MASON STEVENS CREDIT FUND

QUARTERLY REPORT - 31 DECEMBER 2018

MASON STEVENS
ASSET MANAGEMENT

MARKET AND PORTFOLIO REVIEW

Happy New Year to all our investors. We are excited to announce that the Mason Stevens Credit Fund has received further recognition with a Superior 4.25 star rating from SQM Research in December 2018.

The second half of 2018 clearly marked what is usually referred to as a late economic cycle turning point, where markets are exposed to heightened levels of volatility as sentiment turns. Mixed economic data, led by economic uncertainty has resulted in the interest rate curve beginning to flatten and inverse, with risk assets underperforming.

In December, there was a 40%-plus spike in volatility. US economic data was broadly positive but, by comparison, data out of China was weak. We saw long end interest rates in the US fall sharply (circa 0.30%), despite the US Federal Reserve increasing the official cash rate by a further 0.25%. This led to the yield curve flattening significantly, with an inversion (2yr/5yr basis) being experienced. US equity markets also experienced a steep decline with the S&P 500 index falling circa 9% over the month.

All these indicators are reflecting we are at the tail end of this current 'bull' economic cycle. We believe that investors do have reasons to be worried. The majority of OECD countries continue to have a (growing) debt burden with unprecedented levels, the ongoing 'trade war' between the world's two largest economies, 'cheap' USD funding no longer being the norm, ongoing geopolitical unrest and overarched by an expensive equity market, in historical terms.

In response, global and domestic credit markets widened over the quarter with non-investment grade credits in emerging markets being the worst performers. In Australia, APRA added 'fuel to the fire' for Australia's major banks by releasing a consultation paper regarding the recommendation for additional capital requirements (full paper can be viewed on APRA's web site). The market's initial interpretation of the paper is that a flood of new Tier 2 capital would need to be issued by the 4 major banks to meet these new APRA regulatory capital requirements. Some analysts even suggested an additional AUD$60bn would need to be issued over the next 5 years. In response, spreads on major bank Tier 2 securities experienced significant widening. Our view is that APRA is likely to continue to work with the industry to ensure that Australia's banking system is not materially hindered via additional requirements. Through consultation, we expect that the final paper will be a lot more measured and considerate than the original proposed discussion paper. Therefore, it is our belief that the market has over reacted to this consultation paper release.

INDUSTRY RATED
Strong performance

4%pa*
3 year return

REGULAR INCOME
Targeting capital preservation

PERFORMANCE[1]

In light of the above, the Credit Fund saw it prudent to de-risk the investment portfolio over the past six months. For example, the Fund's exposure to major bank Tier 2 securities fell from 24% on 1 July 2018 to 22% by year end. The Fund also continues to run a (near) zero interest rate duration profile and no foreign exchange exposure. The Fund's investment team will continue to manage on a conservative basis, given its current market views.

Despite this, the underlying yield of the Fund's investment portfolio is 5.11%, 3.61% above the cash rate (as at 31 December 2018), which is a strong investment grade yield under the current environment. While the Fund will not be immune from ongoing market volatility, via the unrealised marking-to-market of the portfolio, the investment team is confident in the current positioning and composition of the portfolio to continue to deliver on the Fund's objectives over the medium term. While vigilant to the current market conditions, given the Fund only invests in investment grade securities, coupled with a low interest rate duration profile the team is comfortable with the risks associated with the portfolio.

We are pleased to inform you that the Fund has declared a quarterly distribution of 1c per unit for the period ending 31 December 2018. We thank you for your continued commitment to the Fund.

Quantitative

MORNINGSTAR ★★★★

Qualitative

★★★★★ Superior SQM research

Period	Fund Return	Benchmark[2] Return	Excess Return
1 month	-0.38%	0.13%	-0.51%
3 months	-0.93%	0.38%	-1.31%
6 months	0.30%	0.76%	-0.46%
1 year	-0.40%	1.51%	-1.91%
3 years (pa)	4.00%	1.59%	2.41%
5 years (pa)	5.78%	1.89%	3.89%
Since inception (pa)	5.71%	1.96%	3.74%

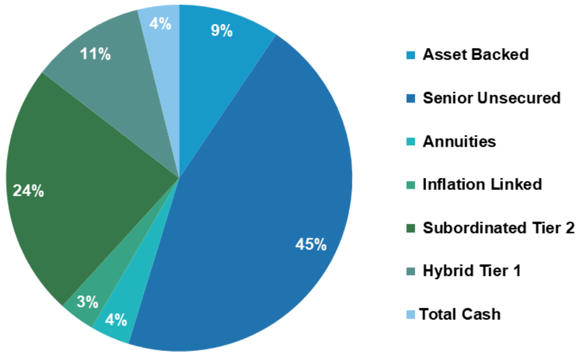
PRICING	
NAV	$0.9974
Entry Price	$1.0024
Exit Price	$0.9924
Distribution	$0.0100
(31 Dec 18)	per unit

[1] Returns are calculated using the exit price (including sell spread), net of fees, assuming reinvestment of distributions and excluding franking credits. Returns are calculated from the Fund's inception date of 31/05/13. Individual returns will vary depending on date of initial investment.

[2] The Benchmark is the RBA Cash Rate. Past performance is not a reliable indicator of future performance and may not be achieved in the future. All information provided in this Report is correct as at the date of this Report.

PORTFOLIO FACTS

COMPOSITION	%
AAA	-
AA	2.0%
A	14.7%
BBB	78.6%
BB & lower	0.7%
Cash	4.0%



STATISTICS	
Interest rate duration (years)	0.00
Spread duration (years)	4.04
Current yield to maturity (pa)	5.11%
Official cash rate	1.50%
Average credit rating	BBB

INVESTMENT OBJECTIVE & STRATEGY

The Mason Stevens Credit Fund ARSN 162 055 512 (Fund) is designed with the aim of generating returns in excess of 2.5%[1] per annum above the RBA Cash Rate after fees and expenses by investing in an actively managed portfolio of interest rate securities. The securities will be denominated in any major currency and will generally be hedged back to the Australian dollar.

The Fund's investment strategy is to invest in a portfolio of interest rate securities that pay a fixed or floating rate of return. The Fund can invest in any interest rate securities including corporate debt, Hybrid Securities and Structured Debt Securities such as residential mortgage backed securities and asset backed securities.

KEY FEATURES

FEATURE	DETAIL
Target return	RBA Cash Rate + 2.50% pa
Minimum investment	$25,000
Applications and redemptions	Monthly
Management costs	0.95% pa
Distributions	Quarterly
Suggested timeframe	3-5 years

KEY BENEFITS

- Aims to provide consistent and stable returns from fixed income securities
- Dynamic management strategies to capture opportunities
- Co-investing to align interests with investors.
- 4-Star Overall Morningstar Rating™, a high rating for a managed fund based on performance (after adjusting for risk, in comparison to similar funds.
- 4.25 star 'Superior' rating[3] from SQM Research (which infers the fund outperforms (or is likely to), its peers and benchmark the majority of the time.

KEY RISKS

Interest rate risk

Market risk

Liquidity risk

Credit risk

INVESTMENT MANAGEMENT

The Fund is managed by Mason Stevens Asset Management Pty Limited. Mason Stevens Limited is the Responsible Entity of the Mason Stevens Credit Fund and the issuer of the Product Disclosure Statement.

The Investment Team consists of:

- Vincent Hua, Chief Investment Officer
- Alwyn Hung, Senior Portfolio Manager
- Annie Zhao, Portfolio Manager

Other members of the team include: Leanne Leong, Executive Director; Peter Liau, Head of Research; and, Paul Wylie, Fixed Income Investment Strategist.

Additional governance is provided by the Investment Committee comprising Patrick Handley, Chairman of Mason Stevens and Patrick Eng, an Independent Member.

[3] Mason Stevens Credit Fund received the SQM rating as of 11 December 2018.

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