

# MASON STEVENS AUSTRALIAN FIXED INCOME MODEL PORTFOLIO

## QUARTERLY REPORT



31 DECEMBER 2018

The Mason Stevens Australian Fixed Income Model Portfolio is offered via a Managed Discretionary Account (known as a Separately Managed Account).

## MARKET OVERVIEW

The second half of 2018 was challenging for fixed income markets, with markets exhibiting signs usually consistent with that of one late in its economic cycle. Consistent with that, we saw an increase in volatility and mixed economic data. This affected all asset classes, with equities significantly down, government bonds up, and corporate bonds somewhere in between. Corporate bond credit spreads widened over the quarter, being partially (or fully) offset by gains generated by lower interest rates. As one would expect, higher risk bonds such as hybrids were the biggest underperformers.

The quarter also saw new listed hybrid bonds being issued by the Australian banks. This led to hybrid spreads widening as investors sold existing hybrids to invest in the new ones. We saw limited value in the new issues and instead invested in some of the shorter dated hybrids. We believe the shorter dated hybrids offer better value, particularly in light of a federal election in 2019 and a potential change in franking credit policy if Labor is elected as expected.

With continued volatility expected in the next 12 months, we are investing more conservatively than we did 12 months ago. We have reduced the average term-to-maturity from 5 years to 4.5 years and reduced our holdings in higher beta longer dated hybrids. In line with last quarter, our view continues to be that the majority of returns in the fixed income market over the next 6-12 months will come via coupons, and not capital gains.

### Portfolio statistics<sup>1</sup>

Yield to call	4.484%
Trading margin	2.23%
Running yield	4.44%
Term to call/maturity	4.48yrs
Expected next quarterly distribution (\$100,000)	\$1030.49

NAV <sup>2</sup>	Return	B'mark	Excess
1mth	0.83%	0.13%	0.70%
3mths	0.84%	0.38%	0.46%
6mnths	2.44%	0.76%	1.68%
1yr	3.69%	1.51%	2.18%
2yrs	4.81%	1.51%	3.30%
Since inception (30/3/16)	16.21%	4.33%	11.88%
Annualised since inception	5.61%	1.55%	4.06%

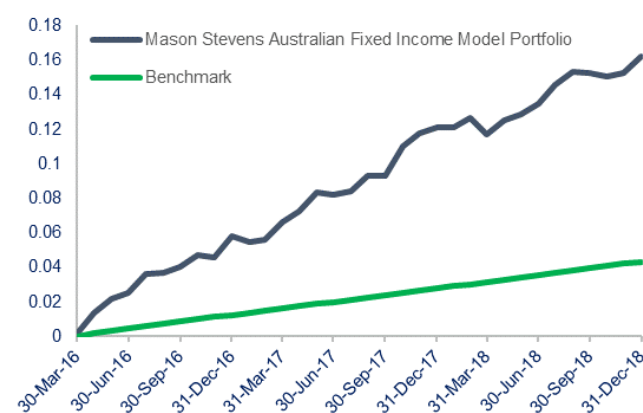
Returns are net of all fees and include the value of franking credits

## MODEL PORTFOLIO STRATEGY & PERFORMANCE SUMMARY

The Mason Stevens Australian Fixed Income Mandate returned 0.84% for the quarter. This comfortably outperformed the benchmark but underperformed the Bloomberg AusBond Master 0+ Yr Index which benefited from the fall in interest rates. With the exception of the longer dated hybrids, all bonds performed relatively well over the quarter. Inflation linked bonds performed slightly better than nominal bonds.

During the quarter we bought CBAPD and NABPA, and reduced our holdings of WBCPH, WBCPG, and ANZPG in the portfolio.

## PERFORMANCE SINCE INCEPTION



<sup>1</sup> Weighted averages based on current market prices and target portfolio weights as at 31 December 2018. Running yield includes any applicable franking credits. Expected cash distribution assume 31 December 2018 model portfolio weights are held for the entire quarter and do not include any franking credits – projected coupons are cash only, based on a notional \$100,000 investment at market prices on 31 December 2018. The portfolio is actively managed, and as such actual outcomes will vary with changes made to positions in the portfolio, which may occur at any time. Portfolio statistics are for illustrative purposes only.

<sup>2</sup> The Model Portfolio Benchmark is the RBA Cash Rate. Returns are calculated net of management, performance, administration/custody and transaction fees, but excluding any adviser fees from the Model Portfolio's inception date of 30 March 2016, and assumes reinvestment of all income (but not franking credits). Returns are based on the theoretical performance of a portfolio which implemented the Model Portfolio based on simplifying assumptions and stock weightings. Actual individual returns of each client's portfolio will differ depending on factors such as date of initial investment, timing of transactions, contributions and withdrawals, fees and any customisations. Past performance is not a reliable indicator of future performance and may not be achieved in the future. Each client should also take into account their own taxation situations. All information provided in this Report is correct as at the date of this Report.

## INVESTMENT OBJECTIVE & STRATEGY

The objective of the Mason Stevens Australian Fixed Income Model Portfolio (Model Portfolio) is to invest in a portfolio of AUD denominated investment grade securities that display strong risk adjusted return profiles, while delivering regular cash flow streams via income from coupons with minimal capital volatility.

The Model Portfolio is constructed and regularly reviewed so as to appropriately reflect the current views and strategies of the investment team. The investment process includes consideration of a number of qualitative, quantitative, portfolio 'fit' and market technical factors at the macroeconomic, issuer and security level. On top of the 'in house' capabilities, the investment team will draw upon external market research and portfolio management tools available to them.

All securities in the portfolio will be either seasoned or issued with retail disclosure documentation under Section 6D of the Australian Corporations Act. Securities may be unlisted or listed on an exchange.

## KEY FEATURES

FEATURE	DETAIL
<b>Investment universe</b>	AUD denominated fixed income securities, including: Bonds (corporate, bank, government), Subordinated Debt Securities, Hybrids, Residential Mortgage-Backed Securities (RMBS), Asset Backed Securities (ABS), Floating Rate Notes (FRN), Cash Deposits and Term Deposits. Securities may be unlisted, or listed on an exchange.
<b>Benchmark</b>	RBA Cash
<b>Target return</b>	RBA Cash +2.00% pa, after fees
<b>Number of investments</b>	5+
<b>Minimum security rating</b>	BBB- / Baa3 by a reputable rating agency
<b>Minimum investment</b>	\$100,000 (or as agreed by the Program Adviser)
<b>Suggested timeframe</b>	3 - 5+ years

Further information about the Portfolio, including the fees, costs and risks, is outlined in the **Mason Stevens Australian Fixed Income Investment Mandate**.

## PORTFOLIO MANAGEMENT

The Model Portfolio is managed by Mason Stevens Asset Management Pty Limited (MSAM) as Program Adviser. MSAM is part of the Mason Stevens group of companies.

## INVESTMENT TEAM



**Paul Wylie**  
Portfolio Manager



**Alwyn Hung**  
Portfolio Manager

Other members of the team include: Vincent Hua, Chief Investment Officer; Leanne Leong, Managing Director – Finance & Credit, Annie Zhao, Director – Fixed Income; Peter Liao, Head of Strategy, Performance and Analytics.

Investment decisions are governed by an Investment Committee that ensures the appropriate discipline and rigour is applied to the investment process.

## ABOUT MASON STEVENS

Mason Stevens provides a multi-asset and multi-currency investment administration and managed account service to help produce tailored investment outcomes for advisers and their clients.

## CONTACT INFORMATION

### Investors

Speak to your adviser:

### Advisers

Call 1300 988 878 or email  
[info@masonstevens.com.au](mailto:info@masonstevens.com.au)  
[www.masonstevens.com.au](http://www.masonstevens.com.au)

**Important Information** - This report is provided by Mason Stevens Limited (ACN 141 447 207, AFSL 351578). Any content provided in this Factsheet is for the purpose of providing general advice and information only. It does not take into account your or your client's personal objectives, financial situation and needs. Please seek specific advice before making a decision in relation to any investment. The information is provided in good faith and we do not make any representation or warranty as to its accuracy, reliability or completeness. To the extent permissible by law, we do not accept any responsibility for any error, omission, in director consequential loss or damages (whether arising in contract, tort, negligence or otherwise, in any case whether foreseeable or not). Please refer to the relevant Investment Mandate for further information. Mason Stevens Asset Management Pty Ltd is part of the Mason Stevens group of companies and is a Corporate Authorised Representative of Mason Stevens Limited.