

Quarterly performance report

December 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 31 December 2019¹

	1mth	3mths	6mths	1yr	3 yrs	5yrs	Sinc incep
	(%)	(%)	(%)	(%)	(%pa)	(%pa)	(%pa)
Portfolio	0.03	-0.26	0.67	3.79	4.47	N/a	5.12
Benchmark	0.06	0.19	0.44	1.17	1.40	N/a	1.45
Excess/under performance	-0.03	-0.45	0.23	2.62	3.07	N/a	3.67

Portfolio statistics²

Yield to call	3.092%
Trading margin	1.992%
Running yield	3.470%
Term to call/maturity	3.89yrs
Expected next quarterly distribution (\$100,000)	\$942.00

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

Performance and portfolio review

The Managed Portfolio delivered a 0.03% for the month of December, returned 0.67% for the past 6 months and 3.79% for the past 12 months.

A quieter quarter in terms of investment activity for the mandate. Pre-positioning of the portfolio to take advantage of an envisaged credit ratings upgrade for big 4 bank hybrids occurred prior to the end of the previous quarter. This portfolio positioning led to a drop in duration and as a result, the investment mandate was, for the most part, immune from the interest rate curve steepening that was experienced by Australian interest rates in December.

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

Market overview

Headline news (US-China trade wars, Brexit, Hong Kong social unrest, etc) continued to provide uncertainty and market volatility during the period. However, the second half of 2019 was clearly marked by accommodative central bank monetary policy and in turn interest rate curves of major developed countries experienced very flat slopes, with a number of interest rate curves becoming inverted. Domestically, Australia's RBA has cut official cash rates three times since June 2019, to a new historical low of 0.75%, with an easing bias expected to continue into 2020. As a result, the Australian government 10yr bond yield is trading at 1.13% (8 Jan 20), with the 5yr Australian government bond yield only 0.035% higher than the RBA's official cash rate (at the time of writing).

Despite the negative economic implications associated with a number of headlines, easing monetary policy has led to risk assets continuing to rally with most major equity indices continuing to hit new historical highs. Global credit spreads continue to re-calibrate easing borrowing conditions and lower base rates and, as such, spreads have tightened to their lowest levels since the GFC.

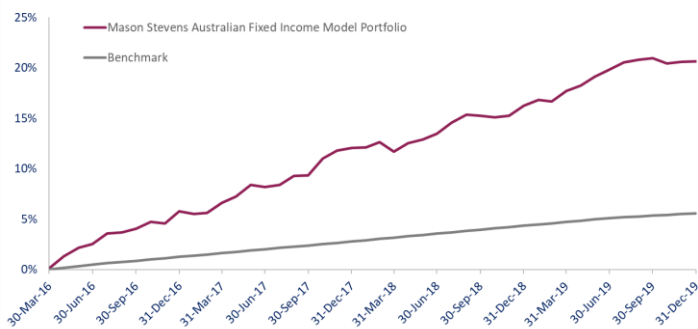
All this has meant that fixed income yields have continued to compress over the course of the 2019 calendar year. This has led to strong primary bond issuance over the past 6 months as sovereign entities, corporates and financial institutions look to take advantage of cheap debt capital. However, demand for corporate and financial credit has also been sufficiently strong to absorb this spike in new issuance.

In December, investment grade credit spreads rallied, as displayed in the 9.4 basis point spread tightening in the iTraxx Aus CDS index. BBB rated credits continuing to outperform the other investment grade rating buckets, as investors continued to seek yield with their defensive asset allocations. This more than offset the volatility experienced in interest rates during the month. New issuance was seasonally lighter over the course of the month. However, of interest was NAB issuing a non-listed AT1 hybrid security. Cost savings and sufficient institutional demand, given the recent positive re-rating of Australian 'big 4' bank AT1 hybrid securities to investment grade, appear to be the primary drivers for NAB electing to not list this security on the ASX.

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.

Advisers

T 1300 988 878

E info@masonstevens.com.au

W masonstevens.com.au

This Report is provided by Mason Stevens Limited (ACN 141 447 207, AFSL 351578) (Mason Stevens) as the Managed Discretionary Account (MDA) Provider of the Managed Portfolio. Any content provided in this Report is for the purpose of providing general advice and information only. It does not take into account your or your client's personal objectives, financial situation and needs. Please seek specific advice before making a decision in relation to any investment. The information is provided in good faith and we do not make any representation or warranty as to its accuracy, reliability or completeness. To the extent permissible by law, we do not accept any responsibility for any error, omission, indirect or consequential loss or damages (whether arising in contract, tort, negligence or otherwise, in any case whether foreseeable or not). Please refer to the relevant Investment Mandate for further information. Any information contained in this Report is subject to change without prior notice by Mason Stevens and Mason Stevens is not obliged to update any information. References made to any third party or their data is based on information that Mason Stevens believes to be true and accurate as at the date of this Report but without independent verification. All information provided in this Report is correct as at the date of this Report.