

# Quarterly performance report

## Mason Stevens Wholesale Fixed Income Managed Portfolio

30 June 2019

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

### Performance as at 30 June 2019<sup>1</sup>

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	2 yrs (%pa)	Annualised since inception (%pa)
<b>Portfolio</b>	<b>1.53</b>	<b>2.27</b>	<b>4.93</b>	<b>6.66</b>	<b>5.11</b>	<b>5.19</b>
Benchmark	0.10	0.36	0.73	1.49	1.50	1.50
Excess/under performance	1.43	1.91	4.20	5.17	3.61	3.69

### Portfolio statistics<sup>2</sup>

Yield to call	3.75%
Trading margin	2.63%
Running yield	4.76%
Term to call/maturity	3.61yrs

## Performance and portfolio review

The Managed Portfolio ended the financial year strongly, delivering a positive return of 1.53% for the month of June. This follows on from a positive quarterly performance of 2.27% and 6 monthly performance of 4.93%. 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 switched out of Challenger Tier 2 and added more IAG Tier 2 bonds, we also slightly increased weighting of Virgin Australia's 2021 USD bond which is still providing a decent 6.88% yield. We sold our positions in WBCPE into the rally. We also bought into a few new issuances including the NAB 10NC5 Tier 2 bond and Barclays' 5-year senior paper.

From a duration perspective, we slightly increased duration to position for our view of more central banks easing to come, while still focusing on capital preservation and maintaining consistent income flow.

## Market overview

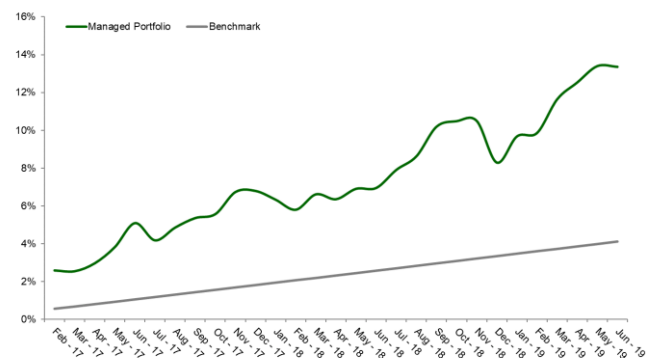
The month of June saw another strong rally in fixed income both domestically and globally. Domestically, the RBA delivered on a widely expected move on interest rates during the June meeting, cutting official cash rates by 0.25%. This was followed up by a further rate cut of another 0.25% in the most 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, with APRA sticking to its Total Capital/Tier 2 approach to meeting TLAC requirements, we have seen a ramp up in major bank's Tier 2 issuance both in domestic and offshore markets, we will look to invest into them opportunistically.

## Performance since inception<sup>1</sup>



<sup>1</sup> The Managed 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 Managed 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 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.

<sup>2</sup> 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 30 June 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 \$200,000 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.

## Investment objective & strategy

The investment objective of the Mason Stevens Wholesale Fixed Income Managed Portfolio 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 Managed Portfolio is managed by Mason Stevens Asset Management Pty Limited (MSAM) as the Sub-Investment 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.

## More information

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

## 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; Peter Liau, Head of Strategy, Performance and Analytics; Roman Gerber, SMA Manager.

## Key features & details

<b>Investment universe</b>	Bonds (corporate, bank, government), subordinated debt securities, hybrids, RMBS, ABS, FRNs, cash deposits, term deposits, Securities may be listed on an exchange or unlisted, 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>Maximum non-rated/sub-investment grade weighting</b>	20%
<b>Maximum foreign currency exposure</b>	Unlimited
<b>Minimum investment</b>	\$200,000
<b>Suggested timeframe</b>	3-5 years +

### Contact

#### Investors

Please speak to your adviser

#### Advisers

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