current environment the longer dated credit margins for banks have only deteriorated slightly, and certainly far less than shorter dated credit margins.

So why is that the case, and especially in an environment of regulatory tightening upon the banks that is forcing them to hold more capital and lend more prudently? An environment that is very recently delivering share price gains.

Normally the answer would be because investors perceive bank credit as a riskier proposition than they did previously and the investors need more margin to be enticed to invest into the sector. But given longer dated credit margins have not sold off aggressively, the answer comes down to liquidity. **There is less confidence in the liquidity of short dated bank issued bills than previously and/or investors are repricing their margin expectations given those offered for short dated term deposits issued by the same credit. The competition for capital is getting somewhat crowded.**

What does the future then hold? Should not any widening of short dated credit margins eventually, if not immediately, have widening implications for longer dated products? Yes, that is likely in the longer term. If bank credit margins widen, then so too will corporate credit margins. For this reason the PMT is cautious when selecting longer dated corporate credits for the portfolio. **Future rate set expectations, or 'forward BBSW' rates, will be higher if short term debt margins remain wide.**

The higher BBSW rate sets delivered in this environment are of course more attractive than the rate sets previously achieved. This is good for FRN investors, but only if there is no subsequent deterioration in the FRN credit margin that would see the accrual uplift offset by a capital loss.

Chart 1 depicts the interest rate swap yield curve change as a marginal fall only. It does in isolation depict interest rate swap curve strength. In reality it has been weak because the federal government curve has rallied further. In summary, short term bank rates have gone up whilst official cash (the federal rate) has remained stable, whilst long term bank bill rates (as reflected by the interest rate swap curve) have fallen very marginally whilst the long term federal government yield curve has rallied marginally more.

Chart 2. Three month bank bill interest rates and the official cash rate

In combination, **the PMT believe the credit margin weakness in the banking sector and the increased forward rate sets, will now deliver a higher yield opportunity to those investing in this sector. We favour investing on any weakness.**

FIIG The fixed income experts

Table 3. Bank Bond Investment Program analytics

Bank Bond (FRN) Investment Program (BBIP) Outlook				
Bank Bond (FRN) Investment Program & Average Metrics for quarter period end	31 Mar		30 Jun	
	Average Credit Margin	Expected YTM	Average Credit Margin	Expected YTM
1. Major Bank Senior	0.82%	3.25%	0.84%	3.19%
2. Major & Minor Bank Senior	1.12%	3.49%	0.96%	3.34%
3. Major Bank Senior & Subordinated	1.01%	3.49%	1.15%	3.45%
4. Major & Minor Bank Senior & Subordinated	1.49%	3.88%	1.50%	3.81%

Credit margins are slightly wider, but the interest rate swap curve has also rallied slightly. Total book value entry yields have falling slightly. Note the exception is the BB2 program where the constituents have changed markedly. Given constituent changes, any QoQ comparison is best undertaken alongside discussion with the MIPS PMT.

Table 4. Specific FRN asset example changes for constituents of Bank Bond programs

Bank Bond (FRN) Investment Program (BBIP) Outlook				
Specific Issuer and FRN maturity or call	31 Mar		30 Jun	
	Average Credit Margin	Expected YTM	Average Credit Margin	Expected YTM
ANZ (Major Bank Senior) 7 Mar 2022	0.81%	3.24%	0.83%	3.15%
BOQ (Minor Bank Senior) 18 May 2021	0.97%	3.20%	1.02%	3.17%
WBC (Major Bank Subordinated) 10 Mar 2021	1.30%	3.49%	1.38%	3.51%
BENDIGO (Minor Bank Subordinated) 9 Dec 2021	1.54%	3.91%	1.62%	3.88%

Selected asset examples showcase a widening in credit margins. Note that credit margin widening has effectively been linear, with lower rated, subordinate assets of longer maturities underperforming higher rated, senior assets of shorter maturities.

Bank Bond (FRN) Investment Program strategy and credit outlook

Our strategy recommendation is simplistic and based upon our prior key observations. **We see the widening in credit margins as an opportunity for investors.**

Recent macro prudential controls upon bank lending will support credit margins, capping the extent and period of time for which this (perceived) short term weakness can continue. As discussed, the weakness in credit margins for term FRN product has not been significant. **We continue to roll up the yield curve, positioning portfolios to maintain the current weighted average term exposure, or longer, taking advantage of 'riding' the steep shape of the credit curve.**

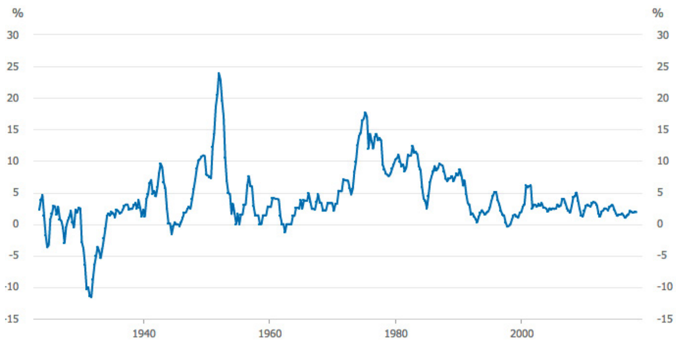
The dual advantage delivered is higher credit margins and higher base interest ratesets, with the second not an investment strategy advantage but an asset allocation advantage, where the investor choice to opt for floating rate over fixed rate assets avoids potential under-performance should interest rates rise.

Inflation outlook

Our inflation expectations in Australia are unchanged for this quarter, as they were for the prior quarter. Inflation remains below the lower boundary of the RBA's 2.00% - 3.00% tolerance and target band. Whilst global economic conditions have improved the RBA has acknowledged that stubbornly high unemployment and consistent weak domestic wage growth will, in the near term, likely keep core inflation low.

As discussed at length in prior quarterly reports, significant competitive forces in on-line retail product distribution will benefit consumers with lower prices, but will also be at the detriment of traditional distribution systems, resulting in a future lower trend inflation. Changes in product distribution are continually facilitating cost reduction and the consumer can be expected to continually benefit. Whilst the weaker AUD could historically result in higher import price inflation, this is now offset by price falls in products across many important categories, that are now both more efficiently produced and distributed. Examples of note include consumer electronics, motor vehicles and clothing.

Chart 3. Year-end percentage change in Consumer Price Inflation



Source: ABS.

Credit (margin direction) Outlook

Table 5. Credit Margin and Yield change by Investment Category

Investment Category	Average Credit Margin			Average Yield		
	31 Mar	30 Jun	Credit Margin Change	31 Mar	30 Jun	Yield Change
IG (ex RMBS)	1.80%	1.85%	-0.05%	4.27%	4.25%	0.01%
NIG + UR (ex RMBS)	4.06%	4.32%	-0.25%	6.54%	6.68%	-0.14%
RMBS IG	3.24%	3.22%	0.02%	5.81%	5.80%	0.00%
RMBS NIG	5.70%	5.69%	0.01%	8.86%	8.77%	0.09%
Average	2.99%	3.09%	-0.10%	5.53%	5.56%	-0.03%

The credit margin widening experienced by major banks in the short end, if extended into long term credit margins, will be a catalyst for change across credit product generally. And as evidenced by Chart 4, that change commenced in December 2017 and is now gathering momentum.

The rise in bank bill rates above official cash, heralded, not coincidentally, the beginning of the reversal in credit spreads, as evidenced in Chart 4. The change is marginal to date. That rise is having a minor but continual widening influence for longer dated and lower rated credit. If banks need pay more margin (excess or higher interest rates above benchmark rates) then those corporations who are funded by the banks, or compete for wholesale funds in the bond market, can expect to pay more if they borrow for longer and/or have lower credit ratings. The PMT however is positive on bank credit margins, believing the margin deterioration will be minimal, and that the accrual advantage will offset any potential (minimal) capital loss. The caveat is that bank debt is mostly very short dated.

Chart 4. History of the Australian credit index – 'ITraxx' from August 2016 (most recent change in Monetary Policy).

Source: Bloomberg, June 2018; Key: X axis = Price, Y axis = Time

This is the reason we have stayed with a short 'credit spread duration' as a cornerstone strategy – and one that we continue to pursue. As evidenced within Table 5, credit margins for lower rated product, other than RMBS, have widened. But whilst the margin has deteriorated (pushed wider), it has been a small move and not sufficient to offset the advantage of the high yield and therefore accrual advantage that has subsequently delivered a positive return.

Combining quarterly performance in Table 2 with Table 5 observations, and using the example sector of NIG + UR, some specific observations can be made:

1. Opening market value yield commenced at an average of 6.54%.
2. Therefore, given (2), quarterly gross yield return could have been expected to deliver 1.635%.
3. However, the sector delivered only 1.06% for the quarter.
4. This is explained by the credit margin deterioration of 14 basis points on average (asset maturity > 4 years).

In summary, combining both the duration and credit strategy, the PMT will extend portfolio duration, preferably at this stage in the highest of IG assets, given the view that credit spreads are under (moderate) pressure. Those higher rated assets should outperform lower rated assets in that sector of the yield curve. Otherwise, the predominant credit exposure strategy, especially in the NIG sector, is to hold short dated credit with a high accrual advantages.

(Credit) RMBS Strategy

Our specific and most noteable strategy with regards to credit exposure implementation includes the significant increase in exposure (to 20% target in Income Plus) to the Residential Mortgage Bond Sector (RMBS) sector.

As evidenced by Table 2, the strategy has been successful in the current quarter as IG and NIG RMBS has outperformed IG and NIG + UR Corporate debt.

But what now does the future hold?
Investors who monitor the media reporting on the property sector will undoubtedly be aware of that there is significant statistical evidence of a deterioration in property prices across the east coast especially. Price falls are a function of oversupply of housing, weak demand from new entrants at current price points and excessively heavy gearing embedded within budgets of existing owners. Lackluster employment and wage growth alongside more restrictive lending ratios implemented by the banks are impacting the market heavily.

Does this mean that the RMBS sector will underperform in the future?
Possibly. But likely selectively. Poorly structured RMBS issues are to be avoided. Those that are overly exposed to east coast unit developments that have insufficient equity or lenders mortgage insurance, are the ones to avoid.

The PMT previously stated in the prior quarterly report that they are 'bullish' junior RMBS notes despite what some investors might believe are key reasons for under performance. Firstly, credit margins generally, as described above appear under (marginal) pressure. Secondly there is a high likelihood of significant volume in RMBS to be delivered in 2018 and thirdly, as has been covered infinitum in the press, East Coast Australian residential property is 'overvalued' significantly and is experiencing the first of what many economists believe is the start of a prolonged fall.

All that still holds, but possibly, given increasing evidence of a slowdown, it is even more important now than it was last quarter.

The PMT still maintain the belief that the RMBS sector will outperform singular name corporate credit. RMBS margins have lagged the compression in credit that corporates lending in senior and subordinate structural form have benefited from. Additionally, residential mortgage lending standards have improved. Pool diversity and LVR's of course need review for credit approval to meet MIPS investment criteria but standardisation of this process to deliver IG rated outcomes and subordination support are positives.

We suggest that the sector will constantly surprise on the volume upside, and be supported by large funds that will otherwise be earning less investing in corporate unsecured credit as the large increase in migration develops constant demand for more housing.

Bond Market New Issuance

Credit markets have been supportive of new issuance in fixed and floating rate form across the yield curve.

Key deals include:

- UBS, (AA-), $525m, 5.0 year, FRN @ +90bps.
- Credit Suisse, (A-), $175m, 6.0 year, FRN @ +125bps.
- National Australia Bank, (AAA), $1,050m, 5.0 year, FRN @ +65bps.
- DBS Bank, (A+), $750m, 5.0 year, FRN @ +158bps.
- Conquest 2018-1 C, (RMBS), (A+), $3.8m, FRN @ +290bps.
- Liberty Financial, (BBB-), $225m, 3.0 year, Fixed @ 5.19%.
- Members Equity Bank, (BBB+), $250m, 3.0 year, FRN @ +127bps.
- Light Trust 2018-1 C, (RMBS), (A+), $4.5m, FRN @ +290bps.
- Apollo Series 2018 C, (RMBS), (A), $1.25m, FRN @ +100bps.
- ANZ Banking Group, (AA-), $550m, 5.0 year, Fixed @ 3.27%.
- Metro Finance 2018-1 E, (RMBS), (UR), $11.1m, FRN @ +550bps.
- Next Generation Clubs, (UR), $45m, 5.0 year, Fixed @ 7.90%

MIPS Investment Strategy – Summary statistics

The MIPS programs performed strongly during the quarter – a period that encompassed a stable interest rate curve and slightly weaker credit margins. Key exposure statistics and changes over the June quarter period end include:

Exposure Category by Program	Income Plus		Core Income		Conservative Income		Bank Bond Program	
Date Period	**31 Mar**	**30 Jun**	**31 Mar**	**30 Jun**	**31 Mar**	**30 Jun**	**31 Mar**	**30 Jun**
Duration (tenor exposure)	1.88	1.82	2.65	2.59	2.49	2.35	0.14	0.13
Investment Grade Senior	22%	35%	92%	92%	81%	86%	70%	50%
Investment Grade Subordinated	17%	16%	0%	0%	19%	14%	30%	50%
Non-Investment Grade & Unrated	61%	48%	8%	8%	0%	0%	0%	0%

Portfolio Management Team

Kieran Quaine
Head of Managed Income Portfolio Services

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 institutional debt sales, with his expertise in the unrated market likely unsurpassed. He has been with FIIG Securities for 9 years and is the Head of the Managed Income Portfolio Service.

Megan Romeo
Assistant Portfolio Manager

Megan Romeo has over 8 years' experience in 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 3.5 years all of which within 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 riskreturning 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

Note: The Investment Programs may contain Asset backed securities including Residential Mortgage Bond Securities (RMBS). RMBS are senior secured assets issued in floating rate note form and are an approved investment within MIPS Investment Programs. Please refer to "Section 3" of the Information. Memorandum for more detail regarding the parameters of each Investment program.