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Australian Securitised Debt in Multi-Asset Portfolios

INSIGHTS

Australian investors constructing balanced portfolios should consider the benefits of a dedicated allocation to Australian securitised debt. Gryphon Capital Investments, A Barings Company explains why.

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Introduction

Investors constructing balanced portfolios composed of equities, fixed income, and alternatives have traditionally sought a blend of income, capital preservation, diversification, and liquidity. Within fixed income, traditional allocations tend to focus on government bonds, investment-grade credit, and some exposure to high yield credit.

However, for Australian investors, a dedicated allocation to Australian securitised debt (such as Residential Mortgage-Backed Securities (RMBS) and Asset Backed Securities (ABS)) can offer compelling benefits for income-focused portfolios. These benefits can include stability across market cycles, reliable monthly income, portfolio diversification, liquidity protection and improved risk-adjusted returns.

"Despite the complexity of the asset class, support for securitised debt has grown within wealth markets in recent years, reflecting the increasing opportunity."

Unlocking Australian Securitised Debt

Securitised debt in Australia has historically been accessed by a relatively small cohort of institutional investors—namely insurance companies seeking efficient capital allocation.

Other institutional investors, such as superannuation funds, remain underinvested due in large part to benchmark constraints. More specifically, the Australian Prudential Regulation Authority (APRA) benchmarks superannuation funds' Australian fixed income allocations against a blend of Bloomberg AusBond Composite indices, all of which are fixed rate and do not include securitised debt[1]. Therefore, any allocation to securitised debt is viewed as an off-benchmark position and does not count toward overall benchmark performance.

For specialist investors, the challenge often lies in the complex and granular nature of the underlying pools of loans, capital structure (tranches), and amortisation (loan prepayments), which can make it difficult to build a broad, standardised index. However, these characteristics also offer opportunities for greater risk-adjusted returns. Indeed, despite the complexity of the asset class, support for securitised debt has grown within wealth markets in recent years, reflecting the increasing opportunity.

1. Source: APRA CPPP Investment Indices. As of May 31, 2025.

The Securitised Opportunity

AUSTRALIAN RMBS

The mortgage market plays a significant role in the Australian economy, far greater than what the utilisation of RMBS within fixed income portfolios suggests. For example, Australia's total residential mortgage debt exceeded A$2.4 trillion in March 2025, making it one of the largest credit segments in the financial system. By comparison, the Australian government bond market measured approximately A$1.3 trillion in September 2023[2] and latest figures available (October 2020) show the corporate bond market was considerably smaller, at approximately A$143 billion[3]. Furthermore, Australian banks allocate a substantial portion of their loan books to residential mortgages—often exceeding 60% of total lending and far outweighing their corporate lending exposure.[4]

AUTO LOAN ABS

Similar to the growing opportunity in RMBS, ABS is an underutilised avenue for fixed income investors, driven by the scale of consumer credit activity across auto loans, credit cards and personal lending.

Over 90% of Australian households own at least one vehicle[5] and 12% of Australian adults, or 2.5 million people, currently have a car loan[6]. Issuance of Australian auto ABS has grown in recent years, with auto receivables increasingly finding their way into capital markets due to their regulatory capital-intensive nature[7].

CREDIT CARD ABS

Credit cards have become widely adopted in Australia, with 26% of consumer payments made via credit card in 2022 compared to 9% in 2010[8]. Between 2017 and 2022, 11.6 million consumers, or over half of Australian adults, held at least one credit card[9]. As of February 2025, the total outstanding credit card debt in Australia was A$42.2 billion, with the average account having an outstanding balance of A$3,480[10].

PERSONAL LOAN ABS

Personal loan ABS is another developing sub-asset class. Personal lending is a growing market, with A$14.1 billion of new personal loans (excluding auto loans) written in 2024. This is the largest amount of new loan commitments since the start of the ABS data set in 2002 and is 50% higher than the annual lending amount 10 years ago[11].

2. Source: Reserve Bank of Australia. As of September 21, 2023.
3. Source: Development of the Australian Corporate Bond Market, AFMA. As of October 19, 2020.
4. Source: Australian Prudential Regulation Authority (APRA), Banking Statistics. As of 2023.
5. Source: Australian Bureau of Statistics' Census. As of 2021.
6. Source: Finder's Consumer Sentiment Tracker. As of September 16, 2024.
7. Source: S&P Global, a Primer on Australian Auto Loan ABS. As of November 17, 2024.
8. Source: RBA Bulletin, Consumer Payment Behaviour in Australia. As of June 15, 2023.
9. Source: ASIC Report 788 Credit Card Lending in Australia: Staying in Control. As of July 30, 2024.
10. Source: RBA Payments Data. As of February 28, 2025.
11. Source: ABS Lending Indicators, Personal Finance. As of March 31, 2025.

The Case for Securitised Debt

RELIABLE MONTHLY INCOME

Unlike most fixed income instruments that pay semi-annual coupons, RMBS and ABS typically provide monthly distributions, enhancing income stability. The cash flows are derived from monthly loan repayments, which consumers tend to prioritise even during downturns as they are personally liable for the debt.

LOW HISTORICAL DEFAULT RATE

Australian securitised debt has exhibited very low default rates particularly in prime mortgage pools due to conservative underwriting standards and full-recourse lending. Even in stress scenarios, senior RMBS tranches have historically remained well-protected.[12] To date, no rated Australian RMBS bond held to maturity has ever defaulted.

LIQUIDITY PROTECTION

Unlike bullet-maturity bonds that return principal at the end of the term, securitised structures amortise over time, gradually returning capital to investors. This built-in principal repayment can help reduce reinvestment risk and provide liquidity throughout the investment horizon.

DIVERSIFICATION AND LOW CORRELATION BENEFITS

Given the limitations of benchmarks in Australian securitised debt, we have utilised Gryphon's long-standing high-grade securitised strategy, which invests in Australian securitised debt instruments with ratings between AAA and A-. Based on data over the past decade, a higher-quality allocation approach to securitised debt offers diversification benefits due to its low correlation with equities and other fixed income assets **(Figure 1)**.

Figure 1: Representative Account for Securitised Debt

Correlation Matrix, 10 years to June 30, 2025										
	High Grade Rep Acct	Bank Bills	AusBond Composite 0+ Yr	AusBond Composite 0-5 Yr	AusBond Credit	AusBond FRN	AusBond Gvt	S&P 500	ASX 200	Hybrids
High Grade Rep Acct	1									
Bank Bills	0.554	1								
AusBond Composite 0+ Yr	0.054	0.200	1							
AusBond Composite 0–5 Yr	0.146	0.328	0.935	1						
AusBond Credit	0.242	0.277	0.948	0.939	1					
AusBond FRN	0.672	0.631	0.217	0.307	0.428	1				
AusBond Gvt	0.031	0.186	0.999	0.925	0.934	0.186	1			
S&P 500	0.172	0.050	0.201	0.213	0.282	0.377	0.187	1		
ASX 200	0.179	0.034	0.239	0.248	0.344	0.453	0.225	0.754	1	
Hybrids	0.217	0.068	0.012	0.028	0.150	0.478	-0.006	0.354	0.545	1

Source: Gryphon. As of June 30, 2025. Information displayed was derived from a representative account with the Barings High Grade Securitised Composite. No guarantee is being made that any account or product will be the same or that similar returns will be achieved.

12. Source: RBA Bulletin, Consumer Payment Behaviour in Australia. As of June 15, 2023.

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RESILIENCE DURING MARKET VOLATILITY

Securitised debt has historically shown lower volatility than similarly rated corporate credit across economic cycles, as its income is backed by loan repayments from ring-fenced assets rather than corporate earnings without explicit asset security. Utilising Gryphon's high-grade strategy as a representative exposure, securitised debt has performed much better during market declines compared to broader Australian fixed income indices. Against the Bloomberg Ausbond floating rate index, Gryphon's high-grade strategy has generated a downside capture ratio of only 12.3% **(Figure 2)**.

Figure 2: High Grade Upside/Downside Capture

High Grade Representative Account Upside/Downside Capture to June 30, 2025				
	AusBond Composite 0+ Yr	AusBond Composite 0–5 Yr	AusBond Credit 0+	AusBond Credit FRN
Upside Capture Ratio	35.7%	83.2%	51.7%	150.7%
Downside Capture Ratio	-56.8%	-103.7%	-57.4%	12.3%

Sources: Bloomberg; Gryphon. From Inception (December 31, 2009–June 30, 2025). Information displayed was derived from a representative account within the Barings High Grade Securitised Composite. No guarantee is being made that any account or product will be the same or that similar returns will be achieved.

RISK MITIGATION & ENHANCED RETURNS

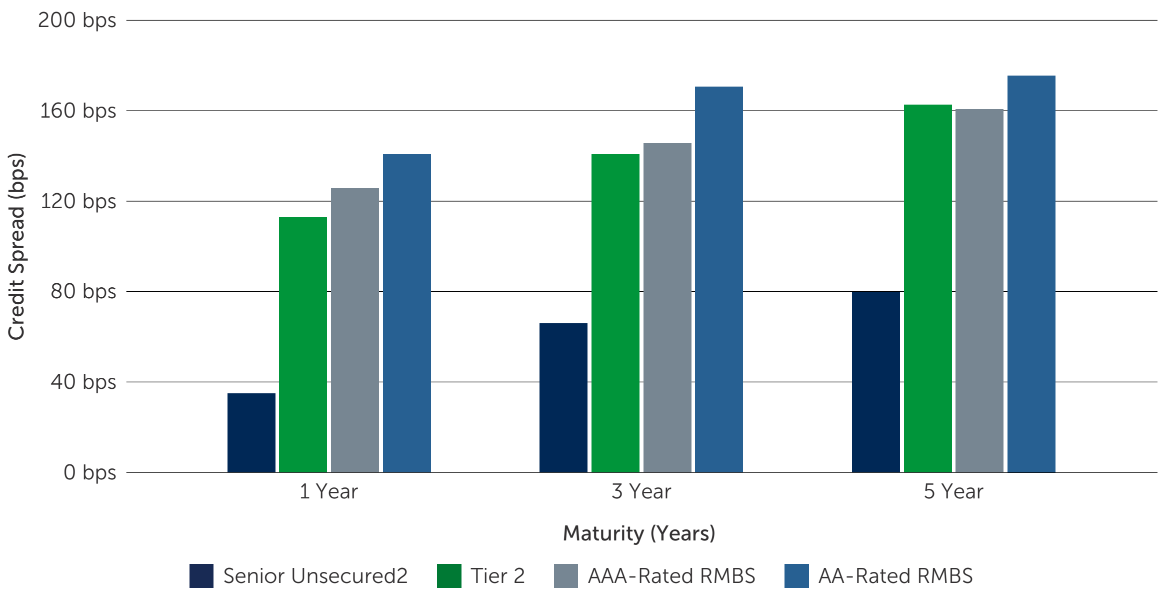
Australian securitised debt is not broadly understood, and this inherent complexity risk can result in enhanced risk-adjusted returns for investors. However, understanding the risks—and how they are mitigated—is key. The asset class's primary risk mitigation characteristics may include:

- Diversity of borrowers
- Underlying loan collateral
- Tranching of risk (bond subordination)
- Alignment of interest via excess spread

CREDIT SPREAD PREMIUM

Securitised debt typically offers a spread pick-up over government bonds and investment-grade corporate credit, providing a way to enhance portfolio income potential without taking excessive credit risk. As of May 2025, Australian RMBS tranches offered a spread premium of roughly 100 bps over equivalently rated AA bank debt **(Figure 3)**, which compares credit spread premiums across various debt instruments over 1, 3 and 5-year maturity.

Figure 3: Credit Spread Premium



Sources: Senior Unsecured and Tier 2 Refer to Bank-Issued Debt, Sourced From Anz Bank Debt Data. 1 & 5 Year RMBS Data is Sourced from ICE (Intercontinental Exchange), 3 Year RMBS Data is Sourced From Redzed Term Sheet. All Data as of May 31, 2025.

Key Takeaway

A standalone allocation to Australian securitised debt can provide significant benefits within a balanced portfolio. Securitised debt offers the potential for:

- reliable monthly income
- strong capital preservation through amortising structures
- resilience during market volatility with historically low default rates
- attractive credit spreads, and low correlation to traditional asset classes
- enhanced diversification and superior risk-adjusted returns

Overall, incorporating Australian securitised debt can enhance portfolio performance and resilience, potentially making it a valuable addition to a well-rounded investment strategy.

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