

# Mason Stevens Australian Fixed Income Managed Portfolio Performance Report: June 2020



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.

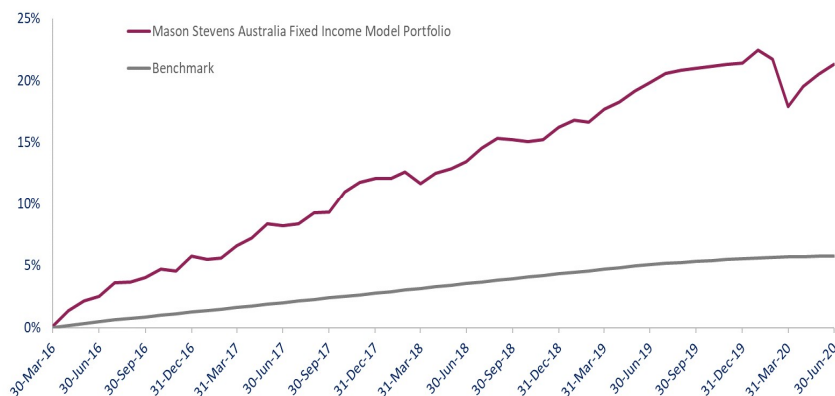
## Fund performance as at 30 June 2020<sup>1</sup>

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	3yrs (%)	Since incep (%)
<b>Fund</b>	0.80	3.03	0.06	1.37	3.94	4.68
Benchmark	0.01	0.04	0.19	0.64	1.21	1.33
Excess Return	0.79	2.99	-0.13	0.73	2.73	3.35

Past performance is not a reliable indicator of future performance.

<sup>1</sup>Benchmark is RBA Cash Rate. As at 30/06/2020, the RBA Target Cash Rate is 0.25% and the RBA Cash Rate is 0.14%. 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 security 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.

## Cumulative performance since inception



### Portfolio statistics

Yield to call <sup>2</sup>	3.32%
Trading margin <sup>3</sup>	2.46%
Running yield <sup>4</sup>	3.30%
Term to call/maturity <sup>5</sup>	4.56yrs
Expected next quarterly distribution <sup>6</sup>	\$ 773.00

### Key features

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 Rate
Target return	RBA Cash Rate+2.00% pa, after fees
Number of investments	5+
Min security rating	BBB- / Baa3 by a reputable rating agency
Min initial investment amount	\$20,000 (or as agreed by the Investment Sub-Adviser)
Suggested timeframe	3-5 years +

<sup>2</sup>Yield to call is the estimated annual rate of return of a bond if held until its call date

<sup>3</sup>Yield to call/maturity, minus the interest margin

<sup>4</sup>Annual income on a bond divided by its current market value. Includes any applicable franking credits and expected cash distribution

<sup>5</sup>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.

<sup>6</sup>Calculated by taking expected coupons net of management, performance, administration/custody and transaction fees, but excluding any adviser fees as at 23/07/2020. Projected coupons are cash only, based on a notional \$100,000 investment at market prices, assuming managed portfolio weights are held for the entire quarter and not inclusive of franking credits.

## Performance and portfolio review

The Managed Portfolio (MP) delivered a net return of 0.80% for the month of June, 3.03% for the past 3 months, and 1.37% for the past 12 months. Net income earned from coupons and realised gains from bonds held in the MP for the quarterly period was 0.92%.

The positive return for the quarter was driven by narrowing credit spreads of Australian major bank Tier-1 Hybrids, which accounted for approximately 1.51% of performance, despite only accounting for 20% of holdings as of 30 June 2020. During the quarter, the MP also benefitted from its repositioning towards financial IG bonds, through the credit spread contraction associated with financial market stabilisation.

## Market overview

Equity and credit markets continued their upward trajectory in the month of June as countries continued to ease lockdown restrictions. Confidence has increased in the ability of governments and central banks to deliver responses that seek to address the crisis. Nevertheless, market volatility remains elevated amid concerns over the resurgence of COVID-19 and renewed trade tensions between US and China.

For financial year ending 30 June 2020, the ASX 200 has recorded a return of -10.89%, while the Bloomberg Ausbond Credit Floating Rate Note 0+ Yr Index has recovered all lost ground, ending with a positive return of +1.71%.

### Performance of major credit and equity indices

Market Indices	Price (30/6/20)	1-Month Return (%)	3-Month Return (%)	6-Month Return (%)	12-Month Return (%)
ASX200	5897.88	2.47	16.17	-11.76	-10.89
AusBond Credit FRN <sup>7</sup>	2759.08	0.23	1.39	0.72	1.71
AUD/USD	0.689	3.34	12.91	-1.91	-1.85
ISHARES US IG ETF <sup>8</sup>	134.5	1.88	8.9	5.11	8.15
ISHARES US HY ETF <sup>9</sup>	81.62	-0.97	5.9	-7.19	-6.38

<sup>1</sup> Bloomberg Ausbond Credit Floating Rate Notes 0+ Yr Index

<sup>2</sup> iShares iBoxx \$ Investment Grade Corporate Bond ETF

<sup>3</sup> iShares iBoxx \$ High Yield Corporate Bond ETF

### Equity markets continue to surge

Despite subdued economic growth rates, high unemployment rates, and weak corporate earnings outlooks; equity markets have continued to surge higher, driven by optimistic forecasts for recovery and the continuation of central bank monetary stimulus.

Due to extensive fiscal and monetary policy action, the full impact of the economic shutdown has yet to be realised in economic datasets.

### Global macroeconomic data as at 30 June 2020

Country	CPI (%)	Unemployment (%)	Real GDP (% QoQ)	GDP
Australia	2.2*	7.4	-0.3	59.4
China	2.5	3.7*	-9.8	64.9
Germany	0.9	3.9***	-2.2	68.7
United Kingdom	0.5***	3.9**	-2.2	95.7
United States	0.1***	11.1	-5.0	131.2

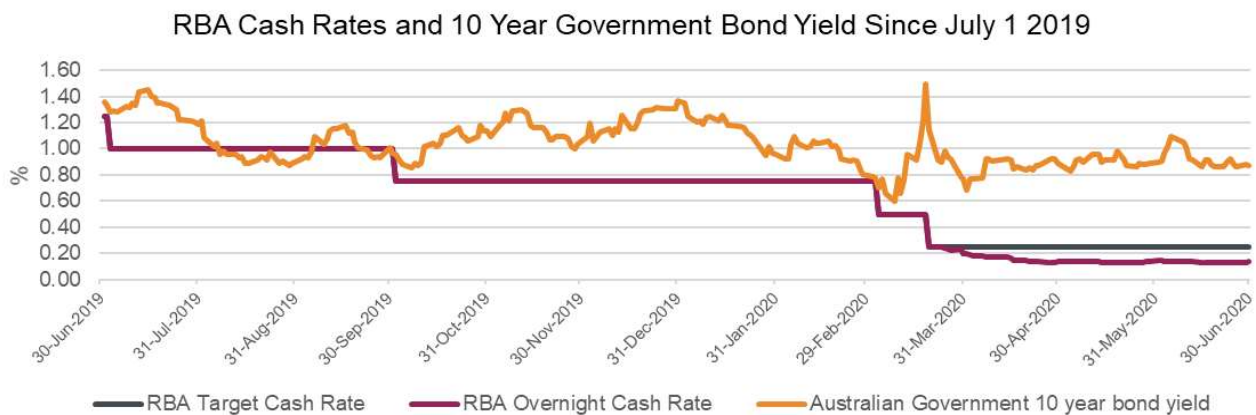
Source: Bloomberg, IMF \*March 2020 \*\*April 2020 \*\*\*May 2020

## Subdued economic conditions will lead to a prolonged low interest rate environment

As global COVID-19 infection rates continue to rise, economic forecasts have been dampened, along with any prospects of global central banks tightening monetary policy in the near term. The subsequent prolonged low interest rate environment will likely lead to investors seeking yields equivalent to pre-COVID levels, through increases in interest rate or credit duration when economic conditions stabilise.

The RBA Cash Rate remains at record low levels, remaining below the Cash Rate Target since late March 2020 as a result of increased cash holdings of superannuation funds and bank treasuries, and Reserve Bank intervention through Quantitative Easing (“QE”) and re-purchase agreements (“repo”).

Although re-opening has resulted in positive bounce back of economic activity in Australia, the path and pace of economic recovery remains unevenly distributed and highly uncertain. Substantial fiscal and monetary policy measures will be required to continue supporting the economy until the effects of COVID-19 dissipate.



Source: RBA

## Australian major bank bonds performed well in the month of June

Credit spreads of Australian major bank subordinated, and Tier 1 debts continued to tighten in the month of June. However, non-financial corporate IG credit spreads have struggled to keep pace with the tightening major bank spreads.

The extraordinarily low interest rate environment has assisted highly leveraged corporates with further restructuring and recapitalisation through lower debt servicing costs. However, this could foster heightened credit risk in the event of central bank monetary support and government fiscal stimulus being withdrawn quicker than expected.

Any resurgence of COVID-19 would further weaken already fragile corporate balance sheets. We expect more negative rating outlooks for sovereign and corporate entities, especially those most heavily impacted by the crisis.

## Market Outlook

Despite global central bank monetary stimulus, we remain broadly cautious on corporate credit market outlooks, given the possible resurgence of COVID-19, weak economic fundamentals and poor corporate earnings forecasts.

We continue to favour Australian major financial IG bonds over non-financial IG bonds as their credit spreads continue to trend lower.

## Investment Objective and 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 Corporations Act 2001. Securities may be unlisted or listed on an exchange.

## 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 Liao, Head of Strategy, Performance and Analytics; Roman Gerber – SMA Manager.

## 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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Please speak to your adviser

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