Quarterly performance report

March 2020

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 March 2020[1]

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	3 yrs (%pa)	5yrs (%pa)	Since incep (%pa)
Portfolio	-3.15	-2.88	-2.53	0.18	3.42	N/a	4.20
Benchmark	0.04	0.16	0.35	0.97	1.33	N/a	1.40
Excess/under performance	-3.19	-3.04	-2.88	-0.79	2.09	N/a	2.80

Past performance is not a reliable indicator of future performance.

Portfolio statistics

Yield to call[2]	3.51%
Trading margin[3]	2.92%
Running yield[4]	3.38%
Term to call/maturity[5]	4.82yrs
Expected next quarterly distribution[6]	$883.00

Performance and portfolio review

The Managed Portfolio (MP) delivered a net return of -3.15% for the month of March, -2.88% for the past 3 months, and 0.18% for the past 12 months. Net income earned from coupons and realised gains from bonds held in the MP for the quarterly period was 0.696%.

The negative return for the month of March was primarily the result of widening credit spreads of major banks Tier-1 Hybrids, which accounted for approximately 26% of total holdings. There were with no significant declines in the credit quality of the investment grade (IG) fixed income securities held in the Managed Portfolio. The widening spreads of major bank Tier -1 Hybrids were primarily driven by speculations related to major banks dividend and capital management policies.

S&P has published the stress and sensitivity analysis on major banks to COVID -19 crisis and stated that major banks retain sizeable headroom within their earnings to absorb multi-fold increase in credit losses despite expectation of a large contraction in interest spreads and fee income. Major bank ratings can withstand a modest increase in systemwide risks

Despite the unprecedented market volatility, the managed portfolio has held up relatively well to-date, reflecting the “defensive” nature of the portfolio with financial and infrastructure bonds comprising of 100% of total holdings. These sectors are very resilient and defensive in nature, given they have historically received government support when required, due to the essential services these companies provide.

We are of the view that the market volatility in IG bonds is primarily driven by market illiquidity and will be short term in nature, given massive monetary intervention and liquidity support injected by global central banks to ensure that credit markets function properly.

Market overview

The COVID-19 pandemic has created numerous economic uncertainties, leading to considerable pricing volatility within equity and credit markets during the March quarter of 2020.

Massive global central bank interventions have put a price floor on IG bonds

So far, central banks have introduced extensive liquidity support and asset purchase programs to ensure credit markets are functioning properly. These measures have begun to work and have calmed markets. Asset purchase programs conducted by global central banks have helped to put an effective price floor on high investment grade (IG) bonds. Credit spreads on these securities are gradually recovering from the height of the crisis.

However, market volatility will likely remain until positive developments regarding containment measures and vaccines emerge. Recent data on Australian infection rates is encouraging, with a relative flattening in infection rates. Should this trend continue, we will likely see a severe but short correction in Australia’s economy.

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 Yield to call is the estimated annual rate of return of a bond if held until its call date

3 Yield to call/maturity, minus the interest margin

4 Annual income on a bond divided by its current market value. Includes any applicable franking credits and expected cash distribution, assume managed portfolio weights are held for the entire quarter and don’t include franking credits. Projected coupons are cash only, based on a notional $100,000 investment at market prices.

5 Average weighted length of time bond maturity or call date. As at the date of this report: weighted averages are based on current market prices and target portfolio weights. 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.

6 Calculated by taking expected coupons net of management, performance, administration/custody and transaction fees, but excluding any adviser fees as at 20/04/20.

The contrast between fixed income and equity asset classes cannot get any clearer. Investment grade fixed income investment portfolios have in general demonstrated more stable returns than the highly volatile share investment portfolio. This has been supported by historical data in the previous three financial crises, as well as market performance in the past quarter.

Performance of major credit and equity indices

Market Indices	Price (31/3/20)	March Performance (%)	March Qtr Performance (%)	12-Month Performance (%)
ASX200	5076.83	-21.2	-24.0	-17.9
AusBond Credit FRN[7]	2721.32	-0.9	-0.6	+1.1
AUD/USD	0.6131	-5.9	-12.7	-13.6
ISHARES US IG ETF[8]	123.51	-6.6	-3.5	3.7
ISHARES US HY ETF[9]	77.07	-10.4	-12.4	-10.9

[7] Bloomberg Ausbond Credit Floating Rate Notes 0+ Yr Index

[8] iShares IBoxx $ Investment Grade Corporate Bond ETF

[9] iShares IBoxx $ High Yield Corporate Bond ETF

The key risks associated with fixed income investments are the default risks associated with extending credit. Investors do not suffer losses if the bonds are re-paid in full at maturity. It is important to note that according to Moody's Investors Service, during the most recent global financial crisis (2007-08), the average credit loss rate for IG bonds was approximately 2%.

Government fiscal stimulus helps to cushion credit deterioration

Although the bonds in the portfolio have been subject to market volatility and illiquidity, none were downgraded during the March quarter. So far in the month of March, we have witnessed very few ratings downgrades to Australian IG issuers. Most negative rating actions in IG bonds have been related to rating outlook changes and reviews for possible rating downgrades.

To-date, negative rating actions have been tempered by significant RBA intervention and government fiscal support, as well as the intrinsic financial strength and flexibilities of the IG issuers. In addition, selected corporates have begun to raise equity to strengthen their balance sheet. These market developments are positive from an IG bond perspective.

Issuer ratings impacted by COVID-19 pandemic by region and rating actions

	Asia Pacific	Europe, the Middle East and Africa	Latin America	North America	Total
Credit watch negative	31	30	11	105	**177**
Downgrade	5	66	34	164	**269**
Downgrade & credit watch	2	26	12	68	**108**
Outlook revision	30	60	18	118	**226**
Total	**68**	**182**	**75**	**455**	**780**

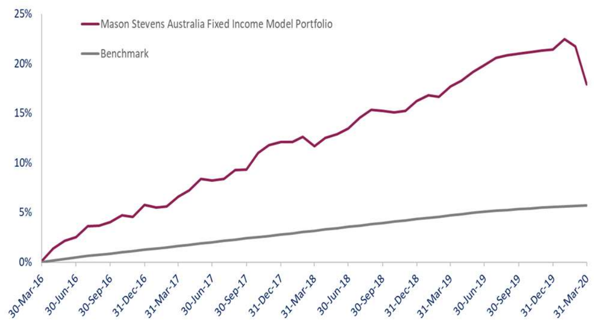
Source: Moody's S&P

Outlook and Strategy

While it is difficult to predict the magnitude and length of the fall-out from the coronavirus pandemic, markets will likely recover once there are positive developments on COVID-19 global infection rates and clinical trials for vaccines. We are keeping a watchful eye but remain confident that the likelihood of default for the bonds held in the Fund is remote.

We have also seen improvements in the liquidity of high investment grade bonds and expect further improvements in liquidity premiums for IG bonds in the June quarter. We will continue to manage the Fund through this market volatility by positioning the Fund in issuers which are resilient to the impact of the COVID-19 pandemic and those which have intrinsic financial flexibilities to sustain further credit deterioration.

Cumulative performance since incep[1]



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.

Investment team

Patrick Eng, 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 Liau, 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.

	Investors	Advisers
Contact	Please speak to your adviser	**T** 1300 988 878 **E** info@masonstevens.com.au **W** masonstevens.com.au