

Quarterly performance report

30 June 2019

Mason Stevens Australian Fixed Income Managed Portfolio

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

Performance as at 30 June 2019¹

	1mth	3mths	6mths	1yr	3 yrs	5yrs	Sinc incep
	(%)	(%)	(%)	(%)	(%pa)	(%pa)	(%pa)
Portfolio	0.60	1.79	3.10	5.61	5.33	N/a	5.72
Benchmark	0.12	0.37	0.75	1.51	1.52	N/a	1.55
Excess/under performance	0.48	1.42	2.35	4.10	3.81	N/a	4.17

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

Portfolio statistics²

Yield to call	3.462%
Trading margin	2.064%
Running yield	3.612%
Term to call/maturity	3.52yrs
Expected next quarterly distribution (\$100,000)	\$826.09

Performance and portfolio review

The Managed Portfolio delivered a 0.60% net return for the month of June. This follows on from the positive performance for the investment mandate since the start of the calendar year, taking the 6 month returns to 3.10% net.

This quarterly performance return continued to materially outperform the investment mandate's benchmark but underperformed the Bloomberg AusBond Master 0+ Yr Index which again benefitted from falling interest rates and flattening interest rate curves.

During the quarter the investment team did a number of strategic trades. In light of strong performance in the financial institution tier 1 hybrid security space, the investment mandate looked to reduce exposure to bank hybrids through the sale and realisation of gains of its holdings in the NABPF security. This reduction to hybrids was in response to the upcoming elections and the proposed unwinding of franking credit policy put forward by the Labor party. The investment mandate thought it prudent to reduce its exposure given the volatility as a result of election uncertainty. The excess cash gained from this sale was reinvested into the AMP Bank-tier 2-December 2022 callable bond.

We continue to position the portfolio conservatively from a duration perspective, with focus on capital preservation and maintaining consistent income flow.

Market overview

The month of June saw another strong rally in fixed income both domestically and globally. Domestically, the RBA delivered on a widely expected move on interest rates during the June meeting, cutting official cash rates by 0.25%. This was followed up by a further rate cut of another 0.25% in the most recent RBA meeting in July. The RBA official interest rate now sits at a very low 1.00% with the Australian central bank issuing a stark warning that from here, the impact of monetary policy on a weakening economic environment is limited without the support of fiscal stimulus.

Internationally, the strong interest rate rally was primarily driven by both the growing market expectations that a coordinated response by central banks to weakening global macroeconomic fundamentals is expected and a temporary trade war truce between USA and China at the most recent G20 conference.

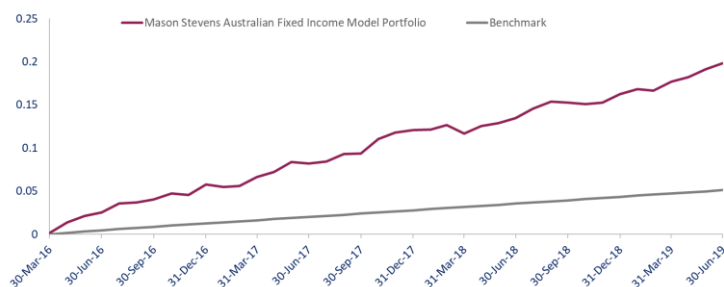
Easy and co-ordinated global central bank monetary policy led to buoyant global share markets during the month, with a number of indexes hitting record highs. Generally, global investment grade credit spreads also performed well during the month, with BBB investment grade rated credits being the best performer across all credit ratings buckets.

Primary issuance was robust over the quarter as issuers looked to take advantage of cheap debt funding. In addition, a number of securities did become retail eligible and currently being considered by the investment mandate.

¹ The Managed 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 Managed Portfolio's inception date of 30/03/16, and assumes reinvestment of all income (but not franking credits). Returns are based on the theoretical performance of a portfolio which implemented the Managed 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 30 June 2019. Running yield includes any applicable franking credits. Expected cash distribution assume 31 March 2019 managed 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 30 June 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.

Cumulative performance since incep¹



Investment objective & strategy

The objective of the Mason Stevens Australian Fixed Income Managed Portfolio (Managed 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 Managed 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.

Portfolio management

The Managed Portfolio is managed by Mason Stevens Asset Management Pty Limited (MSAM) as the Investment Sub-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.

More information

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

Contact

Investors

Please speak
to your adviser

Investment team

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; Jesse Imer – Fixed Income Investment Strategist; Peter Liao, Head of Strategy, Performance and Analytics; Roman Gerber – SMA Manager.

Key features & details

Investment universe	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.
Benchmark	RBA Cash
Target return	RBA Cash +2.00% pa, after fees
Number of investments	5+
Min security rating	BBB- / Baa3 by a reputable rating agency
Min investment amount	\$100,000 (or as agreed by the Investment Sub-Adviser)
Suggested timeframe	3-5 years +

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.

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