Dominance of Active FI

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Overview

This is not about the tired old Active versus Passive equities debate. In the world of fixed income (FI), Active versus Passive matters considerably more and in FI, active management has a clear advantage over passive and for various reasons unique to the FI market. This research piece deliberately focuses on the last 12-month period, a period we view as an indicator of inflation rate / interest rate expectations for the foreseeable future.

This research piece could have alternative headings, but all would point to why active FI management has strong advantages over passive, index-tracking FI management, or at least at this stage of the cycle. For example, it could have been entitled: 1) It's an Alpha not Beta market; 2) Problems with the Indices: Leverage and Non-Inclusion; 3) The Information Advantage in FI Markets; 4) Debt is a 'Losers Game' - it's about Risk Mitigation: the Asymmetry of Downside Risk; 5) Marketing trumps Investment Merit – the Astounding Cross-Correlation in Australian FI ETFs; or, 6) Why you won't see another Passive Investment Grade ETF launched over the Foreseeable Future.

There are times when the FI markets are really rallying that the beta return component overwhelms the potential alpha component and riding the beta wave via a passive strategy may make sense (2010-2011 was one such period). Now (nor the last year) is not one of those periods. Not with rising inflation, rising interest rates and with mounting economic and market risks. For the foreseeable future, we expect it to be a period where sector and credit selection have heightened importance, i.e. alpha will dominate beta.

This article focuses on the ASX-listed FI ETF / ETMF / and publicly listed debt LIT. This universe provides a very clear distinction between passive and active FI strategies. Excluding the two emerging markets FI ETFs, there are 37 ASX and Chi-X-listed FI ETFs/ETMFs covering the Australian and Global FI markets with a 12+ month track record. Of this, 27 are passive while nine are active managers, with only six of this nine having a track-record of greater than 12-months (our eligibility criteria). These six FI ETMFs are: ActiveX Ardea Real Outcome Bond Fund **(ASX: XARO)**; ActiveX Kapstream Absolute Return Income Fund **(Chi-X: XKAP)**; eInvest Core Income Fund **(Chi-X: ECOR)**; eInvest Income Maximiser Fund **(Chi-X: EMAX)**, Schroder Absolute Return Income fund **(Chi-X: PAYS)**; and, BetaShares Active Australian Hybrids Fund **(ASX: HBRD)**. One could include the BetaShares Legg Mason Australian Bd ETF (ASX: BNDS) in this category, but in our view this ETF is a little too index hugging for inclusion in our view.

Over the course of the last 12-months there have been several other actively managed FI ETMFs that have listed (Daintree Hybrid Opportunities Fund **(ASX: DHOF)**, VanEck Bentham Global Capital Securities Active ETF **(ASX: GCAP)**, Coolabah Active Composite Bond Fund **(Chi-X: FIXD)**, and but there track-record does not reach the 12-month minimum criteria for this research piece.

In the publicly traded debt LIT sector there are four investment vehicles, specifically KKR Credit Income Fund **(ASX: KKC)**, Perpetual Credit Income Trust **(ASX: PCI)**, Partners Group Global Income Fund **(ASX: PGG)**, and the NB Global Corporate Income Trust **(ASX: NBI)**. Gryphon Capital Income Trust **(ASX: GCI)** could arguably be included in the publicly traded debt LIT universe, but given Australian RMBS has more private debt than publicly traded debt characteristics we have chosen to exclude it.

We have also included segments of the unlisted managed fund FI universe just for completeness, but as we have not done a deep dive on the unlisted space there is a degree of muddying regarding the active versus passive separation in each of the peer groups.

Other Characteristics of Key Difference

Before examining the key drivers as to why active FI management trumps passive FI management it is also worth noting a number of other key differences between these two management styles in the Australian listed space:

- **Proven Managers and Strategies.** While the ETMF versions of the six vehicles on the ASX may have a relatively short track-record, these are all proven managers with long established track records in the unlisted managed funds space. Additionally, as per the case with every single debt LIT that came to market, there is a high degree of positive self-selection regarding Active FI ETMF vehicles. The only way these managers could viably come to market was by being at least near best of class and offering a point of difference. This was certainly the case in the debt LIT segment, with the Joint Lead Managers (and the multiple layers of due diligence conducted including independent research) only support best-of-breed, well recognised debt managers. You can not say the same regarding the passive FI ETFs.
- **Through-Cycle Mandates.** By being dynamic and having a range of levers to pull (sub-asset class, sector / country exposure, duration, credit risk, risk targeting, fixed vs floating rates, derivative based downside protection) the Active FI strategies have the potential to be truly through cycle mandates. And indeed the longer track-records of the five ETMF managers in the unlisted trust versions of the ETMF strategies and the debt LIT managers bear witness to this ability. Again, the same can not be said of the passive ETFs. Such strategies are 'locked and loaded' by every single aspect noted in parentheses above. Change will only occur if and when there is a change to the underlying index.
- **Duration / Interest Rate Sensitivity.** Of the 27 passive FI ETF strategies, only three provide relatively shorter term duration and high yield (HY) or floating rate note (bank loans) exposure. The other 24 passive FI ETFs are all investment grade (IG) mandates and all without exception long to exceptionally long duration. As a matter of fundamentals, the interest rate on any given debt instrument is a function of the risk-free rate and the credit risk of the issuer. Bonds are largely

fixed rate investments, i.e. when the risk-free rate increases there is no consequent change in the coupon of existing bond instruments. For IG and HY bonds, mathematically the sensitivity of a rise in the risk-free rate is a function of the pre-existing coupon rate. On this basis, the sensitivity of IG bonds is materially higher than HY bonds. The sensitivity is also a function of duration (the longer the duration, the more sensitivity) and credit risk changes of the bond issuer that may stem from a change in the economic environment that has actually led to rising rates. Historically the performance of the IG segment has been negatively correlated to rising rates due to the low coupon levels, relatively long duration (government and government related issuer bonds can have very long durations), and often limited credit risk re-rating due to a pick up in economic growth.

- **Cross-Correlations – No Where to Hide.** Do not be fooled that the large number of passive FI ETFs equals a diversification of strategies and returns profiles. The cross-correlations that exist between FI Australia ETFs and between FI Global ETFs is very high. In contrast, between the Active FI ETMFs and LITs the cross-correlations are very low, reflecting differentiated strategies and the ability to create a diversified FI portfolio should an investor chose to do so. Astonishingly, there are nine Aust FI Index ETFs that have cross correlation of 98% or higher. You do not see that in the equities ETF sector. These nine ETFs differ in name and issuer only and in some regards the naming is purely a branding / marketing exercise. The Global FI Index peer groups fares much better (more diversified) but it is still along way from that of the Active FI Index peer group. The tables in Appendix 1 detail the cross-correlations of the peer group and do so not only in terms of the numerical level but colour code to provide an easy guide. Note the high degree of red and yellow in the passive ETF segment.
- **It's No Accident that the Best Performing Passive FI ETFs are . . . . .** the three HY and floating rate note (bank loans) strategies. Yes, high yield bonds are fixed rate, but the segment historically performs well in a rising inflation / rising interest rate environment. There is a simple reason for this in the HY market as the improvement in credit risk for these higher credit risk instruments has more than offset the negative impact of an increase in the risk-free rate. There is an extraordinary dearth of HY and floating rate notes (bank loans) ETF strategies in the Australian ETF segment. Only Van Eck has been progressive in this space, with the launch of FLOT and SUBD, and to a lesser degree, BetaShares via QPON.

Recent Track-Record

We focus on last 12-month performance. While this may appear short and selective, we believe the last 12-months in FI markets is indicative of market conditions over the foreseeable future. There is also a strong focus on downside risk mitigation (maximum drawdown). The reason for this is, to remind investors, for FI, the risk and return is asymmetric. If an investor's research is correct and everything goes as planned and no debt securities default, over time the total return is the coupon and return of principal. The upside is limited, but the downside can be significant in the event of any deterioration in credit quality. For fixed-income investors, the object is to generate stable returns in which one wins by avoiding defaults and other "mistakes" rather than chasing returns.

Risk mitigation is a central tenet of all active fixed-income investing because of the inherent difference in the return proposition of equities versus debt securities. In contrast, for equities, the goal is to try to find good companies whose value will appreciate over time—there are winners and losers, but a typical long investor is hoping for gains. If you pick the right stocks and market conditions are friendly, the upside can be rewarding. A passive equities strategy will reflect this general approach.

The charts and table below breaks up the performance of the fixed interest ETF / ETMF and Unlisted managed funds (MFs) universe by strategies we track. In the Unlisted MF space, the Global / Aust and HY Credit peer groups are somewhat 'muddied' by the inclusion of some passive strategies. But the Multi-strat MF segment is not – this is pure case of the peer group median comprising active only strategies.

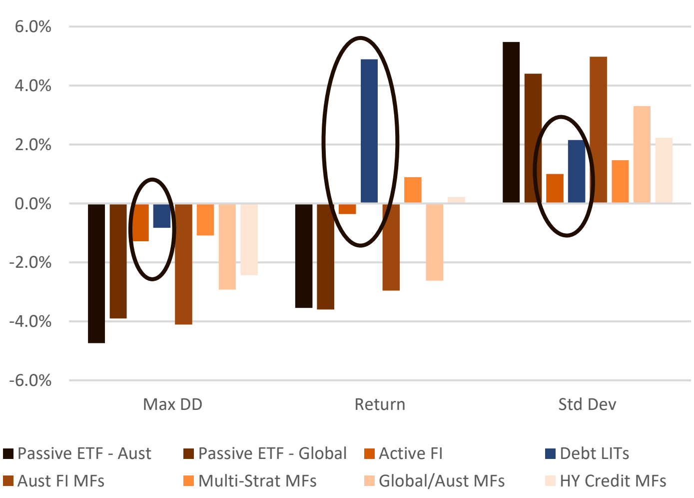
From the data below it is evident that the purest examples of active FI strategies, ETMF FI, the debt LITs, and Multi-strat Unlisted MFs, have the superior performance numbers.

Even over the course of the last month of January 2022, the returns performance has been stark (Passive ETF Aust -1.5% Passive ETF Global -2.5 versus -0.4% Active ETMFs and -0.2% Debt LITs) as the passive ETF largely long duration IG strategies dutifully tracked the broader IG markets down.

1-year Riak - Return by Fixed Income Sector / Vehicle Type

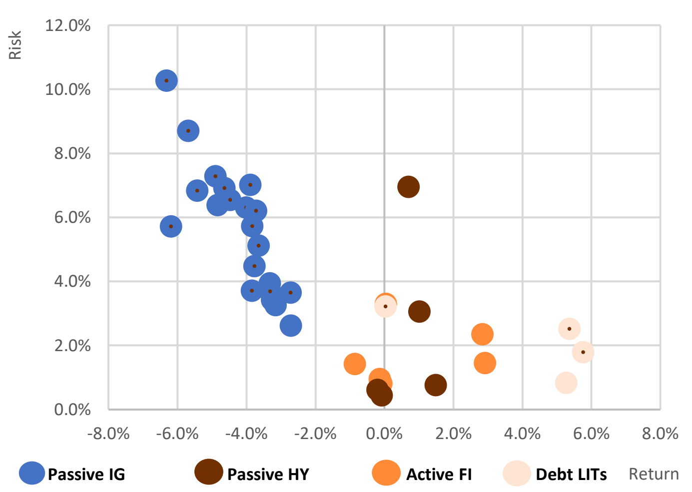
FI Type	Max DD	Return	Std Dev
Passive ETF - Aust	-4.74%	-3.55%	5.48%
Passive ETF - Global	-3.91%	-3.60%	4.41%
Active FI	-1.28%	-0.36%	1.00%
Debt LITs	-0.83%	4.89%	2.16%
Aust FI MFs	-4.11%	-2.96%	4.98%
Multi-Strat MFs	-1.09%	0.89%	1.47%
Global/Aust MFs	-2.93%	-2.62%	3.31%
HY Credit MFs	-2.44%	0.22%	2.23%

1-year Riak - Return by Fixed Income Sector / Vehicle Type

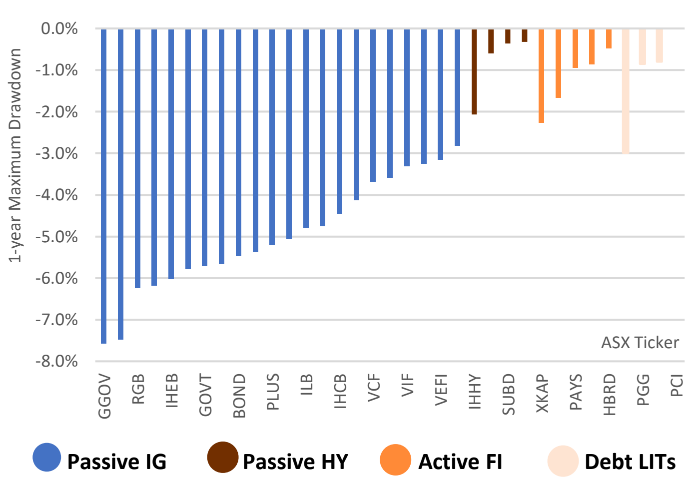


Dominance of Active FI

1-year Riak - Return by Listed Fixed Income Vehicle Type



1-year Maximum Drawdown by Listed Fixed Income Vehicle Type

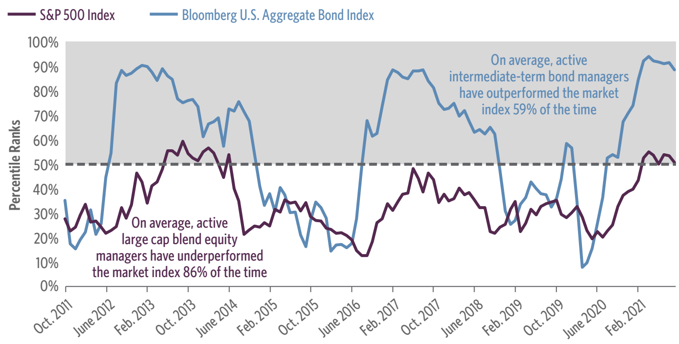


Broader FI Universe: Active versus Passive

The historical track record shows that for stocks, passive index tracking vehicles have generally outperformed active managers. As the chart below shows, over the past 10 years, the average active large-cap equity fund manager has underperformed the benchmark index 86% of the time. In contrast, over the same 10-year period, the average active intermediate-term bond fund manager has outperformed its benchmark, the Bloomberg U.S. Aggregate Bond Index (colloquially known as 'the Agg'), 59% of the time.

And given that many passive strategies follow indices with long duration, we would argue that active manager outperformance would have been even higher over the last 10 year if we had been in a rising rate environment.

Trailing One-Year Total Return Percentile Rank of Index Within Respective Morningstar Category



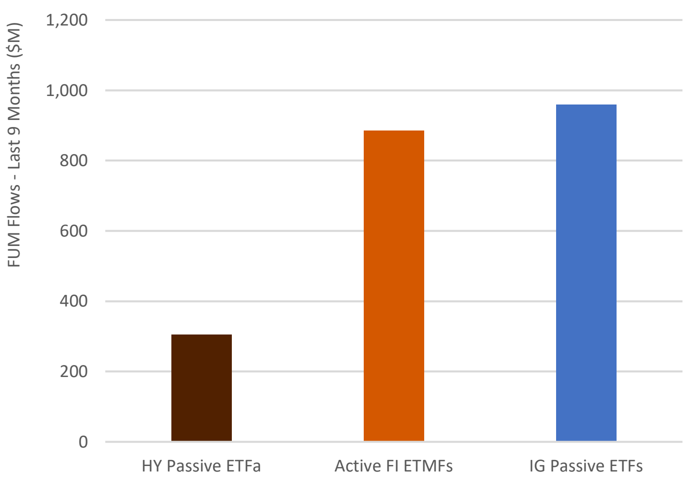
Morningstar as of 9.30.2021. Based on institutional share class. S&P 500 is compared against the Morningstar U.S. Fund Large Blend Category. Bloomberg U.S. Aggregate Bond Index is compared against a combination of the Morningstar U.S. Fund Intermediate Core Bond and Morningstar U.S. Fund Intermediate Core-Plus Bond categories. Each line represents the performance ranking percentile of a respective benchmark relative to the funds in the aforementioned categories. The best performance ranking percentile is 1 percent, and the worst performance ranking percentile is 100 percent. If the benchmark's performance ranking is below 50 percent, then the majority of funds underperformed the benchmark (bottom half, unshaded). Conversely, if the benchmark's performance is above 50 percent, then the majority of funds outperformed the benchmark (top half, shaded).

Wake Up and Smell the Coffee

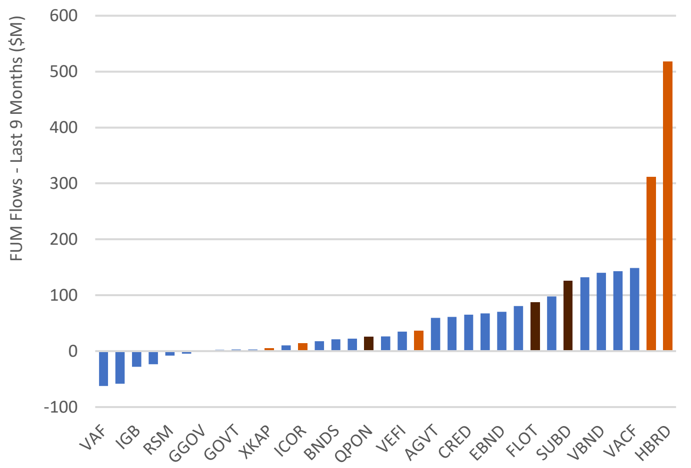
So why the popularity of passive FI strategies, notwithstanding there are certain market conditions in which they may make sense. Part of the reason for this apparent contradiction is quite possibly the assumption that what holds true for equities probably holds true for bonds. This assumption is quite possibly held because many investors are less knowledgeable of the workings of fixed income markets than equities or, alternatively, many investors simply have not looked at the historic data (as per the chart above).

We continue to be astounded by the FUM flow data relating to the ETF/ETMF FI sector in Australia. Specifically, the relatively high flows that have gone into long duration investment grade strategies when Blind Freddy could see more than 12-months ago the risks inherent in the sector, let alone the IG sector's negative real yields. And bear in mind how these ETFs are marketed – stable with limited downside. Well the Risk-Return has not panned out that way over the last 18-months and dare we say, there could be more pain to come. Stripping out Hybrids (which could be argued to be not a true fixed income asset class), of total inflows, 62% has gone into long duration Passive IG, 23% into Active FI ETMFs, and 15% into Passive HY.

Fixed Income ETF / ETMF Flows by Style



Fixed Income ETF / ETMF Flows by Vehicle



There are a few reasons that help explain why the active vs. passive story for fixed-income is different than for equities, which we list below. And anyone that has spent a reasonable amount of time studying the fixed income would come to understand that outperformance of Active FI strategies makes perfect sense.

- **The Information Advantage / Premium;**
- **Index Issues;**
- **Risk Mitigation Advantage;**
- **Credit Risk Targeting;**
- **Participation in New Issuance.**

Debt and the Information Premium

A very important driver as to why the active versus passive story for fixed-income is different than for equities is the particular characteristics and market structure for each type of security is very different.

If we take the U.S. market as an example (the distinctions are equally applicable to the Australian market), there are approximately 3,600 companies listed in the U.S., with a total market capitalization of approximately $30 trillion. All listed companies are subject to a standardised reporting regime (fair disclosure rules compliance, financial results GAAP rules compliance and generally with quarterly frequency). Additionally, equities have an exchange-based price discovery on a continuous basis. This relative homogeneity and transparency of financial data, news disclosures, and market data makes the equity market highly efficient. Furthermore, most equity indexes are market-capitalization weighted, so they reflect the proportional size of each company in the index.

In contrast, the U.S. fixed-income universe is massive and highly diverse. There is approximately $52 trillion outstanding and 4.7 million CUSIPs and non-CUSIP debt instruments. Importantly, less than half of these securities are in the Agg, which is the primary index used to represent the broad U.S. fixed-income market. Inclusion in the Agg requires that securities be U.S. dollar-denominated, investment-grade rated, fixed rate, taxable, and have above a minimum par amount of $300 million outstanding. Sectors outside the Agg include many types of asset-backed securities (ABS), non-Agency residential MBS (RMBS), high-yield corporate bonds, leveraged loans, municipal bonds, and any security with a floating-rate coupon.

The Agg represents a relevant basis of analysis for the Australian FI ETF sector – as the majority are based on Investment Grade government bonds and corporate debt. Bear in mind also, that there are quite a number of Australian domiciled FI ETFs that invest in global markets, such as the U.S. market.

Unlike investment-grade corporates, Treasurys, and Agency securities, the nonindexed sectors of the fixed-income market have a wide range of structures, documentation, and reporting protocols. In addition, it is an over-the-counter market where pricing is less transparent. The complexity of the deal structures and security-specific collateral of certain securities, such as commercial ABS, CLOs, and bank loans, require proactive and comprehensive credit and legal analysis. It takes significant resources to take advantage of the opportunities in the non-indexed part of the market, which helps to explain why active management can realize the value of the inherent information premium, but passive management cannot.

In Australia itself, there is no one broadly utilised and broad based fixed income aggregate index. An examination of the passive FI ETFs that have an Australian debt securities mandate highlights two things with respect to index tracking benchmarks: 1)as noted, there is no broadly adopted benchmark, and; 2) more conceningly the benchmarks utilised are very narrowly defined, creating relatively high concentration risk and limiting any inherent dynamic allocation potential.

Index Issues: Leverage, Non-Representation

In writing this piece, it is clear to us that the passive FI ETF sector in Australia is somewhat hamstrung by the nature of available indices. The utilised indices are narrowly defined and static. We have been told be one ETF issuer that creating an effective smart beta FI ETF for example is complex and time consuming. Bear in mind the low fees on passive FI ETFs. The point being there is less economic incentive for ETF issuers to put in the time to create a differentiated FI ETF than the case in equities ETFs.

The discussion below highlights the issue with index tracking ETFs by using the Bloomberg U.S. Aggregate Bond Index ('the Agg') as an example. But the conclusions are broadly applicable for all such passive FI ETFs.

A second factor that accounts for the different outcomes for active management in equities and debt securities is the structure of the Agg itself. Rather than reflect the fixed-income universe in its current composition, the eligibility rules of the Agg—and other indexes that form the basis of passive investing—reflect a weighting that is tilted towards the activities of the largest debtors. It should be apparent how this story ends right here!

In the late 1970s and into the early 1980s, the largest debt issuers were utilities, partly because of the big expansion in building nuclear plants. In the late 1990s and early 2000s when the largest debt issuers were the dotcoms and telecoms. In the mid-2000s, in the lead up to the GFC, some of the largest issuers were banks and financial institutions.

Over these three time periods, many issuers in the sectors noted above defaulted. An index following passive strategy would have held onto these securities until they dropped out of the index, whereas an active manager would have had the ability to trade out of these potential problems. And after a decade of ultra-easy monetary policy, rising leverage multiples and 'fallen angels' risk, this story may not be over.

The other major issue that has arisen because of the Agg's eligibility rules is that it is increasingly concentrated in Treasury and Agency securities, which have become a central part of the fixed-income landscape since the GFC. Index investors are vulnerable to interest rate and duration risk at current low yields. This is not a 5 minutes to midnight risk - it has been playing out over the last 18-month period, with passive IG strategies incurring losses, as per the charts on pages 2-3 above.

Moving beyond the benchmark not only expands the possible investment universe to include other sectors for relative value, the diversification also enables an active manager to avoid problem sectors, particularly over indebted credits or unduly low yielding categories. The flip side of more opportunity is greater risk avoidance.

Active FI Advantage: Risk Mitigation

The broader set of investment options available in the fixed-income market partly explains why active managers have been able to beat passive benchmarks. But it is up to the skill of the active fixed-income manager to know where to find relative value in the market and how to avoid problems that might not be evident from the weighting of indexes. The combination of these two attributes—the greater opportunity set and the ability of managers to make the right choices—is what provides the real advantage of active fixed-income management: risk mitigation.

Active fixed-income managers have the ability to properly position their portfolios as risks emerge and trading opportunities develop in a way that is not permissible for a passive strategy. For example, the impact of rate and yield curve changes on long duration assets can be managed with active decisions around portfolio duration positioning. Active managers also can dial up or dial down credit exposure over the course of a business cycle where appropriate.

In short, as an active manager without a tether to the benchmark, the goal is to position portfolios to mitigate drawdown risk by underweighting sectors that could negatively affect returns before anything happens. By definition, for passive fixed-income vehicles, this type of strategic positioning is simply not an option.

More Credit Risk

In an article published in 2020, Australian active FI manager eInvest noted that another reason many active managers outperform is by taking more credit risk. As noted above, indices are constructed with specific rules with one common rule being a minimum credit rating. In contrast, active FI strategies can and do vary risk based on securities, sector, and geographic exposures. In the case of taking on more credit risk, assuming the issuers do not default, higher risk/higher yielding securities are guaranteed to outperform lower risk/lower yielding securities given the contractual obligations to pay higher coupons.

Targeted Risks

Another driver of active outperformance is the ability to dynamically position the portfolo with a specific level of risk as deterimined by the perceived market environment. This can be achieved not only by security and sector selection but also in the case of certain active FI strategies the abiliity to implement derivative based strategies to mitigate downside risks or 'synthethically' skew a portfolios underlying tilts. for the market environment and target specific risks. Passive FI ETF strategies have no such flexibility.

New Issuance: Another Advantage

The previously mentioned eInvest article makes a good point about an inherent advantage of active FI strategies that many investors are probably not aware of. Specifically, the ability for active managers to participate in new debt securities issuance. FI manager participants in new issuance typically earn a premium over and above how that security is priced in the secondary market. And only secondary market securities are included in indices. When you consider that HY bonds and bank loans (floating rate notes) typically have a four year maturity then such strategies naturally have a 25% portfolio turnover level based on securities simply reaching maturity. The point being, with at least a 25% portfolio turnover level, the degree to which an active FI manager can participate in new issue is significant.

Fee Differentials: FI versus Equities

A final point of difference between fixed income and equities regarding active and passive strategies is that active FI strategies have lower fee differentials relative to that in the equities space.

Dominance of Active FI

APPENDIX - Cross Correlations

	Aust FI Index	AGVT	BOND	GOVT	PLUS	SUBD	VACF	VAF	VGB	CRED	BNDS	ILB	IGB	IAF	RGB	RCB	RSM
Aust FI Index	-	0.94	0.94	0.95	0.79	0.43	0.90	0.86	0.87	0.92	0.97	0.84	0.87	0.94	0.89	0.74	0.79
AGVT	0.94	-	0.99	0.94	0.57	0.12	0.75	0.96	0.98	0.79	0.98	0.76	0.98	0.99	0.98	0.59	0.83
BOND	0.94	0.99	-	0.94	0.63	0.19	0.80	0.87	0.94	0.83	0.98	0.71	0.86	0.93	0.86	0.62	0.71
GOVT	0.95	0.94	0.94	-	0.69	0.35	0.81	0.87	0.94	0.82	0.95	0.74	0.88	0.92	0.87	0.65	0.83
PLUS	0.79	0.57	0.63	0.69	-	0.83	0.92	0.51	0.54	0.87	0.67	0.75	0.52	0.58	0.47	0.85	0.64
SUBD	0.43	0.12	0.19	0.35	0.83	-	0.63	0.05	0.06	0.53	0.20	0.45	0.07	0.12	-0.01	0.78	0.33
VACF	0.90	0.75	0.80	0.81	0.92	0.63	-	0.71	0.74	0.96	0.85	0.80	0.71	0.77	0.67	0.80	0.73
VAF	0.86	0.96	0.87	0.87	0.51	0.05	0.71	-	0.86	0.74	0.94	0.62	0.87	0.89	0.87	0.54	0.75
VGB	0.87	0.98	0.94	0.94	0.54	0.06	0.74	0.86	-	0.78	0.97	0.64	0.81	0.86	0.79	0.56	0.68
CRED	0.92	0.79	0.83	0.82	0.87	0.53	0.96	0.74	0.78	-	0.87	0.87	0.75	0.81	0.73	0.75	0.74
BNDS	0.97	0.98	0.98	0.95	0.67	0.20	0.85	0.94	0.97	0.87	-	0.81	0.96	0.98	0.95	0.69	0.88
ILB	0.84	0.76	0.71	0.74	0.75	0.45	0.80	0.62	0.64	0.87	0.81	-	0.67	0.74	0.70	0.58	0.59
IGB	0.87	0.98	0.86	0.88	0.52	0.07	0.71	0.87	0.81	0.75	0.96	0.67	-	0.86	0.85	0.52	0.61
IAF	0.94	0.99	0.93	0.92	0.58	0.12	0.77	0.89	0.86	0.81	0.98	0.74	0.86	-	0.89	0.62	0.74
RGB	0.89	0.98	0.86	0.87	0.47	-0.01	0.67	0.87	0.79	0.73	0.95	0.70	0.85	0.89	-	0.53	0.73
RCB	0.74	0.59	0.62	0.65	0.85	0.78	0.80	0.54	0.56	0.75	0.69	0.58	0.52	0.62	0.53	-	0.62
RSM	0.79	0.83	0.71	0.83	0.64	0.33	0.73	0.75	0.68	0.74	0.88	0.59	0.61	0.74	0.73	0.62	-

	Global FI Index	GGOV	IHCB	IHHY	IHEB	VEFI	VBND	VCF	VIF
Global FI Index	-	0.77	0.96	0.77	0.90	0.86	0.86	0.95	0.58
GGOV	0.77	-	0.69	-0.03	0.36	0.88	0.85	0.71	0.94
IHCB	0.96	0.69	-	0.72	0.81	0.85	0.86	0.95	0.55
IHHY	0.77	-0.03	0.72	-	0.85	0.42	0.45	0.66	0.01
IHEB	0.90	0.36	0.81	0.85	-	0.61	0.60	0.82	0.26
VEFI	0.86	0.88	0.85	0.42	0.61	-	0.97	0.88	0.88
VBND	0.86	0.85	0.86	0.45	0.60	0.97	-	0.88	0.83
VCF	0.95	0.71	0.95	0.66	0.82	0.88	0.88	-	0.60
VIF	0.58	0.94	0.55	0.01	0.26	0.88	0.83	0.60	-

	Active FI Index	XARO	XKAP	ECOR	PAYS
Active FI Index	-	0.84	0.29	-0.07	0.91
XARO	0.84	-	0.00	-0.12	0.78
XKAP	0.29	0.00	-	-0.34	0.04
ECOR	-0.07	-0.12	-0.34	-	-0.25
PAYS	0.91	0.78	0.04	-0.25	-

	FI Alt Index	QPON	FLOT	HBRD
FI Alt Index	-	0.91	0.84	0.96
QPON	0.91	-	0.88	0.77
FLOT	0.84	0.88	-	0.69
HBRD	0.96	0.77	0.69	-

	FI LIT Index	PCI	MOT	PGG	KKC	MCP	GCI	NBI	QRI
FI LIT Index	-	0.41	0.11	0.97	0.97	0.18	0.63	0.94	0.03
PCI	0.41	-	0.12	0.22	0.24	0.08	0.21	0.17	0.01
MOT	0.11	0.12	-	0.02	0.05	0.13	0	0.04	-0
PGG	0.97	0.22	0.02	-	0.96	-0.1	0.62	0.96	0.03
KKC	0.97	0.24	0.05	0.96	-	-0	0.67	0.94	0.02
MCP	0.18	0.08	0.13	-0.1	-0	-	0.24	0	0.01
GCI	0.63	0.21	0	0.62	0.67	0.24	-	0.56	0.01
NBI	0.94	0.17	0.04	0.96	0.94	0	0.56	-	0.01
QRI	0.03	0.01	-0	0.03	0.02	0.01	0.01	0.01	-

About Risk Return Metrics

Risk Return Metrics Pty Ltd (ABN 98 642 969 819) was established by the company's principal Rodney Lay in June 2020 with the express intention to provide institutional grade absolute and relative performance analysis and ratings for retail and wholesale investors, IFAs and investment managers. The primary focus is on the managed investment sectors, both LICs/LITs and Active and Passive ETFs listed on the Australian market. A secondary focus is on the provision of select quantitative based profiles on select Australian domiciled unlisted managed funds. In total, RRM is expected to provide monthly updates on approximately 550 Australian domiciled investment strategies across the full asset class spectrum.

The investment product reports produced by RRM contain a number of differentiating factors to which have and are currently available in the Australian market, with the most notable being 1) HTML-based sub-reports for each strategy and 2) the emphasis on peer group benchmarking for comparative analysis as opposed to the industry standard of utilising industry benchmarks.

The former function enables the provision of detailed metrics regarding returns, risk/capital preservation, performance path, and efficiency, but does so by way of the sub-report feature without comprising the conciseness and readability of the primary report. Less is More, and More is More. The latter is viewed as a superior comparative basis in terms of facilitating investor choice regarding competing investment strategies in a particular (sub-)asset class.

Rodney Lay has 25 years' experience in investment analysis, first starting as an equities analyst at BZW / ABN Amro. Subsequently, he specialised in structured products in the lead up to the GFC and then moved to a dedicated focus on listed and unlisted managed investments. Rodney has had a long involvement in the listed space of the market, both LICs/LITs and ETFs.

Asset class experience is broad, including equities (long-only, long/short, market neutral, enhanced income), global listed infrastructure and property, alternative strategies (hedge funds, global macro, quantitative strategies), retirement solution products, private assets, and public and private debt. Public and private debt strategies have been a particular focus over the last three years, reflecting growing retail and wholesale client demand.

Rodney has a strong understanding of the nuances of different investment structures, including LICs/LITs, Active ETFs, SMAs/ IMAs and the recently launched dual listed/unlisted structure. Rodney has undertaken investment analysis on behalf of some of the most recognised global and domestic fund managers in both the listed and unlisted investment strategy sectors.

Any advice provided in this report is general advice only and does not consider the objectives, financial situation or particular needs of any particular person. It is not a recommendation to purchase, redeem or sell this particular product (Product). Before making an investment decision the reader must consider his or her financial circumstances or seek personal financial advice on its appropriateness. The reader should read the offer document for the Product before making any decision about whether to acquire the Product.

This report is intended to assist the reader in evaluating the Product. It is not intended to serve as a substitute to the reader exercising their own independent judgment and the reader should not seek to rely exclusively on this report in assessing the Product for their own purposes.

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