

## Quarterly performance report

31 December 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 31 December 2019<sup>1</sup>

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	2 yrs (%pa)	Annualised since inception (%pa)
<b>Managed Portfolio</b>	-0.26	0.00	2.49	7.75	5.52	5.32
Benchmark	0.06	0.19	0.44	1.17	1.34	1.41
Excess/under performance	-0.32	-0.18	2.05	6.58	4.18	3.91

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

Yield to call	3.32%
Trading margin	2.41%
Running yield	3.92%
Term to call/maturity	3.28yrs

Past performance is not a reliable indicator of future performance. Please see below for an explanation of performance methodology.

## Performance and portfolio review

The Managed Portfolio delivered -0.26% for the month of December, returned 2.49% for the past 6 months and 7.75% for the past 12 months. In December, we saw credit spread continue to tighten, however interest rate curve steepened, causing an underperformance in fixed rate bonds. AUD appreciated over 3.8% against USD during the month, which also negatively impacted performance of a few USD bonds in the mandate.

During the quarter the managed portfolio switched out of Suncorp 2022 callable Tier 2 bond, and bought into the new NAB 2026 callable Tier 2, providing a decent pick up in yields with a slight extension in call date.

## 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).

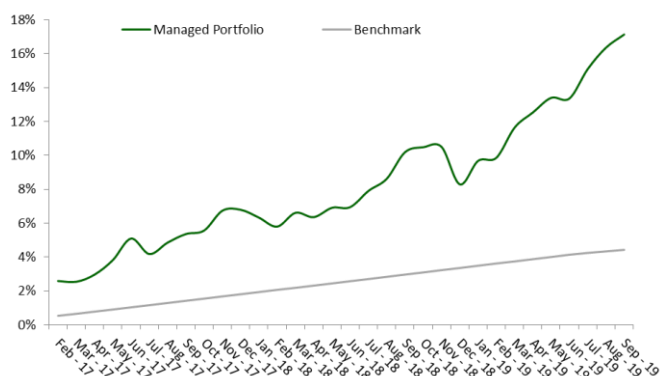
Despite the negative economic implications associated with a number of headlines, easing monetary policy has led to risk assets continuing to rally with most major equity indices continuing to hit new historical highs. Global credit spreads continue to re-calibrate, easing borrowing conditions and lowering 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 took 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 continued 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. In USD space, as global investors moved down the credit curve for additional yield pick-up, Bank Additional Tier 1 papers and HY bonds also performed strongly, returning 3-5% for the December quarter.

<sup>1</sup> The Managed Portfolio Benchmark is the RBA Cash Rate (after fees). Past performance of the Managed Portfolio is based on the use of a model account which Mason Stevens considers best represents the performance of the overall strategy with the inception date of 19/9/2016. Actual individual returns of each client's Managed Portfolio may differ from the model account reflected in this report, due to factors such as date of initial investment, timing of transactions, contributions and withdrawals, management costs and portfolio composition. All of the above factors may cause performance dispersion between each client's Managed Portfolio and the model account. Please refer to the PDS for more details. Returns are calculated net of management, performance, administration/custody and transaction fees, but excluding any adviser fees from the Managed Portfolio's, and assumes reinvestment of all income (but not franking credits). 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> 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 \$200,000 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.

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



## 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 clients. Clients benefit from efficient portfolio administration, secure online access to their investments, as well as comprehensive reporting.

## 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 Liao, 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, ABS, FRNs, cash deposits, term deposits. Securities may be listed on an exchange or unlisted, including repackaged securities and CDSs. It may include overseas securities.
<b>Benchmark</b>	RBA Cash Rate
<b>Target return</b>	RBA Cash Rate + 3.00% per annum
<b>Cash weighting limits</b>	0-100%
<b>Maximum non-rated/securitised investment grade weight</b>	20%
<b>Maximum foreign currency exposure</b>	100%
<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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