Sell long-duration Hybrids (WBCPK, ANZPI, ANZPJ, CBPI), Buy FLOT.

As central banks across the globe continue their series of rate hikes in response to inflationary pressures, now represents an excellent opportunity to retune the fixed income component of portfolios.

With the broader fixed income & credit markets continuing to see heightened levels of volatility, we continue to place a strong emphasis on positioning portfolios in a way that will allow them to withstand any short to medium-term volatility whilst also providing investors with consistent and predictable income on a risk-adjusted basis.

Sell Westpac Capital Notes 8 (WBCPK)

The **Westpac Capital Notes 8 (WBCPK)** floated around 13 months ago on the ASX, and the issuer, **Westpac**, holds the option to either convert, redeem, or transfer the notes on either 21 September 2029, 21 December 2029, 21 March 2030, 21 June 2030 or at the scheduled conversation date of 21 June 2032.

Though the hybrid pays a relatively attractive yield, we remain concerned with the credit duration of **WBCPK**, which sits at approximately 6 years and 10 months.

Assuming a 75-basis point widening in credit spreads, WBCPK’s extended duration results in an expected capital price loss of approximately a ~$5.2, though it may extend if spreads widen further.

Furthermore, with **WBCPK** trading marginally above the issue price of $100 per note, it represents a good opportunity to exit the position.

We recommend selling Westpac Capital Notes 8 (WBCPK).

Sell ANZ Capital Notes 7 (ANZPJ)

The **Westpac Capital Notes 8 (WBCPK)** floated around 13 months ago on the ASX, and the issuer, **Westpac**, holds the option to either convert, redeem, or transfer the notes on either 21 September 2029, 21 December 2029, 21 March 2030, 21 June 2030 or at the scheduled conversation date of 21 June 2032.

Though the hybrid pays a relatively attractive yield, we remain concerned with the credit duration of **WBCPK**, which sits at approximately 6 years and 10 months.

Assuming a 75-basis point widening in credit spreads, WBCPK’s extended duration results in an expected capital price loss of approximately a ~$5.2, though it may extend if spreads widen further.

Furthermore, with **WBCPK** trading marginally above the issue price of $100 per note, it represents a good opportunity to exit the position.

We recommend selling Westpac Capital Notes 8 (WBCPK).

Sell ANZ Capital Notes 6 (ANZPI)

ANZ Capital Notes 6 (ANZPI) first launched on the ASX back in November of 2021, which at the time, was ANZ's first hybrid issue in over 4 years following the prior issue of ANZPH.

ANZPI is set to either convert, redeem, or be transferred on the optional conversation dates of 20 March 2028, 20 June 2028, 20 September 2028, or at the Mandatory Conversation Date of 20 September 2030.

At the note's earliest conversation date, **ANZPI** holds an extended credit duration of 5 years and 4 months; thereby, if credit spreads widen, the capital value of the **ANZPI** notes will be materially impacted due the note's duration risk.

Should spreads widen by 75 basis points, **ANZPI's** duration results in an anticipated capital price loss of about ~$4.1. However, a more significant portion of capital may be lost if credit spreads widen further.

We believe taking the opportunity to sell/redeem your **ANZPI** holding around the current premium to issue price of ~$101 represents an opportune time to exit your holding.

We recommend selling ANZ Capital Notes 6 (ANZPI).

Sell Commonwealth Bank of Australia PERLS XII (CBAPI)

Commonwealth Bank of Australia PERLS XII (CBAPI) was first launched in November of 2019 with $1.25 billion worth of notes offered to the market.

CBA can either convert, redeem, or transfer the **CBAPI** notes on the Optional Exchange Dates of 20 April 2027 or the mandatory exchange date of 20 April 2029.

Utilising the optional exchange date of April 2027, **CBAPI** has a credit duration of 4 years and 4 months; this means that if credit spreads continue to rise uniformly across the curve, the capital value of **CBAPI** is likely to fall.

Utilising a 75-basis point widening in credit spreads, **CBAPI** is likely to experience a capital loss of approximately ~$3.3, though this capital loss may rise if credit spreads extend further.

Given that **CBAPI** continues to trade a premium to the $100 issue price, we believe that selling at current levels nets a small gain whilst also positioning your portfolio more defensively in nature.

We recommend selling Commonwealth Bank of Australia PERLS XII (CBAPI)

Buy VanEck Australian Floating Rate ETF (FLOT)

With rates continuing to rise at a record pace and yields jumping sharply, the era of 'free money' is now coming to an end, and we believe that the future prospects of fixed income today are much more favourable than they have been for some time.

Over the course of the last 24 months, investors had found themselves in an ultra-low interest rate environment, which resulted in many investors moving higher up in the capital stack to fill this gap of income and thus taking on more absolute risk.

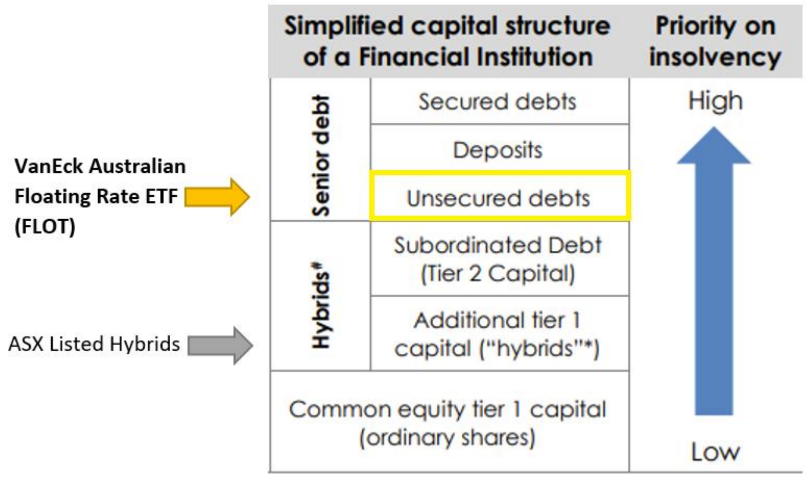
With the fixed interest market changing materially over the course of the last year, investors are now afforded the opportunity of receiving strong levels of income whilst simultaneously pivoting to more of a defensive positioning to protect and preserve capital. **FLOT** provides this for investors.

FLOT invests in a diversified portfolio of AUD-denominated floating rate investment grade bonds, typically issued by corporate entities, primarily the four largest banks in Australia and foreign banks, with an **undeniably strong average credit rating of A+.**

FLOT tracks the Bloomberg AusBond Credit FRN 0+ Yr Index, a market value-weighted index comprising of floating rate bonds that are of investment-grade quality.

Notably, **FLOT**'s exposure is short-term floating rate bonds which carries near-zero interest rate risk. Given that the outlook for rate increases and, more importantly, the peak interest rate remains unknown, **FLOT** offers portfolios with protection from further rate increases as it moves in lockstep with short-term interest rates.

Furthermore, **FLOT's** exposure is senior unsecured debt which sits higher in the capital stack structure, above subordinated debt (Tier 2 Bonds) and Tier 1 Hybrids issued by financial institutions, thus providing investors more protection and priority in the event of a liquidation event.



Source: VanEck Australian Floating Rate ETF Product Disclosure Statement

PRIME HEAD OFFICE
Level 17, HWT Tower
40 City Road
Southbank VIC 3006

T. 1800 064 959
F. 1800 265 374
E. clientservices@primefinancial.com.au
W. www.primefinancial.com.au

PRIMESTOCK SECURITIES LTD
AFSL 239180

Though we believe that the likelihood of one of the big four going into bankruptcy or complete financial collapse is extraordinarily low, striking a balance between de-risking and chasing yield is an important consideration for portfolios.

FLOT provides investors with easy access to a high-quality diversified portfolio of Australian-dollar denominated investment-grade bonds in a cost-effective manner, with a low management fee of 0.22%.

FLOT performs a valuable role for investors with holdings in hybrids seeking to reduce their overall risk. While interest payments are lower than hybrids, the reduction in return is minimal relative to the net reduction in credit risk and price volatility for longer credit duration hybrids.

FLOT's running cash yield is approximately **4.8%~** whilst paying income monthly, though as interest rates move higher, the running yield on **FLOT** should improve in line to reflect any increases in the risk-free rate.

Additionally, should credit spreads continue to narrow, **FLOT** will likely see a capital gain component in addition to the healthy cash yield.

With this in mind, **we recommend purchasing the VanEck Australian Floating Rate ETF (FLOT).**

If you have any queries or would like to speak with us regarding the above, please contact your Financial Adviser or Client Services on 1800 064 959.

Mark Johnson	T: (03) 8825 4738	Livio Caiolfa	T: (03) 8825 4748
Michelle Bromley	T: (03) 8825 4751	Marcus Ainger	T: (02) 9134 6292
Nicole Lewis	T: (03) 8825 4734	Dylan Cresswell	T: (03) 8825 4707
Gina McIntosh	T: (07) 3357 2557	Jarrod Rodda	T: (03) 8825 4729
Brent Quinn	T: (03) 8825 4705		

Yours sincerely,

Primestock Securities Ltd
AFSL No. 239180