

# IMAP Specialist series: Zero Rates – what they mean for Managed Accounts

## Session 2 – Fixed Interest Investing – Where to Now?

Jesse Imer, Mason Stevens

Michael Frearson, Real Asset Management

Moderated by Michael Karagianis, JANA Investment Advisers



# IMAP and COVID-19

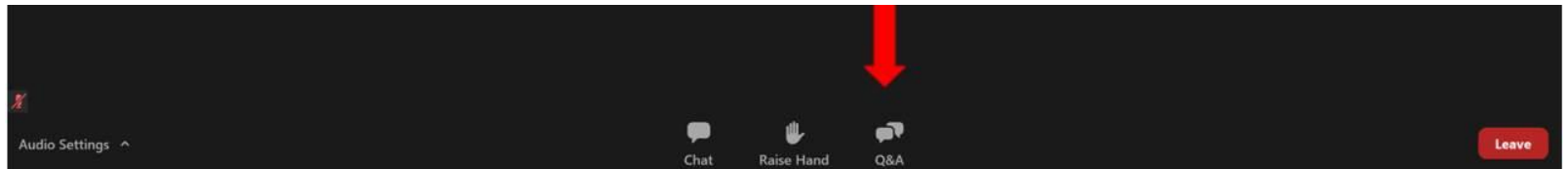
Specialist Series – Zero Rates – what they mean for Managed Accounts

Session 3 – Friday 27<sup>th</sup> November – Defensive Portfolio Goals – Other Strategies

Moderator – Michael Karagianis, JANA

- Andrew Lowe, Challenger
- Nigel Crampton, Milliman
- Peter Tiffin, Ironbark

# How to ask a Question





<b>Michael Karagianis</b>	<b>Jesse Imer</b>	<b>Michael Frearson</b>
Senior Consultant	Fixed Income Investment Strategist	Director, Portfolio Manager
JANA Investment Advisers	Mason Stevens	Real Asset Management <i>Winner IMAP Fixed Interest Managed Account Award 2018/2019/2020</i>

# IMAP: Zero Rates Fixed Interest Investing: Where to Now?

Jesse Imer, Fixed Income Strategist

November 2020



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# Fixed Income Investment Options



1

## Direct securities

ASX listed hybrids, government, state, & corporate bonds, ABS, MBS, CMBS etc

2

## IMAs

Tailored mandates, model portfolios

3

## SMA

SMA that hold direct bonds, ETFs and managed funds

i.e. Mason Stevens Australian Fixed Income Managed Portfolio

4

## Unitised funds

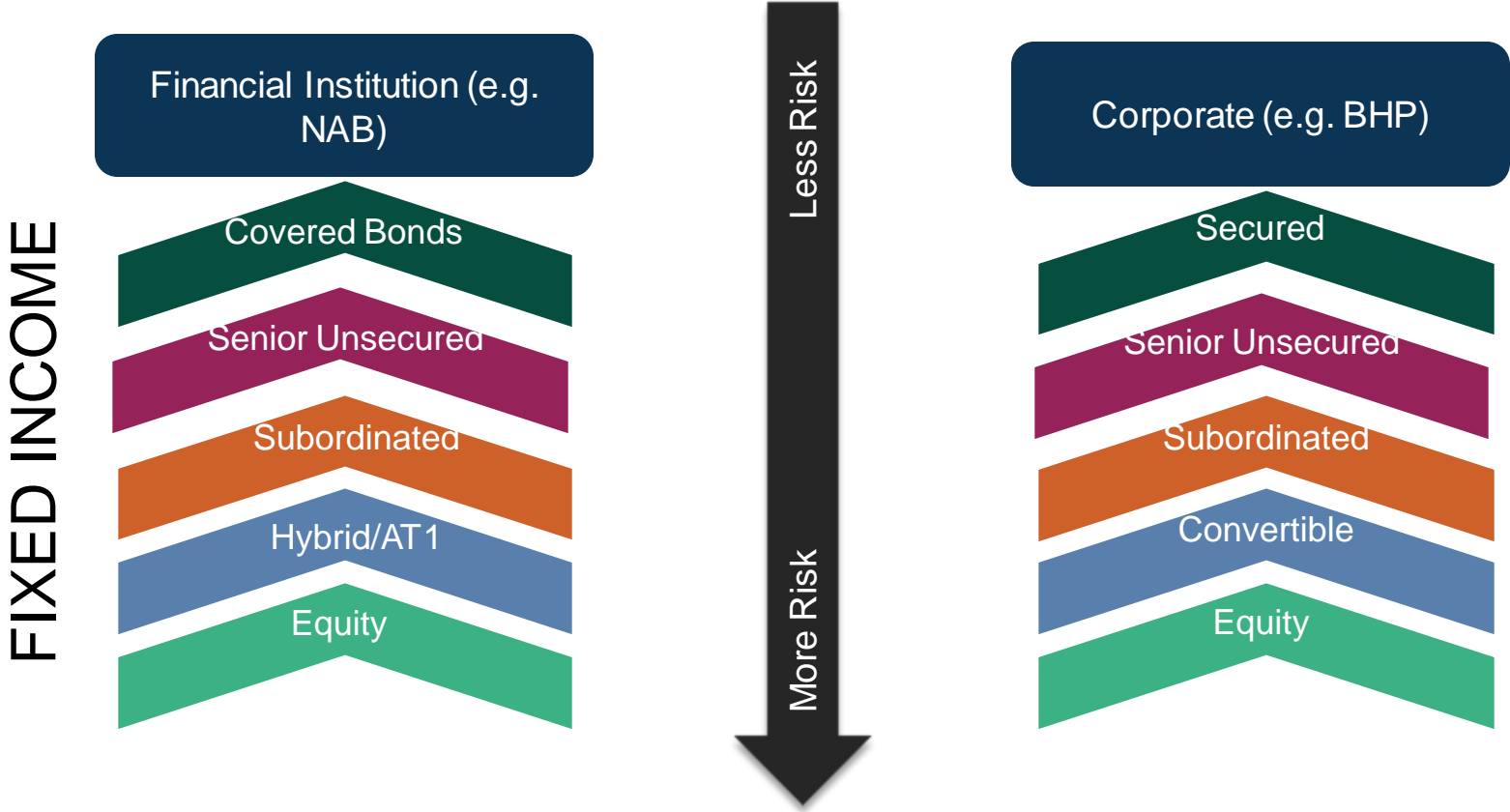
Investments in fund structures such as managed funds (MF) or exchange traded funds (ETFs)

Direct investments

Indirect investments



# Capital Structure

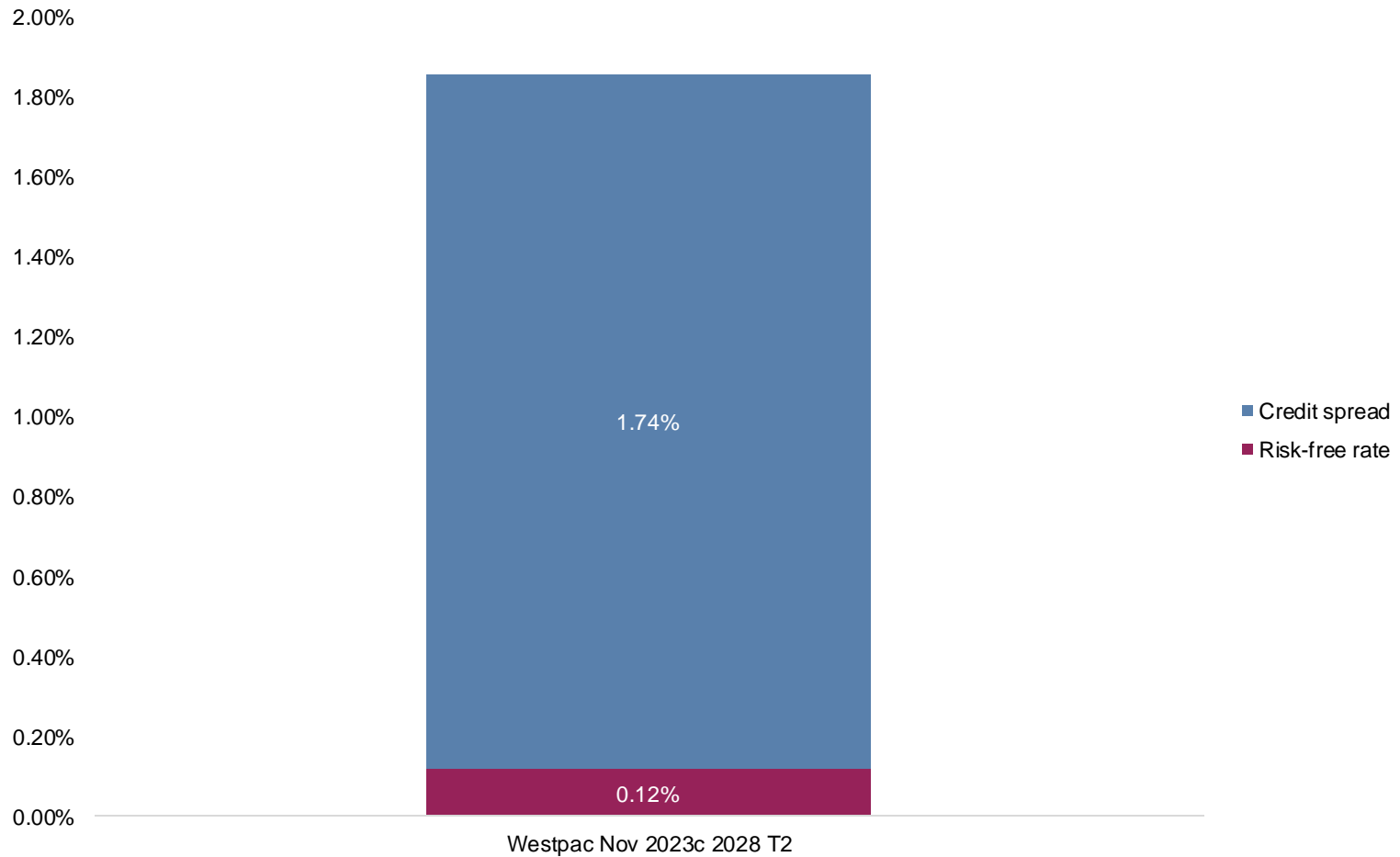


Source: Mason Stevens





# Components of a Credit Bond's Return



Source: Bloomberg, Mason Stevens

# Capital Structure and Price Volatility



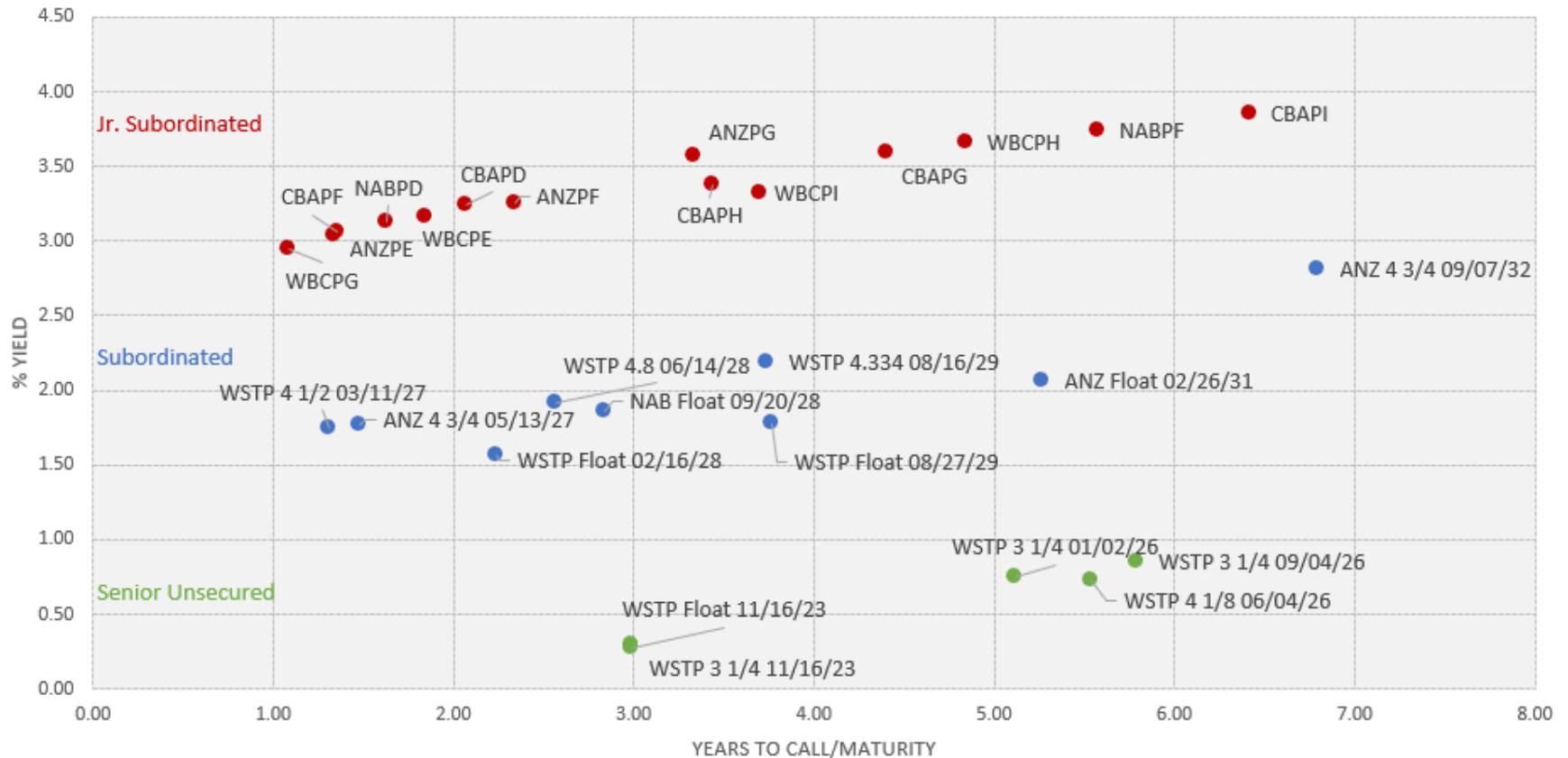
Black = Westpac senior bond  
Red = Westpac hybrid (WBCPF)

Source: Bloomberg, Mason Stevens



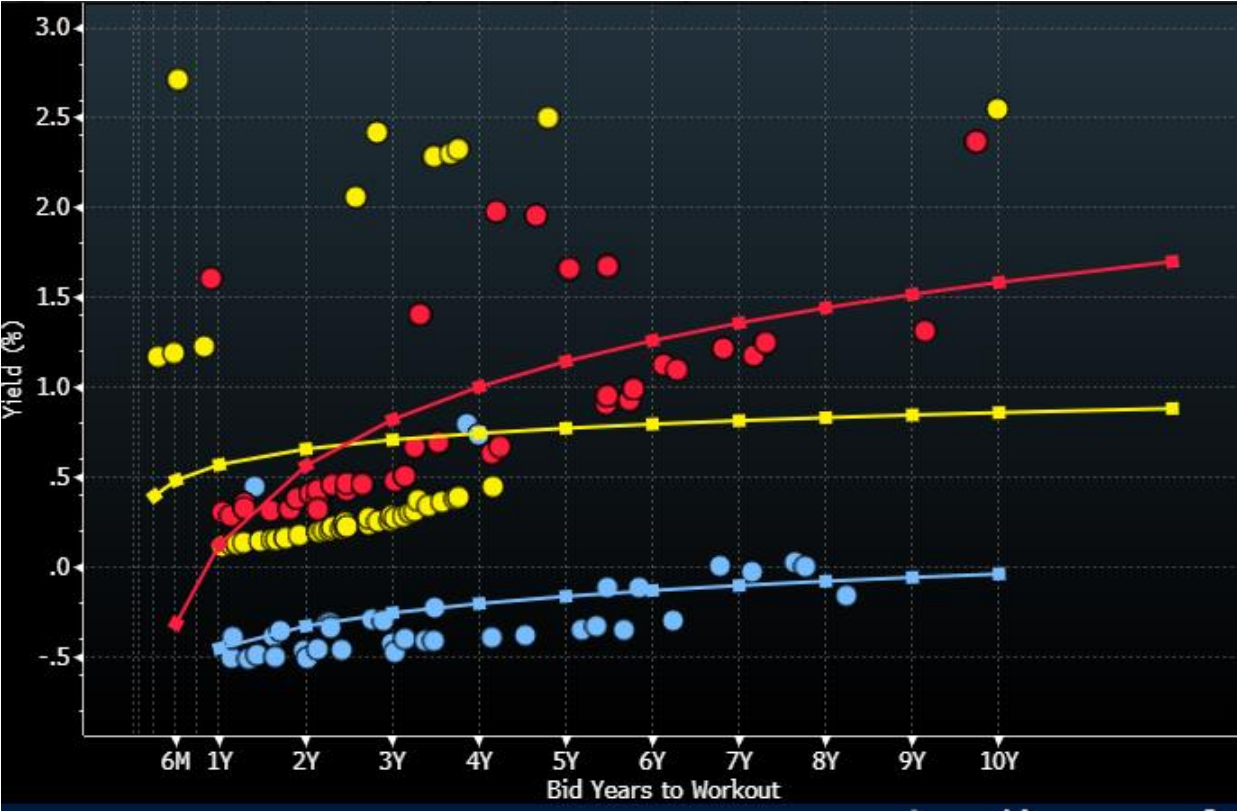
# Australian Fixed Income by Capital Structure

**% Yield Comparison - Debt vs Hybrids, Major Australian Banks**



Source: Bloomberg, Territory Funds Management

# International Fixed Income – Australian Major Banks



- AUD
- EUR
- USD

Source: Bloomberg, Mason Stevens

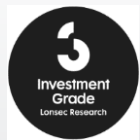


# REAL ASSET MANAGEMENT

## What Zero Rates Mean for Managed Accounts

MICHAEL FREARSON, CFA – RAM PORTFOLIO MANAGER

November 2020



**Australian  
Fixed  
Interest  
Winner**  
2020 IMAP MANAGED  
ACCOUNT AWARDS



*For Wholesale/Professional Investors Only*

# REAL ASSET MANAGEMENT – INVESTMENT OPTIONS OVERVIEW

RAM has a broad range of investment options that can be combined in a portfolio to match client needs and preferences for Income Generation

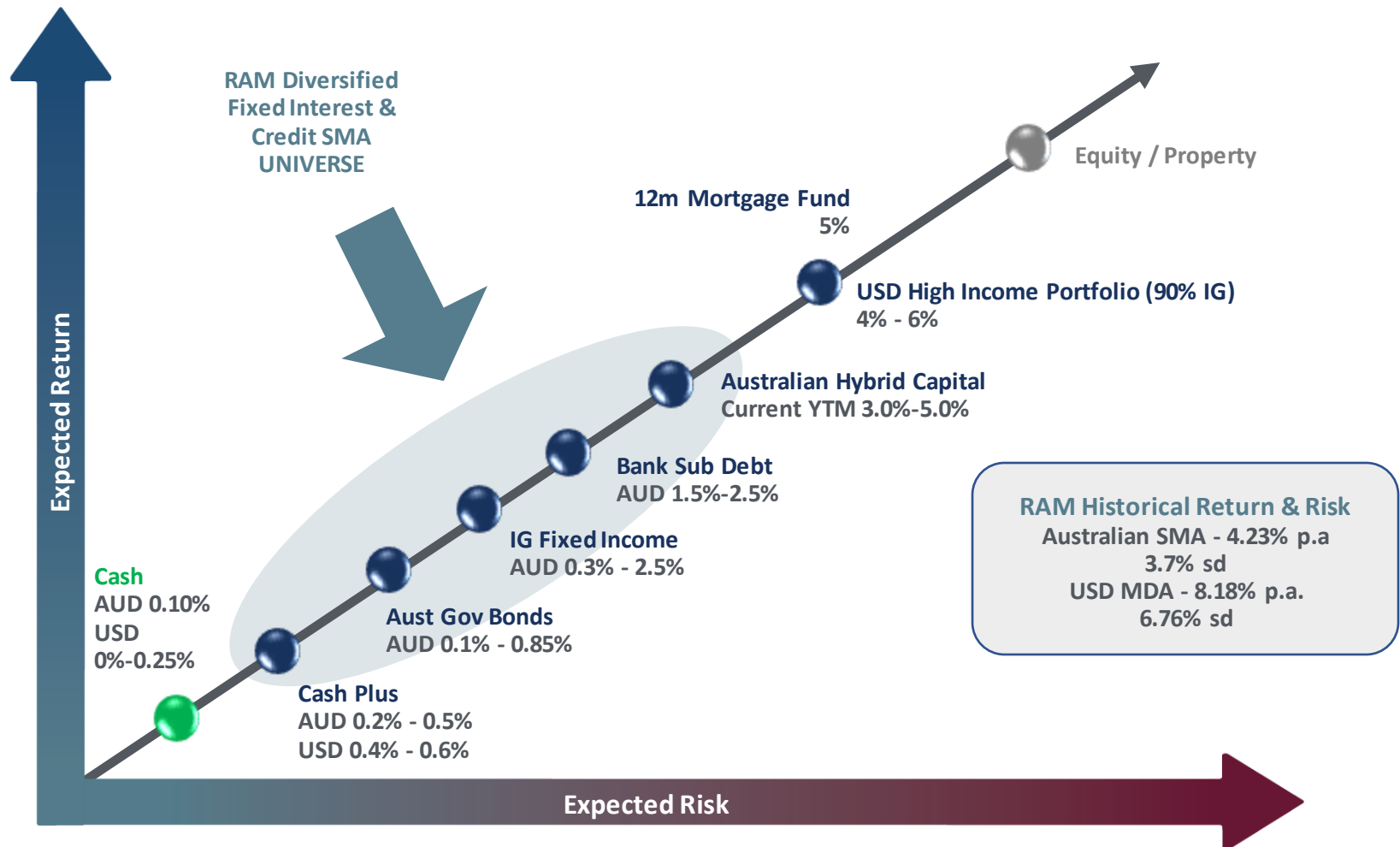


Chart above is illustrative only and not to scale. Performance show our SMA and MDA strategy return. Australian Diversified FI & Credit SMA Gross model Returns prior to fees, USD MDA shows net of fee return. SD is annualised.

# FIXED INCOME RETURN DRIVERS – PICK YOUR POISON

Key levers investors can choose from include: Duration Risks & Credit Risks, or Both

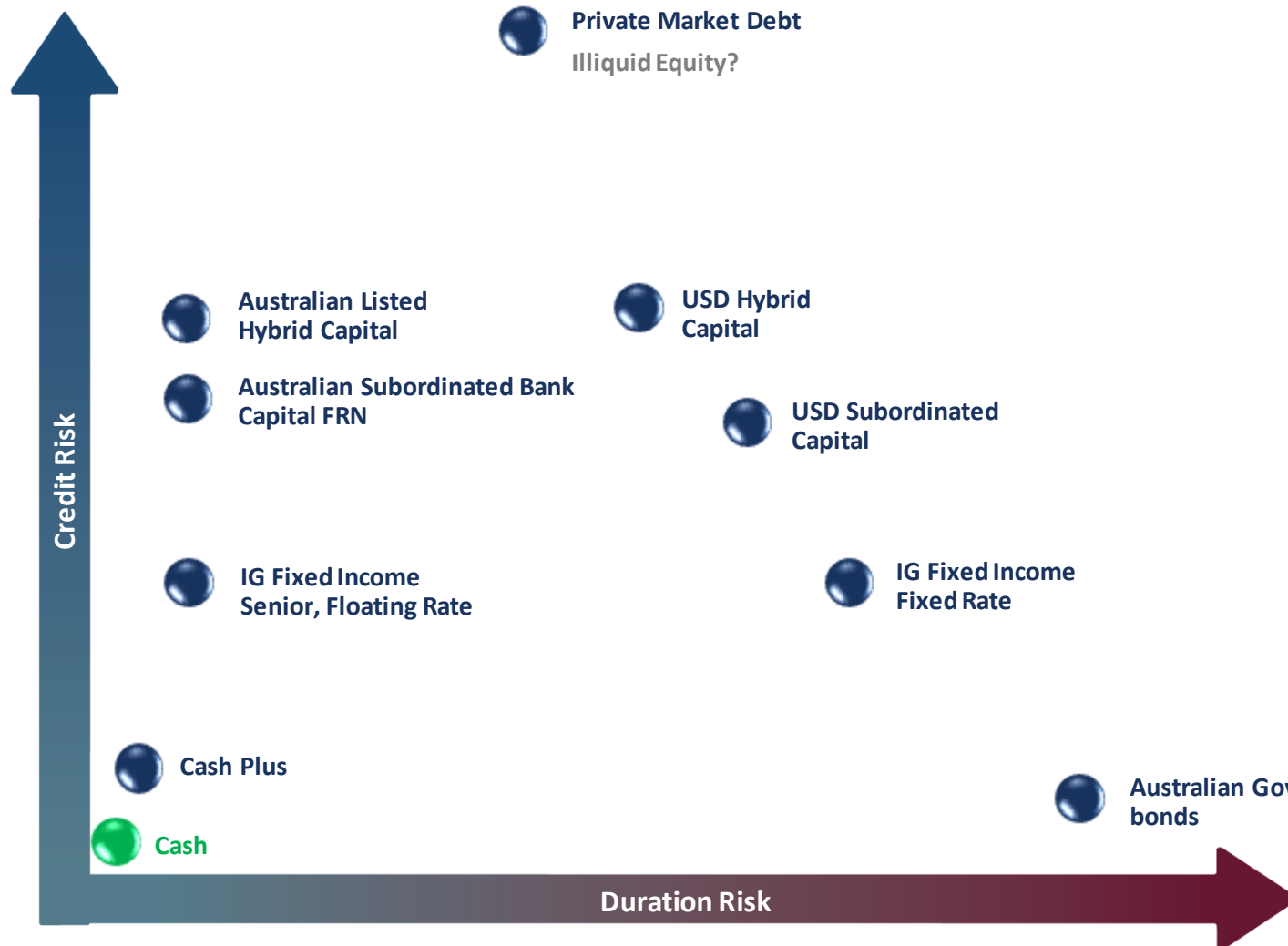


Chart above is illustrative only and not to scale.

# POSITION YOUR PORTFOLIO FOR THE FUTURE

2021 is looking like a strong year of global synchronised growth... long duration assets may struggle in this environment.

**FINANCIAL REVIEW**

Policy Economy Australian recession

## The recession is over: RBA

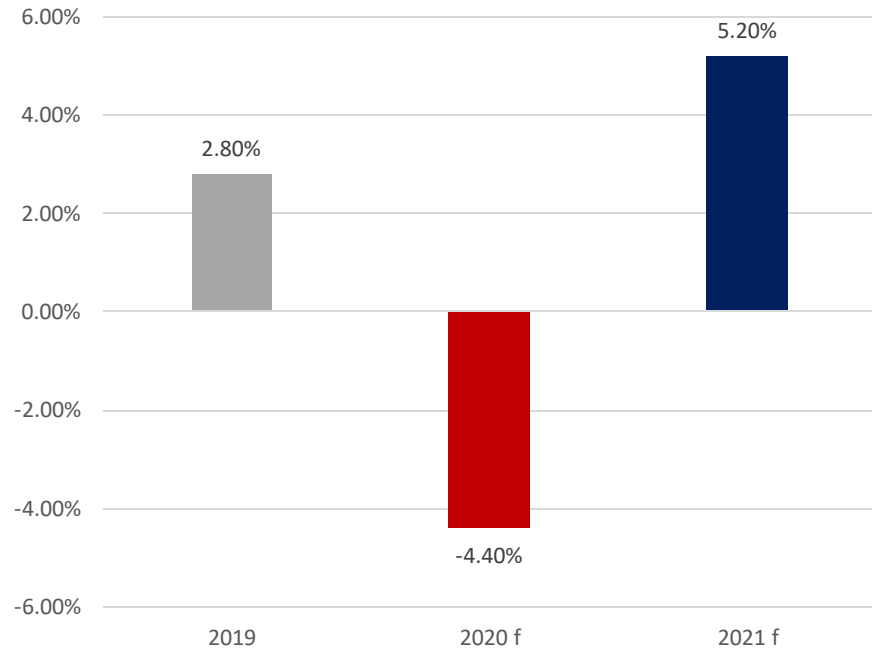
Matthew Cranston *Economics correspondent*

Oct 27, 2020 - 3:58pm

Reserve Bank deputy governor Guy Debelle has declared Australia is technically out of recession, telling a Senate estimates hearing that the September quarter would show the economy growing and the drag on the economy from Victoria would be less than first thought.




However assistant governor Michele Bullock has warned that banks profits will come under further pressure due to more losses on souring loans from businesses and households.

IMF World Growth GDP Forecasts






# OBJECTIVES & USES OF FIXED INCOME – HEADWINDS & OPPORTUNITIES

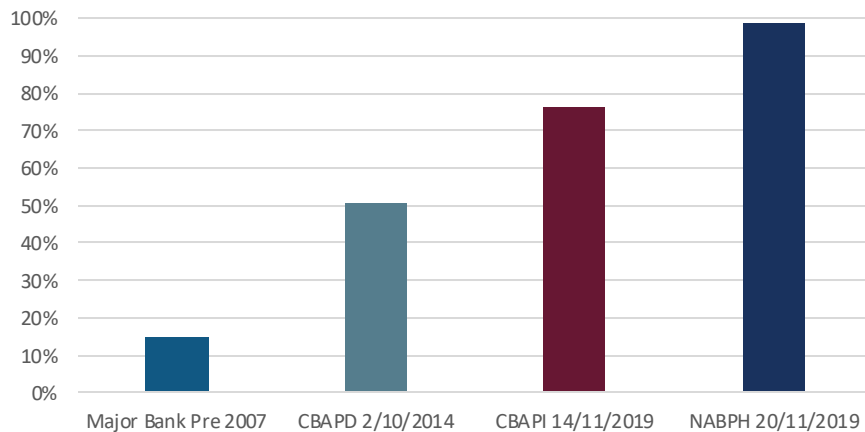
KEY FIXED INCOME OBJECTIVES	PORTFOLIO ACTION
 <p><b>Diversification</b> – holding high quality fixed rate bonds (Bloomberg AusBond Composite) has historically provided meaningful diversification benefits to diversified multi-asset class portfolios and flight to safety benefits</p> <p><b>However, historically low bond yields (Aust 10 year bond 0.85%, ~6 years duration) = reduced diversification benefit to portfolios and capital risk from any rebound in bond yields</b></p>	<p><b>Reduce Duration</b></p>
 <p><b>Regular Income</b> – by holding a diversified portfolio of hybrid securities a regular income stream is generated, historically at attractive levels of 3% - 5%. Investment Grade Credits yields are in the range of 0.5% to 2.5%</p> <p><b>However, historically low cash and base rate = reduced income to portfolios, and income driven by <u>Credit Premium</u> rather than base rates</b></p>	<p><b><u>Credit Decision, Quality Bias &amp; Active Management becomes critical to success, reduce cash drag</u></b></p>
 <p><b>Capital Stability &amp; Liquidity</b> – via holding high quality holdings and or short dated securities with cash and TD’s capital stability and liquidity profile is improved</p>	<p><b>No portfolio action. Negative real yields, with limited return after fees, however need to retain quality focus and client review is necessary to ensure portfolio matches the clients risk profile and investment objectives - see point above re Income</b></p>

Source: ASX, RAM November 2019

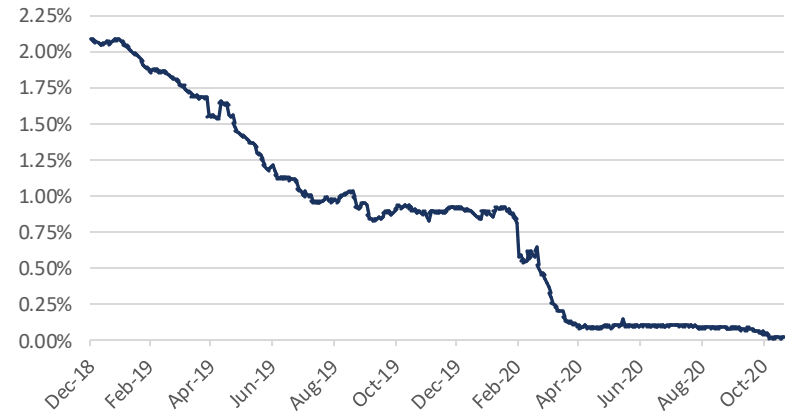
# CASH RATE IS NO LONGER A DRIVER OF EXPECTED RETURNS

KEY FIXED INCOME OBJECTIVES	PORTFOLIO ACTION
 <p><b>Regular Income</b> – by holding a diversified portfolio of securities a regular income stream is generated, historically at attractive levels of 3% - 5%</p> <p>However, historically low cash and base rate = reduced income to portfolios, and income driven by <u>Credit Premium</u> rather than base rates</p>	<p><b>Credit Decision, Quality Bias &amp; Active Management</b> becomes critical to success, reduce cash drag</p>

Gross Credit Spread as a % of Expected Total Return at Issue Date



3 Month Bank Bill Rate

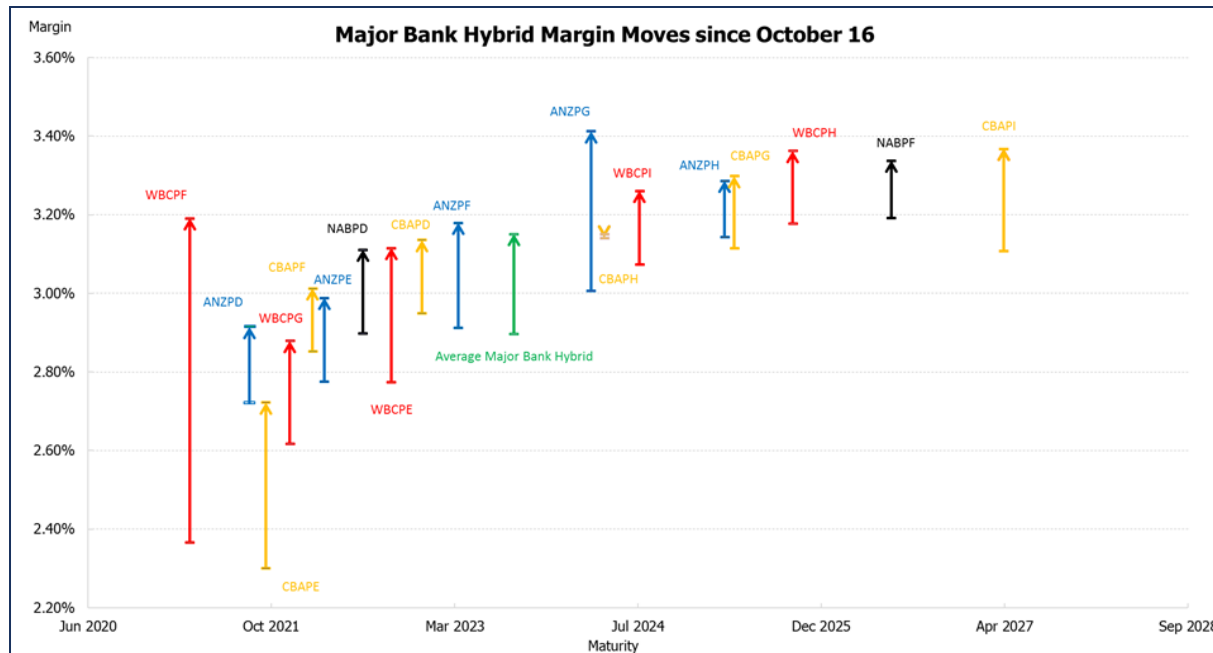


Source: ASX, Iress, CBA/NAB, RAM November 2020

# CURRENT CREDIT SPREADS

## CREDIT OUTLOOK

- ◆ Listed Credit Spreads have been volatile the last 12 months due to Covid-19 – initial market melt down then strong initial rally from policy response
- ◆ Risks to Banks weighed on credit spreads but given **Bank Capital Levels continue to grow**, Hybrid Securities **continue to pay all distributions (unlike bank equity dividends)** and banks deferred mortgage books continue to trend lower the credit outlook remains positive
- ◆ Late 2020 we have seen ASX listed issuance accelerate due to favourable market conditions and refinancing requirements at margins between 3.4%-4.6%. **Over 2021 we expect listed credit spreads to compress back towards 275-300bps**



Source: RAM, Bloomberg, E&P. November 2020

# REAL ASSET MANAGEMENT – BIOS



## **SCOTT KELLY - MANAGING DIRECTOR, CEO AUSTRALIA**

Scott has over 23 years of experience in Global Wealth Management and Asset Management, working for top tier financial institutions in Australia and the United Kingdom. Prior to joining Real Asset Management, Scott was a Managing Director and Head of Investment Products and Services for UBS Wealth Management Australia. There he oversaw the entire product offering for Australia’s premier wealth manager with \$A24bn of assets under management. Scott has also held the position of National Sales Director for Macquarie Private Wealth Australia and prior to this Scott co-founded and was Managing Director of Corazon Capital.



## **MICHAEL FREARSON - DIRECTOR, PORTFOLIO MANAGER**

Michael has over 19 years of experience in Australian Investment markets. Prior to joining Real Asset Management, Michael was a Senior Portfolio Manager for Macquarie Bank in the Discretionary Managed Accounts business. He has over 12 years’ experience as Portfolio Manager, working as a senior member of the investment team managing in excess of \$1 billion in clients multi-asset class discretionary portfolios and was directly responsible for over \$440 million in clients fixed interest/credit investments, as well as previous experience managing Equities and A-REITs, SAA & TAA. Qualifications include: CFA, F Fin, B Comm, B Fin, Moodys Corporate Credit Rating Course.

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# IMAP and COVID-19

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**IMAP**

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