Quarterly performance report

31 March 2019

Mason Stevens Income Discretionary Investment Mandate

The Mason Stevens Income Discretionary Investment Mandate (Model Portfolio) is a Managed Discretionary Account (MDA), also sometimes referred to as a Separately Managed Account (SMA).

Performance as at 31 March 2019[1]

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	2 yrs (%)	Since inception (19/9/16) (%)	Annualised since inception (%pa)
Portfolio	**0.80**	**2.60**	**1.85**	**5.81**	**4.54**	**12.54**	**4.78**
Benchmark	0.13	0.37	0.75	1.51	1.51	3.87	1.51
Excess/under performance	0.67	2.23	1.10	4.30	3.03	8.67	3.27

Portfolio statistics[2]

Yield to call	4.26%
Trading margin	2.65%
Running yield	4.85%
Term to call/maturity	3.4yrs

Performance and portfolio review

The Model Portfolio delivered a 0.80% net return for the month of March. This follows on from the positive performance for the investment mandate since the start of the calendar year, taking the quarterly returns to 2.60%. Due to a rally in risk assets and the ongoing fall in interest rates, this quarterly performance return comfortably outperformed the investment mandate's benchmark.

The investment mandate executed six trades during the quarter. We trimmed the position in Asciano floater and Softbank 6% to lock in some capital gain and got out of GE 5% completely after it rallied back to 93. We bought into a few new issuances including Liberty 3 year floater, IAG Tier 2 bond, and the NABPF hybrid security. We also invested 3% of the portfolio into Virgin Australia's 2021 USD bond which, for a remaining 2.5 year maturity, provides over 7% yield. From a duration perspective, we continue to position the portfolio conservatively, with a focus on capital preservation and maintaining consistent income flow.

Market overview

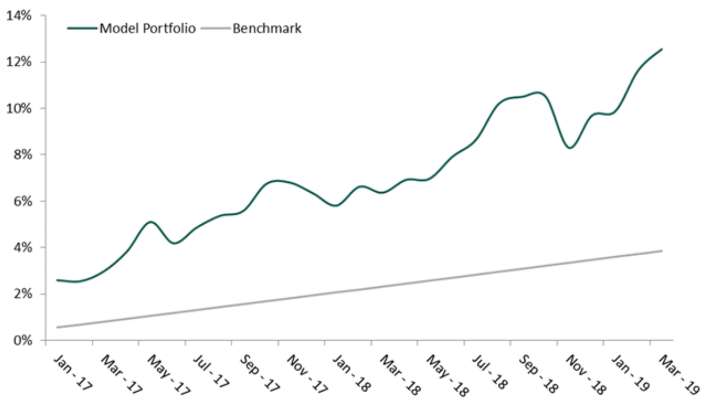
Despite some volatility in equities, as heightened risks of recession began to impact investor sentiment during the month of March, the ASX200 still had its best quarterly performance for 9 years, rising 9.5%. Global central banks, including the RBA, continue to downgrade their economic growth forecasts and, in response, monetary policy communications have shifted from rate hikes to a more neutral hold and monitor strategy. This more accommodative central bank position was seen as a positive for equity markets.

During March quarter, financial markets were characterised by a rally in bonds, as interest rate curves continued to flatten globally, especially the Australian interest rate curve. With the 50bp drop in the 10-year Australian Government Bond yield, financial markets have priced in a high probability that the RBA will cut interest rates multiple times during the year. Credit spread performance for March was mixed, with cash bond credit spreads continuing to perform well. However, there was dislocation for credit default swap (CDS) spreads, moving wider on growing fears of recession. The driver for this dislocation has been the strong primary issuance market since mid-February. Strong demand for new issuance led to a supportive credit spread environment for bonds as demand continues to exceed supply. That is, cash bond performance was led by technical demand-supply dynamics and CDS spreads were more focused on economic indicators.

1 The Model Portfolio Benchmark is the RBA Cash Rate (after fees). 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 19/09/16, 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 from the inception date 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.

2 Weighted averages based on current market prices and target portfolio weights as at 31 March 2019. Running yield includes any applicable franking credits. Expected cash distribution assume 31 March 2019 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 March 2019. 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.

Performance since inception[1]



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.

Portfolio management

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

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. Clients benefit from efficient portfolio administration, secure online access to their investments, as well as comprehensive reporting.

Investment team

Annie Zhao, Portfolio Manager
Vincent Hua, Portfolio Manager & Chief Investment Officer

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

Key features & details

Investment universe	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.
Benchmark	RBA Cash Rate
Target return	RBA Cash Rate + 3.00% per annum after fees
Cash weighting limits	0-100%
Minimum non-rated/sub-investment grade weighting	10%
Maximum foreign currency exposure	Unlimited
Minimum investment	$1 mil
Suggested timeframe	3-5 years +

More information

Further information about the Model Portfolio, including fees and costs, is outlined in the Mason Stevens Income Discretionary Investment Mandate.

Contact

Investors

Please speak to your adviser

Advisers

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