

Quarterly performance report

30 September 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 September 2019¹

	1mth	3mths	6mths	1yr	3 yrs	5yrs	Sinc incep
	(%)	(%)	(%)	(%)	(%pa)	(%pa)	(%pa)
Portfolio	0.10	0.94	2.75	4.94	5.15	N/a	5.58
Benchmark	0.08	0.25	0.61	1.36	1.46	N/a	1.50
Excess/under performance	0.02	0.68	2.14	3.58	3.69	N/a	4.08

Portfolio statistics²

Yield to call	2.937%
Trading margin	1.990%
Running yield	3.398%
Term to call/maturity	3.76yrs
Expected next quarterly distribution (\$100,000)	\$910.00

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

Performance and portfolio review

The Managed Portfolio delivered a 0.10% for the month of September, returned 0.94% for the quarter and 2.75% for the past 6 months. The quarterly performance return continued to materially outperform the investment mandate's benchmark and target return but underperformed the Bloomberg AusBond Master 0+ yr index, which continues to benefit from falling interest rates and ongoing flattening of the interest rate curve.

There was a lot of activity during the quarter as the investment team sought to re-position the investment mandate in response to falling interest rates and tightening credit spreads. We looked to reposition the mandate's hybrid exposure and extended the credit duration via an investment in the recently launched CBAPI hybrid security. The mandate's Resimac RMBS investment was called during the quarter and with the excess cash, investments were made in a senior ranked Pacific National (Asciano) floating rate note and a tier 2 subordinated Insurance Australia Group floating rate security. Finally, the mandate divested its exposure in AMP Ltd through the sell down of its tier 2 subordinated floating rate position. While the bond offered attractive yield at the time of investment, the investment team thought it prudent to sell down the position in light of ongoing negative news on the company as a whole.

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

Market overview

Overall fixed income continued to perform strongly over the September quarter, as central banks globally continued to implement supportive monetary policies in response to a weakening economic environment and negative geopolitical and trade war headlines. We saw a strong rally in both AUD and USD interest rates across the interest rate curve over the months of July and August, as both the RBA and US Fed signalled the likelihood of future interest rate cuts. True to their word the US Fed cut official interest rates by 0.25% during its September FOMC meeting and the RBA followed with a 0.25% interest rate cut at its most recent October board meeting. Australian official interest rates are now at an all-time low of 0.75% and financial markets believe that this is not the end of the easing cycle.

However, we did experience a long end interest rate sell off during September. Short end US interest rates continue to remain anchored in response to US Fed easy monetary policy. However, the sell off at the longer end, causing interest rate curves to steepen, was sparked by a record volume of new issuance during the last fortnight of September. Issuance was strong prior to this spike in new deals and was met with strong demand.

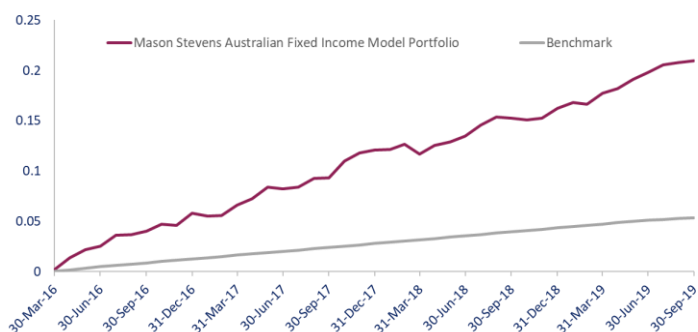
However, this record fortnightly volume proved too much for investors and as a result we saw a sell-off in 10-year interest rates. Domestic issuance continued to remain robust during the quarter and despite this sell-off, well-priced deals continue to be very well supported.

As interest rates have fallen and the economic environment continuing to look weak, investment grade fixed income investors have increased their weightings in BBB rated assets in search for yield. In addition, high yield investors have de-risked volatile positions in favour of higher rated securities that still provide meaningful returns. As such, BBB rated securities were the best performing assets during the quarter.

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 As at the date of this report: weighted averages are based on current market prices and target portfolio weights, running yields include any applicable franking credits and expected cash distributions assume 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. 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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