

Quarterly performance report

30 September 2019

Mason Stevens Wholesale Fixed Income Managed Portfolio

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 September 2019¹

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	2 yrs (%pa)	Annualised since inception (%pa)
Portfolio	0.59	2.38	4.70	6.64	5.65	5.57
Benchmark	0.08	0.25	0.61	1.36	1.44	1.46
Excess/under performance	0.51	2.12	4.10	5.28	4.21	4.10

Portfolio statistics²

Yield to call	3.37%
Trading margin	2.46%
Running yield	4.50%
Term to call/maturity	3.26yrs

Performance and portfolio review

The Managed Portfolio delivered a 0.59% for the month of September, returned 2.38% for the quarter and 4.70% for the past 6 months. The quarterly performance return continued to materially outperform the investment mandate's benchmark as the corporate bond market continues to benefit from falling interest rates and ongoing tightening of credit spread.

During the quarter the managed portfolio bid into the new ANZ Tier 2 bond at a coupon of 2% over 3months BBSW, the investment team also decided to switch out of Asciano 2027 floating rate bond and into the new Asciano 2029 fixed rate bond, to pick up more yields and slightly extend duration given we expect more easing to come from the central banks.

Market overview

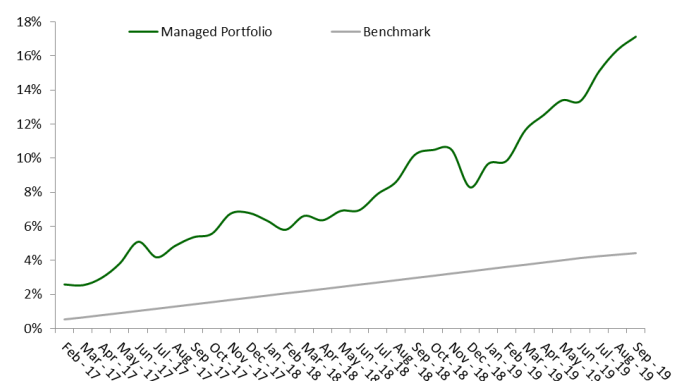
Overall fixed income continued to perform strongly over the September quarter, as central banks globally continued to implement supportive monetary policies in response to a weakening economic environment and negative geopolitical and trade war headlines. We saw a strong rally in both AUD and USD interest 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.

Performance since inception¹



¹ 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.

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 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

Investment universe	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
Benchmark	RBA Cash Rate
Target return	RBA Cash Rate + 3.00% per annum after fees
Cash weighting limits	0-100%
Maximum non-rated/sub-investment grade weighting	20%
Maximum foreign currency exposure	100%
Minimum investment	\$200,000
Suggested timeframe	3-5 years +

Contact

Investors

Please speak to your adviser

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