

Sample Portfolios

The FIIG Strategy team have created three sample portfolios, each with different characteristics. The three portfolios offer differing yields and levels of risk, and demonstrate investment options for clients.

This document has been prepared by FIIG Portfolio Strategy Services. Opinions expressed may differ from those expressed by our Research group.

Summary

We are showcasing three sample portfolios helping clients target their risk and return objectives. The portfolios include:

A 100% Australian dollar investment grade portfolio yielding circa 4.25% per annum,

A portfolio comprising Australian dollar bonds, both investment grade and sub investment grade yielding around 5.25% per annum

A higher yield portfolio which includes foreign currency bonds yielding approximately 6.25% per annum.

These yields quoted are the weighted average yields to maturity (YTM) of the individual bonds as of 12th July 2018.

Where we have utilised floating rate bonds, we estimate a fixed rate from an average BBSW assumption via an interest rate swap curve, and for inflation-linked product we have a 2.5% inflation assumption, being the mid-point of the RBA target range of 2.00%-3.00%.

The portfolios are contained in the appendices at the end of this article, and there is a link to them too.

Portfolio themes

These portfolios each have a minimum of twenty securities enabling a good level of issuer diversification. This fits with our theme of limiting individual issuer exposure otherwise known as single name concentration risk.

We use a mix of security types within our portfolios involving fixed, floating and inflation linked bonds, and have suggested bands for the allocation of each of those security types.

Ratings wise, we look to incorporate a spread of differing ratings within the portfolio, and we also display the area of the capital structure where our securities sit, although we currently bucket senior secured and senior unsecured debt into one group called senior.

Sector wise, we look to have a spread across differing industries, although we have an overweight position in Infrastructure and Financials in the Australian dollar portfolios. This is due to Research having an Outperform recommendation on the two sectors.

In terms of the summaries for the portfolios, the initial investment amounts are all around \$2.5 million. The other attributes are the weighted averages for the purchase yield (YTM), the purchase margin being the estimated spread over BBSW, the running yield being the

19 July 2018

Sample Portfolios:

AUD Investment Grade

AUD Investment Grade and High Yield

Multi-Currency Investment Grade and High Yield

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Sample Portfolios

income from coupons, the weighted average term being the average time for cashflows to be returned, and the modified duration representing the sensitivity to interest rates.

The Australian dollar investment grade (IG) portfolio

This portfolio has 22 securities (please refer to the link below or to Appendix 1) with all weightings between 4% and 5%, yielding 4.25% per annum.

The security mix fits with our suggested bands of between 20% and 50% weighting for fixed rate bonds, 25% and 50% for floating rate bonds, and between 15% and 35% for inflation linked bonds.

We have traditionally had a larger allocation to inflation linked securities, but the decreased allocation results from a reduction in supply of inflation-linked securities, and recognition of the correlation between floating rate and inflation linked bonds.

All of the securities have an investment grade rating from one of the major ratings agencies, with BBB- being the cut-off for IG in S&P terminology.

More than two thirds of the portfolio is in senior debt and almost half (47%) of the bonds are related to infrastructure, which is normally a stable sector exhibiting low volatility.

The largest weighting bond is Sydney Airports 2030 inflation linked security and the smallest weighting is Queensland Treasury's 2033 bond.

The Australian dollar mixed portfolio (investment grade and sub investment grade)

This portfolio has 25 securities (please refer to the link below or to Appendix 2) with weightings between 2.2% and 6.1%, yielding 5.26% per annum.

The security mix still fits with our suggested bands above, but around 40% of the portfolio is sub investment grade (below BBB-).

All of the sub IG bonds have an Outperform recommendation by FIIG Research except for Metro which is a recent asset-backed security (ABS) deal backed by car loans. Research may or may not choose to cover this going forward but the bond was included due to its recent popularity with a relatively short weighted average life (WAL) expectation of 2.3 years.

The portfolio has a 65% allocation to senior debt, a 44% allocation to infrastructure, a 19% allocation to Other Financials, an 8% allocation to ABS products and a 4% allocation to insurance. This again fits with our overweight position in infrastructure and financials.

The largest weighting bond is JEM NSW Schools 2035 inflation linked security and the smallest weighting is Impact Group's bond, maturing in 2021.

The mixed higher yielding portfolio with foreign currency bonds

This portfolio has 29 securities (please refer to the link below or to Appendix 3) with weightings between 1.4% and 13.7%, yielding 6.27% per annum.

The security mix is greatly skewed towards fixed rate bonds, partly because almost all our available foreign currency bonds are fixed rate, and because we've chosen to eliminate the inflation linked securities in pursuit of yield.

As with the mixed Australian portfolio the sub IG Australian bonds all have an Outperform recommendation by FIIG Research except for Metro.

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The US dollar bonds are chosen being securities we believe offer relative value or are names we believe will be relatively stable credit wise.

The portfolio has a 57% allocation to senior debt, a broader range of sectors with 28% Resources and 24% Other Corporate and a currency split of 61% in US dollars, 37% in Australian dollars and 2% in British pounds.

The largest weighting bond is an NCIG (Newcastle Coal) security and the smallest weighting is in NRW. The NCIG, BHP and QBE all have minimum size restrictions which partly account for the weightings.

The largest holding NCIG bond is senior debt to a holding company, making it structurally subordinate and often described as junior subordinated debt. Nevertheless, we like the bond which pays 12.5% coupons, and it is rated Outperform by FIIG Research with Stable sector outlook.

Conclusion

The intention of the three portfolios is to provide new and existing customers with a suggestion of names and yields with differing levels of associated risk.

Please click on the links below to view the individual portfolios and ask your relationship manager or ourselves in Strategy if you have any questions on the portfolios and their composition.

Links

Australian dollar 100% Investment Grade [View PDF](#)

Mixed Australian dollar IG and sub IG [View PDF](#)

Higher yield portfolio with foreign bonds [View PDF](#)

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Sample Portfolios

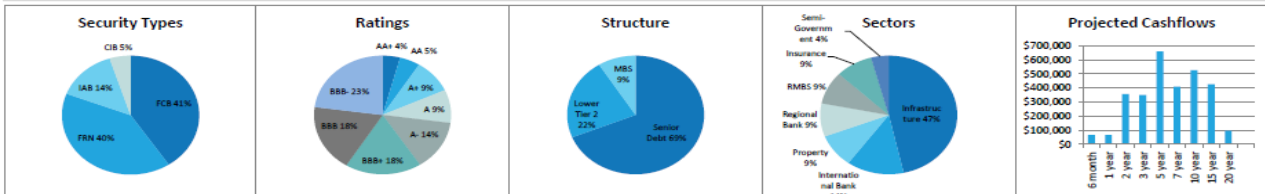
Appendix 1 – AUD investment grade portfolio



Cost Value (capital)	\$2,514,650
Cost Value (accrued)	\$15,873
Cost Value (gross)	\$2,530,522
Purchase Yield	4.25%
Purchase Margin	1.72%
Running Yield	4.44%
WA Term	9.31
Mod Duration	3.64

Investment Portfolio - Sample AUD IG Portfolio July 2018
12 July, 2018

Holding	Security Description	Sec Type	Structure	Rating (equiv)	Sector	Cost Price	Cost Value (Capital)	Accrued Interest	Cost Value (Gross)	Portfolio Weight	Mod Dur	Purchase Yield	Purchase Margin	Running Yield
90,000	SYDAIR-ILB-3.12%-20Nov30	CIB	Senior Debt	BBB+	Infrastructure	137.74	\$123,964	\$570	\$124,534	4.9%	7.77	5.18%	2.28%	2.99%
189,000	MPC-IAB-31Dec25	IAB	Senior Debt	AA	Infrastructure	64.23	\$121,398	\$0	\$121,398	4.8%	2.28	4.69%	2.03%	3.78%
120,000	JEM NSW Schools IAB-0%-28Nov35	IAB	Senior Debt	A+	Infrastructure	99.49	\$119,392	\$0	\$119,392	4.7%	7.40	4.93%	1.94%	3.78%
135,000	PJS-IAB-0%-15Jun30	IAB	Senior Debt	A-	Infrastructure	87.51	\$118,143	\$0	\$118,143	4.7%	4.69	4.65%	2.07%	4.19%
110,000	PRAECO-7.132568%-26Jul20c	FCB	Senior Debt	BBB	Infrastructure	106.30	\$116,930	\$1,702	\$118,632	4.7%	1.85	3.89%	1.81%	6.71%
110,000	LENDLEASE-6%-13May20	FCB	Senior Debt	BBB-	Property	104.95	\$115,443	\$1,147	\$116,590	4.6%	1.72	3.19%	1.11%	5.72%
110,000	Asolano-5.40%-12May27	FCB	Senior Debt	BBB-	Infrastructure	105.95	\$116,545	\$1,049	\$117,594	4.6%	6.96	4.57%	1.82%	5.10%
110,000	BENAU-BBSW+2.80%-9Dec21c	FRN	Lower Tier 2	BBB-	Regional Bank	105.02	\$115,522	\$497	\$116,019	4.6%	0.34	3.48%	1.23%	4.62%
110,000	QNB-4.90%-1Feb28	FCB	Senior Debt	A	International Bank	104.60	\$115,060	\$2,456	\$117,516	4.6%	7.44	4.31%	1.52%	4.68%
110,000	AdaniAbbot-7.10%-29May20	FCB	Senior Debt	BBB-	Infrastructure	103.50	\$113,850	\$1,019	\$114,869	4.6%	1.73	5.11%	3.03%	6.86%
110,000	ENED-4.75%-9Feb29	FCB	Senior Debt	A-	International Bank	104.40	\$114,840	\$2,269	\$117,109	4.5%	7.52	4.19%	1.39%	4.55%
110,000	Sungro-BBSW+2.05%-16Dec24	FRN	Senior Debt	BBB	Infrastructure	104.02	\$114,417	\$347	\$114,763	4.5%	0.61	3.93%	1.34%	3.95%
120,000	DBCT(DALRYMPLE)-FRN+30bps-09Jun21	FRN	Senior Debt	BBB	Infrastructure	94.80	\$113,760	\$263	\$114,023	4.5%	0.13	4.37%	2.22%	2.49%
110,000	IAG-BBSW+2.10%-15Jun24c	FRN	Lower Tier 2	BBB	Insurance	102.72	\$112,904	\$388	\$113,292	4.5%	0.52	4.13%	1.58%	4.05%
110,000	ConQuest 2018-1 C	FRN	MBS	A+	RMBS	102.25	\$112,475	\$0	\$112,475	4.5%	3.20	5.10%	2.43%	4.71%
110,000	Apollo 2018-1 C	FRN	MBS	A	RMBS	102.00	\$112,200	\$41	\$112,241	4.5%	3.42	4.74%	1.94%	4.34%
110,000	Arundown-4.50%-14May25	FCB	Senior Debt	BBB+	Property	101.85	\$112,035	\$347	\$112,382	4.4%	5.79	4.18%	1.56%	4.42%
110,000	AURIZON-4.0%-21Jun24	FCB	Senior Debt	BBB+	Infrastructure	101.55	\$111,705	\$300	\$112,005	4.4%	6.23	3.71%	1.17%	3.94%
110,000	DBS-BBSW+1.55%-16Mar23c	FRN	Lower Tier 2	A-	International Bank	101.46	\$111,602	\$307	\$111,909	4.4%	0.39	3.69%	1.24%	3.59%
110,000	BQG-BBSW+1.85%-01May23c	FRN	Lower Tier 2	BBB-	Regional Bank	101.39	\$111,530	\$888	\$112,418	4.4%	0.26	3.69%	1.53%	3.82%
100,000	AAI-BBSW+3.20%-6Oct22c	FRN	Lower Tier 2	BBB+	Insurance	106.89	\$106,885	\$144	\$107,029	4.3%	0.50	3.84%	1.43%	4.92%
75,000	QTC-6.5%-14Mar33	FCB	Senior Debt	AA+	Semi-Government	138.61	\$103,961	\$1,643	\$105,603	4.1%	10.15	3.18%	0.21%	4.69%



Notes
Yields on floating rate notes are estimated by the sum of the trading margin and the current swap rate to maturity; Yields and margins on inflation linked assets are inclusive of an assumed 2.50% average inflation rate. Returns are exclusive of movements in foreign currencies; Cost Basis and Market Values are quoted in Australian Dollars using transacted and current exchange rates.

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Sample Portfolios

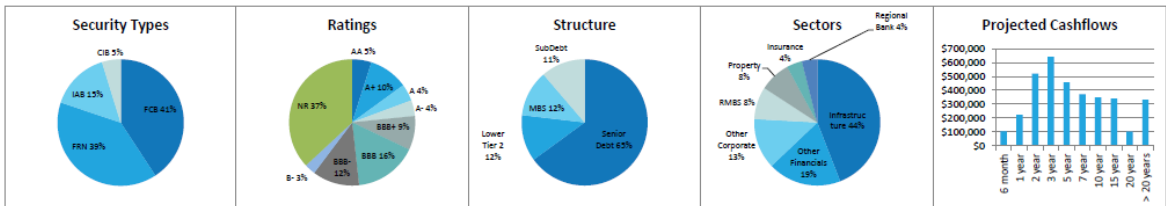
Appendix 2 – AUD investment grade and high yield portfolio



Cost Value (capital)	\$2,580,292
Cost Value (accrued)	\$12,815
Cost Value (gross)	\$2,593,107
Purchase Yield	5.28%
Purchase Margin	2.83%
Running Yield	5.58%
WA Term	7.85
Mod Duration	2.76

Investment Portfolio - Sample AUD HY Portfolio July 2018
12 July, 2018

Holding	Security Description	Sec Type	Structure	Rating (equity)	Sector	Cost Price	Cost Value (Capital)	Accrued Interest	Cost Value (Gross)	Portfolio Weight	Mod Dur	Purchase Yield	Purchase Margin	Running Yield
100,000	JEM NSW Schools IAB-0%-28Nov35	IAB	Senior Debt	A+	Infrastructure	92.49	\$159,189	\$0	\$159,189	6.1%	7.40	4.93%	1.64%	3.78%
200,000	MPC-IAB-31Dec25	IAB	Senior Debt	AA	Infrastructure	64.23	\$128,464	\$0	\$128,464	4.0%	2.28	4.69%	2.02%	3.78%
90,000	SYDAIR-ILB-3.12%-20Nov30	CIB	Senior Debt	BBB+	Infrastructure	137.74	\$123,964	\$570	\$124,534	4.6%	7.77	5.18%	2.28%	2.90%
110,000	Apollo 2018-1 C	FRN	MBS	A	RMBS	101.75	\$111,925	\$41	\$111,965	4.3%	3.42	4.74%	1.94%	4.35%
100,000	PRAECO-7.132508%-28Jul20c	FCB	Senior Debt	BBB	Infrastructure	108.30	\$108,300	\$1,547	\$107,847	4.1%	1.88	3.89%	1.81%	6.71%
100,000	Asciano-5.40%-12May27	FCB	Senior Debt	BBB-	Infrastructure	105.95	\$105,950	\$954	\$106,904	4.1%	6.96	4.57%	1.81%	5.10%
120,000	PJS-IAB-0%-15Jun30	IAB	Senior Debt	A-	Infrastructure	87.51	\$105,016	\$0	\$105,016	4.0%	4.69	4.65%	2.06%	4.19%
110,000	DBCT(DALRYMPLE)-FRN+30bps-09Jun21	FRN	Senior Debt	BBB	Infrastructure	94.80	\$104,280	\$241	\$104,521	4.0%	0.16	4.37%	2.22%	2.49%
100,000	AdaniAbbot-7.10%-29May20	FCB	Senior Debt	BBB-	Infrastructure	103.50	\$103,500	\$920	\$104,420	4.0%	1.73	5.11%	3.04%	6.36%
100,000	Sungrp-BBSW+2.05%-16Dec24	FRN	Senior Debt	BBB	Infrastructure	104.02	\$104,019	\$315	\$104,334	4.0%	0.61	3.93%	1.34%	3.85%
100,000	Moneytech-BBSW+4.85%-17Apr20c	FRN	Lower Tier 2	NR	Other Financials	102.70	\$102,700	-\$18	\$102,682	4.0%	0.05	5.09%	3.03%	6.55%
140,000	WAS-7.75%-09Jun21	FCB	Senior Debt	NR	Property	102.75	\$102,750	\$368	\$103,118	4.0%	2.84	6.47%	4.32%	7.54%
100,000	IAG-BBSW+2.10%-15Jun24c	FRN	Lower Tier 2	BBB	Insurance	102.73	\$102,728	\$353	\$103,079	4.0%	0.52	4.13%	1.58%	4.05%
160,000	NRW-7.50%-19Dec20	FCB	Senior Debt	NR	Other Corporate	102.80	\$101,869	\$544	\$102,213	4.0%	2.24	5.30%	3.19%	7.30%
100,000	ConQuest 2018-1 C	FRN	MBS	A+	RMBS	102.25	\$102,250	\$0	\$102,250	4.0%	3.20	5.10%	2.43%	4.71%
100,000	ZipMoney Trust 2017-1 B	FRN	SubDebt	NR	Other Financials	101.10	\$101,100	\$131	\$101,231	3.6%	0.09	6.88%	4.62%	7.90%
100,000	PMP-6.43%-17Sept19	FCB	Senior Debt	NR	Other Corporate	100.80	\$100,800	\$2,114	\$102,914	3.6%	1.10	5.71%	3.67%	6.38%
100,000	Aroundtown-4.50%-14May25	FCB	Senior Debt	BBB+	Property	101.85	\$101,850	\$770	\$102,620	3.6%	5.79	4.18%	1.55%	4.42%
100,000	BDO-BBSW+1.85%-01May23c	FRN	Lower Tier 2	BBB-	Regional Bank	101.39	\$101,391	\$307	\$102,199	3.6%	0.20	3.69%	1.53%	3.22%
95,000	SCT-7.86%-24Jun21	FCB	Senior Debt	NR	Infrastructure	105.80	\$100,510	\$437	\$100,947	3.9%	2.62	5.48%	3.33%	7.23%
90,000	StockCo-8.75%-9Oct21c	FCB	SubDebt	NR	Other Financials	108.25	\$95,825	\$210	\$96,035	3.7%	2.82	6.59%	4.38%	8.24%
90,000	Axcess-BBSW+6.50%-9Oct20c	FRN	SubDebt	NR	Other Financials	103.15	\$92,835	\$148	\$92,983	3.6%	0.31	7.06%	4.97%	8.30%
90,000	Metro 2018 1-E	FRN	MBS	NR	Other Financials	101.50	\$91,350	\$597	\$91,917	3.6%	0.44	7.17%	4.80%	7.31%
70,000	VIRGIN-8.25%-30May23	FCB	Senior Debt	B-	Other Corporate	103.50	\$72,450	\$738	\$73,188	2.8%	3.94	7.38%	4.90%	7.97%
70,000	IMPACT-8.50%-12Feb21	FCB	Senior Debt	NR	Other Corporate	103.00	\$57,880	\$840	\$58,720	2.2%	2.28	7.00%	4.87%	8.25%



Notes
Yields on floating rate notes are estimated by the sum of the trading margin and the current swap rate to maturity; Yields and margins on inflation linked assets are inclusive of an assumed 2.30% average inflation rate. Returns are exclusive of movements in foreign currencies; Cost Basis and Market Values are quoted in Australian Dollars using transacted and current exchange rates.

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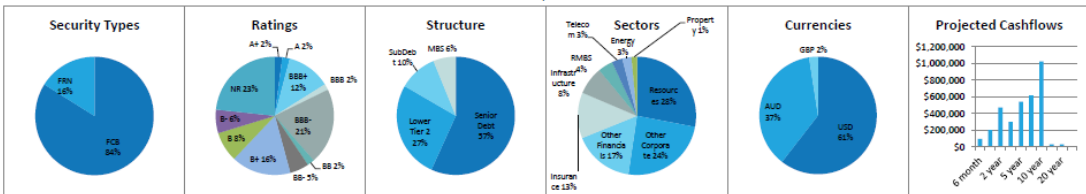
Sample Portfolios

Appendix 3 – Foreign currency portfolio

Cost Value (capital)	\$2,485,086
Cost Value (accrued)	\$31,489
Cost Value (gross)	\$2,516,566
Purchase Yield	6.27%
Purchase Margin	3.85%
Running Yield	7.07%
WA Term	6.62
Mod Duration	3.95

Investment Portfolio - Sample Foreign Currency Portfolio July 2018

Holding	Security Description	Sec Type	Structure	Rating (equity)	Sector	Cost Price	Cost Value (Capital)	Accrued Interest	Cost Value (Gross)	Portfolio Weight	Mod Dur	Purchase Yield	Purchase Margin	Running Yield
200,000	NCIG-12.5%-31Mar27c - USD	FCB	Senior Debt	B+	Resources	125.75	\$341,612	\$9,999	\$351,611	13.7%	6.49	6.28%	5.38%	9.04%
200,000	BHP BILLITON-8.75%-19Oct25c-USD	FCB	Lower Tier 2	BBB+	Resources	108.75	\$298,147	\$4,431	\$302,578	12.0%	6.69	6.12%	2.23%	6.15%
200,000	QBE-5.875%-17Jun25c-USD	FCB	Lower Tier 2	BBB-	Insurance	99.95	\$270,709	\$1,298	\$271,995	10.9%	6.21	6.00%	3.03%	5.00%
100,000	StockCo-8.75%-8Oct21c	FCB	SubDebt	NR	Other Financials	108.25	\$108,250	\$243	\$108,493	4.3%	2.82	6.56%	4.38%	8.24%
100,000	ZpMoney Trust 2017-1 B	FRN	SubDebt	NR	Other Financials	101.10	\$101,100	\$131	\$101,231	4.1%	0.09	6.66%	4.62%	7.90%
70,000	VIRGIN-8.5%-19Nov19-USD	FCB	Senior Debt	B-	Other Corporate	102.35	\$97,315	\$1,309	\$98,685	3.9%	1.24	6.61%	3.90%	8.30%
90,000	AdianAbbot-7.10%-29May20	FCB	Senior Debt	BBB-	Infrastructure	103.50	\$93,150	\$833	\$93,983	3.8%	1.73	6.11%	3.03%	6.80%
50,000	SPRINT-7.875%-15Sep23-USD	FCB	Senior Debt	B	Telecom	105.90	\$71,922	\$1,788	\$73,720	2.9%	4.12	6.51%	3.62%	7.44%
50,000	RackSpace-9.625%-15Nov24-USD	FCB	Senior Debt	B	Other Corporate	102.00	\$99,273	\$993	\$100,266	2.5%	4.75	6.21%	5.32%	8.48%
50,000	AVOM-7.875%-15Aug22-USD	FCB	Senior Debt	BB-	Other Corporate	100.85	\$68,492	\$2,243	\$70,735	2.7%	3.33	7.63%	4.74%	7.81%
50,000	JCP-5.875%-01Jul23-USD	FCB	Senior Debt	B+	Other Corporate	95.13	\$84,604	\$169	\$84,770	2.6%	4.19	7.06%	4.17%	6.18%
50,000	CALPINE-5.75%-15Jan26-USD	FCB	Senior Debt	B	Energy	92.75	\$82,991	\$987	\$83,978	2.5%	6.35	7.12%	4.23%	6.20%
60,000	VIRGIN-8.25%-30May23	FCB	Senior Debt	B-	Other Corporate	103.50	\$82,100	\$632	\$82,732	2.5%	3.94	7.38%	4.91%	7.97%
30,000	ELGRUP-8.875%-08May25-GBP	FCB	Senior Debt	BB-	Other Corporate	113.75	\$81,207	\$688	\$81,898	2.5%	6.45	4.51%	3.08%	6.04%
40,000	KON-5.95%-15Mar2024-USD	FCB	Senior Debt	BBB-	Resources	104.75	\$56,813	\$1,087	\$57,909	2.3%	4.70	4.98%	2.09%	5.68%
40,000	HCA-5.25%-15Apr25-USD	FCB	Senior Debt	BBB-	Other Corporate	103.50	\$56,234	\$721	\$56,955	2.2%	5.58	4.84%	1.75%	5.07%
50,000	SC7-7.65%-24Jun21	FCB	Senior Debt	NR	Infrastructure	105.80	\$52,900	\$230	\$53,130	2.1%	2.62	5.48%	3.33%	7.23%
50,000	Assess-BBSW+8.50%-9Oct20c	FRN	SubDebt	NR	Other Financials	103.15	\$51,575	\$82	\$51,657	2.1%	0.31	7.06%	4.97%	8.30%
50,000	Moneytech-BBSW+4.65%-17Apr20c	FRN	Lower Tier 2	NR	Other Financials	102.70	\$51,350	-\$9	\$51,341	2.1%	0.05	6.10%	3.03%	6.65%
50,000	ComQuest 2018-1 C	FRN	MBS	A+	RMSB	102.25	\$51,125	\$0	\$51,125	2.1%	3.20	6.10%	2.43%	4.71%
50,000	Apollo 2018-1 C	FRN	MBS	A	RMSB	102.00	\$51,000	\$19	\$51,019	2.1%	3.42	4.74%	1.94%	4.34%
50,000	Metro 2018 1-E	FRN	MBS	NR	Other Financials	101.50	\$50,750	\$315	\$51,065	2.0%	0.44	7.17%	4.80%	7.31%
50,000	PMP-6.43%-17Sept19	FCB	Senior Debt	NR	Other Corporate	100.80	\$50,400	\$1,057	\$51,457	2.0%	1.10	5.71%	3.66%	6.38%
40,000	TEVA-2.80%-21Jul23-USD	FCB	Senior Debt	BB	Other Financials	89.65	\$48,709	\$740	\$49,448	1.9%	4.50	5.17%	2.28%	3.12%
40,000	Asiano-6.40%-12May27	FCB	Senior Debt	BBB-	Infrastructure	105.95	\$42,380	\$382	\$42,762	1.7%	6.96	4.57%	1.82%	5.10%
50,000	IMPACT-8.50%-12Feb21	FCB	Senior Debt	NR	Other Corporate	103.00	\$41,200	\$604	\$41,804	1.7%	2.28	7.00%	4.87%	8.25%
40,000	IAG-BBSW+2.10%-15Jun24c	FRN	Lower Tier 2	BBB	Insurance	102.73	\$41,090	\$141	\$41,232	1.7%	0.52	4.13%	1.59%	4.05%
50,000	WAS-7.75%-29Jun21	FCB	Senior Debt	NR	Property	102.75	\$38,698	\$131	\$38,827	1.5%	2.84	6.47%	4.32%	7.54%
50,000	NRW-7.50%-19Dec20	FCB	Senior Debt	NR	Other Corporate	102.80	\$33,890	\$181	\$34,071	1.4%	2.24	5.30%	3.19%	7.30%



Notes
Yields on floating rate notes are estimated by the sum of the trading margin and the current swap rate to maturity; Yields and margins on inflation linked assets are inclusive of an assumed 2.50% average inflation rate.
Returns are exclusive of movements in foreign currencies; Cost Basis and Market Values are quoted in Australian Dollars using transacted and current exchange rates.

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