

Monthly performance report

Mason Stevens Credit Fund

July 2019

Fund performance as at 31 July 2019¹

	1mnth	3mnths	6mnths	1yr	3 yrs	5yrs	Sinc incep
	(%)	(%)	(%)	(%)	(%pa)	(%pa)	(%pa)
Fund	0.87	1.96	4.50	5.23	4.72	5.25	6.10
Benchmark	0.09	0.32	0.69	1.45	1.49	1.76	1.91
+/- Return	0.78	1.64	3.81	3.78	3.23	3.49	4.19

Pricing

NAV	\$1.0249
Entry price	\$1.0300
Exit price	\$1.0198
Distribution	\$0.000

Past performance is not a reliable indicator of future performance and may not be achieved in the future.

¹ The Benchmark is the RBA cash rate. Returns are calculated using the exit price (including sell spread), net of fees, assuming reinvestment of distributions and excludes franking credits and are calculated from the Fund's inception date of 31/05/13. Individual returns will vary depending on date of initial investment.

Performance

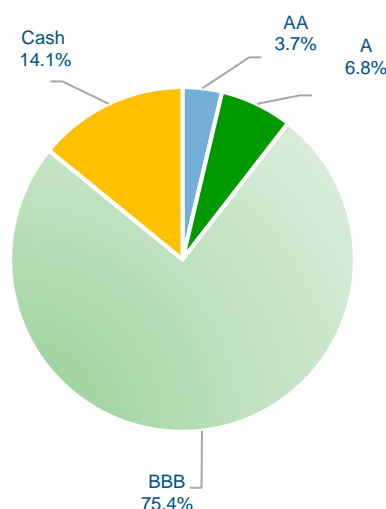
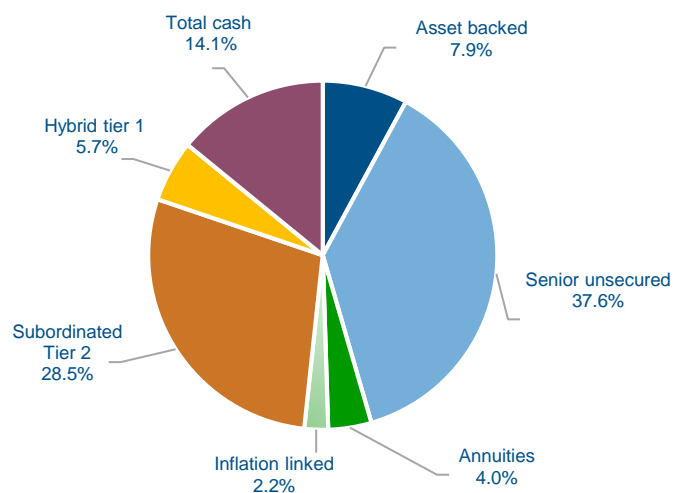
The Fund has started the new financial year on a positive note, delivering a return of 0.87% for the month of July. The Fund continues to build on the recent positive performance delivering a quarterly return of 1.96%, six monthly return of 4.50% and a return of 5.54% since the start of the 2019 calendar year.

Portfolio and market review

It was a strong month for fixed income markets with bond prices rallying off the back of coordinated central bank interest rate easing policy. The US central bank cut the Fed funds rate by 0.25% at its most recent FOMC meeting and continued to maintain an easing bias. However, while we expect global interest rates to continue to remain very low and interest rate curves to remain very flat, we do expect heightened market volatility over the coming months, given that negative headline news are unlikely to go away. In particular US-China trade wars, Iran and Brexit.

Domestically, the RBA followed up its 0.25% June meeting interest rate cut with a further 0.25% cut during the July meeting. This saw both an outright drop in interest rates, as well as a continued flattening across the curve. An RBA bias towards ongoing easy monetary policy is expected to keep interest rate curves very flat and markets are pricing in for a terminal interest rate of 0.50%, with a further two 0.25% cuts to the official cash rate by mid-2020.

Portfolio composition



Industry rated



4.72% pa¹
3-year return



Regular income
Targeting capital
preservation

Portfolio and market review (cont)

Despite some initial fears around APRA finalising its Total Loss Absorbency Capital ('TLAC') requirements, requiring major banks to increase total capital by 300bps through Tier 2 issuance. The market has been very supportive of the first round of Tier 2 deals that have come to market. The market is becoming comfortable in having the capacity to absorb the expected increased volumes in Tier 2 issuance, more so, given that the major banks have looked to tap both domestic AUD primary market, as well as the much deeper USD primary market. More broadly speaking, credit spreads tightened over the month as investors looked to invest away from the risk 'bookends' (cash and equities) with the endeavour to reduce portfolio volatility but continue to maintain positive real yield.

It was a heavy issuance month in July. APRA's new TLAC requirements saw financials dominate the domestic primary issuance market. However, despite this influx of new Tier 2 issuance, demand continues to be there for well-priced deals.

During the month the Fund participated in a number of primary issues, which performed well over the month. The Fund also benefited from a rally in interest rates through the increase in portfolio interest rate duration. Over the course of the calendar year, the Fund has looked to act on its negative view on Asia and has actively managed down its exposure to Asian credit to an immaterial level. The Fund continues to be opportunistic around Asian deals but broadly speaking it will continue to remain underweight in this region. The Fund continues to remain well positioned to take advantage of any further rallies in interest rates and has the capacity to benefit from investing in well-priced primary transactions. The Fund will continue to be managed on a conservative basis in light of volatile markets.

Investment objective and strategy

The Mason Stevens Credit Fund aims to generate returns in excess of 2.5% pa above the RBA Cash rate after fees and expenses. The Fund invests in a portfolio of interest rate securities that pay a fixed or floating rate of return. The Fund can invest in any interest rate securities, primarily investment grade, with no more than 5% of the assets being comprised of securities that are below investment grade. The securities must be rated by a reputable rating agency.

Platform access	
Mason Stevens	✓
uXchange	✓
Investment team	
Vincent Hua	Chief Investment Officer
Alwyn Hung	Senior Portfolio Manager
Annie Zhao	Portfolio Manager
Kristie Hua	Analyst
Statistics	
Interest rate duration (years)	0.34
Spread duration (yrs)	3.47
Current yield to maturity (pa)	3.58%
Official cash rate (pa)	1.00%
Average credit rating	BBB
Key features	
Minimum investment	\$25,000
Applications & redemptions	Monthly
Management costs	0.94%pa
Distributions	Quarterly
Buy/sell spread	+0.50%/-0.50%

Rated
by



Quantitative



Qualitative

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us

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