

## 31 DECEMBER 2018

The Mason Stevens Income Discretionary Investment Mandate (Model Portfolio) is offered via a Managed Discretionary Account (also known as a Separately Managed Account).

## MARKET OVERVIEW

The last quarter 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 resulted in the interest rate curve beginning to flatten and inverse, with risk assets underperforming. During the quarter, there was a 100%+ spike in volatility. US economic data was broadly positive but, by comparison, data out of China was weak. We saw the S&P index decline 15% and long end interest rates in the US fell sharply (circa 0.40%), despite the Fed increasing the official cash rate by a further 0.25%.

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 about the recommendation for additional capital requirements. Tier 2 bonds sold off on initial expectation of more supply. We believe, however, that APRA will continue to work with the industry to ensure that Australia's banking system is not materially hindered via additional requirements, and the market has over reacted to this consultation paper release.

With continued volatility expected in the next 12 months, we are investing more conservatively than we did 12 months ago. We have increased our cash weighting to 6.2% and continue to invest along the shorter end of the interest rate curve. Our view continues to be that, over the next 6-12 months, the majority of returns in the fixed income market will come via coupons, and not capital gains.

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

Yield to call	5.10%
Trading margin	3.37%
Running yield	4.92%
Term to call/maturity	3.45yrs

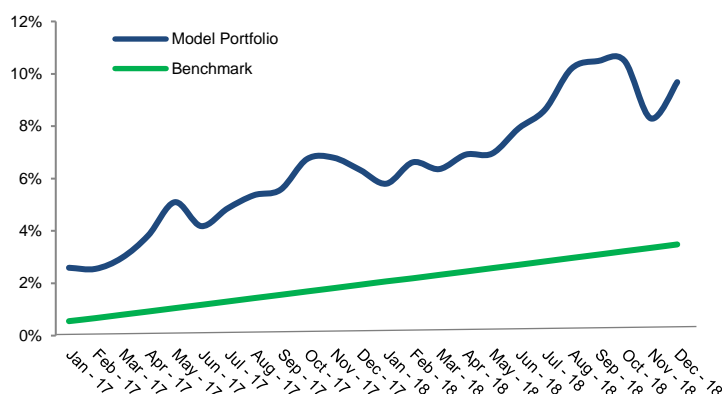
NAV <sup>2</sup>	Return	B'mark	Excess
1mth	1.28%	0.13%	1.15%
3mths	-0.73%	0.38%	-1.11%
6mths	1.64%	0.76%	0.88%
1yr	3.15%	1.51%	1.64%
2yrs pa	3.12%	1.51%	1.61%
Since inception pa (19/9/16)	9.68%	3.48%	6.20%
Annualised since inception pa	4.14%	1.51%	2.62%

## MODEL PORTFOLIO STRATEGY & PERFORMANCE SUMMARY

The Mason Stevens Income Discretionary Investment Mandate was down 0.73% (net of fees) for the quarter. This underperformance was largely driven by the sell-off in hybrid securities. We still see these hybrids offering robust income and, on that basis, we are comfortable with the volatility and will continue to hold these securities. Over the year, the Fund delivered 3.15%, outperforming the benchmark by 1.64%.

During the quarter, the portfolio trimmed position in GE 5% hybrid.

## 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 \$200,000 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 fees, but excluding any adviser fees from the Model Portfolio's inception date of 19 September 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 investment objective of the Mason Stevens Income Discretionary Investment Mandate is to provide investors with a pre-tax return that outperforms the RBA Cash Rate by 3.00%pa after fees over a time horizon greater than three years.

It will seek to achieve this objective by investing in a portfolio of predominantly investment grade fixed interest securities, government, semi-government and corporate bonds, subordinated debt securities, hybrid instruments (including converting preference shares, convertible notes, and income securities), residential mortgage backed securities (RMBS), asset backed securities (ABS), floating rate notes (FRNs), cash and term deposits. The Mandate can invest in over-the-counter (OTC) instruments such as repackaged securities, credit linked notes (CLNs). It may also include international securities.

## KEY FEATURES

FEATURE	DETAIL
<b>Investment universe</b>	Bonds (corporate, bank, government), subordinated debt securities, hybrids, RMBS, ABS, FRNs, cash deposits, term deposits, OTC securities and instruments, including repackaged securities, CLNs and CDSs. It may include overseas securities.
<b>Benchmark</b>	RBA Cash Rate
<b>Target return</b>	RBA Cash Rate + 3.00% per annum after fees
<b>Cash weighting limits</b>	0-100%
<b>Minimum non-rated/sub-investment grade weighting</b>	10%
<b>Maximum foreign currency exposure</b>	Unlimited
<b>Minimum investment</b>	\$1,000,000
<b>Suggested timeframe</b>	3-5 years+

Further information about the portfolio, including fees and costs, is outlined in the Mason Stevens Income Discretionary Investment Mandate, available on our website.

## 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



**Annie Zhao**  
Portfolio Manager



**Vincent Hua**  
Portfolio Manager  
& Chief  
Investment Officer

The Mandate is managed by Annie Zhao and Vincent Hua who have over 30 years' combined specialist fixed income experience.

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

Please speak to your adviser

### Advisers

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