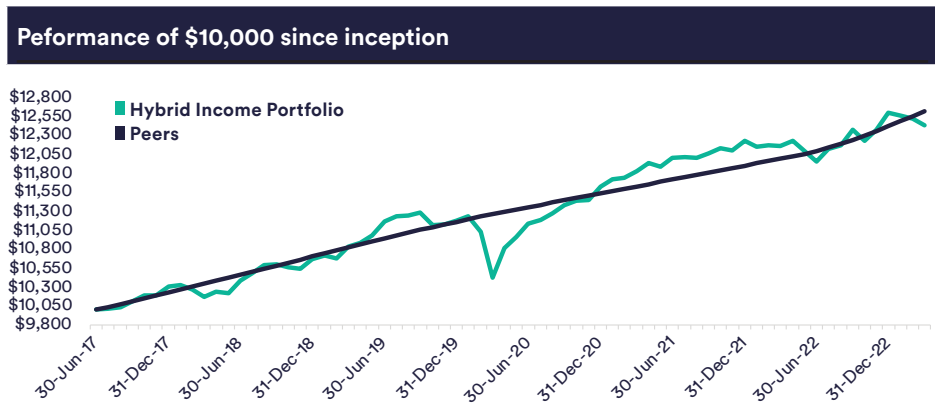


# InvestSMART Hybrid Income Portfolio

## March Quarterly review

The objective of the Hybrid Income Portfolio is to provide a predictable level of income whilst minimising risk to capital. The target total portfolio return (gross) of the portfolio is 3% above the RBA cash rate. This return will be generated from a combination of cash (dividends), franking credits and capital growth (realised and unrealised) from an actively managed portfolio strategy, through selecting higher rated securities with a medium term to first call.

The investment strategy is to buy longer dated hybrid securities in the major banks and Macquarie Bank, and to sell issues that have less than 12 months to first call date. This results in lower transaction costs and relatively steady yields. As hybrids are relatively illiquid, there will be mark to market movement each month that are caused by small buys or sells in each issue in the portfolio.



**Performance vs Peers**

	1 yr	3 yrs p.a	5 yrs p.a	SI p.a
Hybrid Income Portfolio	2.2%	6.1%	4.1%	3.9%
RBA Cash Rate + 3%	5.2%	3.9%	4.1%	4.1%
Excess to Benchmark	-3.0%	2.2%	0.0%	-0.2%

InvestSMART Hybrid Income is benchmarked against RBA cash rate + 3%. Performance includes franking credits  
Grow your returns, not your fees with InvestSMART **Capped fees**.



### Portfolio mandate

The InvestSMART Hybrid Income Portfolio provides Australian investors an opportunity to diversify their income stream, with a portfolio of predominantly ASX-listed hybrid securities. The Portfolio is invested in a mix of 5 - 15 Australian listed hybrids, listed debt securities and cash, all managed in the one portfolio.

**\$25,000**  
Minimum initial investment

**3+ yrs**  
Suggested investment timeframe

**5 - 15**  
Indicative number of securities

**Risk profile: Medium**  
Expected loss in 2 to 3 years out of every 20 years

**RBA Cash Rate Plus 3%**  
Benchmark

## March Quarter commentary

There has been a marked reduction in the trading prices of all Australian hybrids, in the wake of the write-off of the Credit Suisse contingent convertibles as part of the takeover by UBS. Whilst this was an unusual step (providing the ordinary shareholders with a return but giving nothing to the more senior ranking convertible note holders), it was allowed under the issuing documentation of the convertibles.

The consequences of this are twofold:

- All bank hybrids are under scrutiny and have been re-priced for a perceived higher risk of default, and
- A number of high yield funds are seeing outflows caused by this default, and are selling some hybrids to fund those redemptions

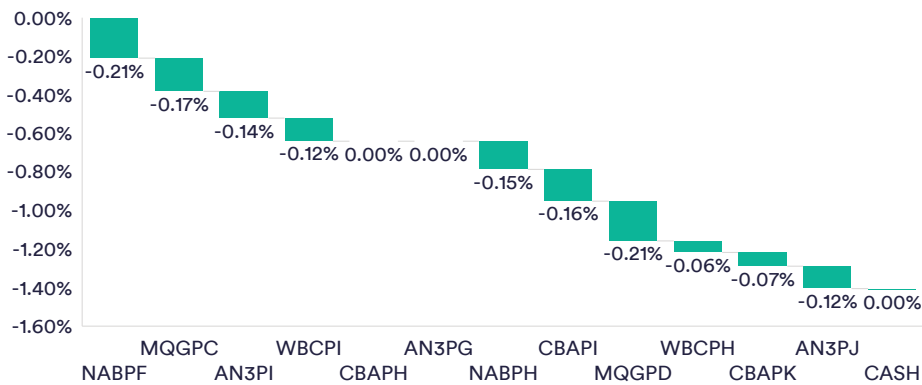
Australian major bank hybrids (over 80% of the InvestSMART hybrid portfolio) do not have the same terms in the event of a default and will rank ahead of the ordinary shareholders in a winding up. In addition, the 4 major Australian banks have a much higher capital ratio than most other global banks and are better regulated, also reducing the risk of a default.

We believe Australian hybrids offer good value at these levels, and we expect the prices to increase over the coming months as investors increase their confidence in the Australian banking system.

The estimated running yield is approximately 6.50% (including franking credits), and estimated yield to call/maturity is 6.15%, including franking credits. The total portfolio return was 3.03% for the 12-months to 31 March including franking credits. Since inception the total portfolio return is 4.27% including franking credits, which is 0.23% above its return objective of the RBA Cash rate plus 3%. At 31 March 2023 the portfolio had a 1.0% allocation to cash.

The portfolio switched from AN3PG TO AN3PJ and from CBAPH to CBAPK which provides a longer maturity to first call date for the portfolio.

## Monthly attribution of returns




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## Our Investment Committee



**Alastair Davidson**  
Head of Funds Management



**Effie Zahos**  
Independent Director



**Alan Kohler**  
Editor-in-Chief



**Paul Clitheroe**  
Chairman



**Ron Hodge**  
Managing Director

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