Mason Stevens Credit Fund

Performance Report as at 31 July 2020

Investment Objective and Strategy

The Fund invests in a portfolio of interest rate securities that pay a fixed or floating rate of return.
The Fund can only invest in investment grade interest rate securities at the time of purchase, with no more than 5% of assets being comprised of securities that are below investment grade rating if securities were downgraded after purchase.

Fund performance as at 31 July 2020[1]

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	3yr (%, p.a)	5yr (%, p.a)	Since incep (%, p.a)
Fund	0.67	2.48	-1.53	1.61	3.02	4.06	5.46
Benchmark	0.02	0.06	0.19	0.62	1.19	1.41	1.73
Excess Return	0.65	2.42	-1.72	0.99	1.83	2.65	3.73

Past performance is not a reliable indicator of future performance.

[1]Fund returns are calculated using the exit price (including sell spread), net of fees, assuming reinvestment of distributions and excludes franking credits and are calculated from the Fund's inception date of 31/05/13. The Benchmark is the RBA Target Cash rate. As at 31/07/2020,the RBA Target Cash Rate is 0.25% and the RBA Cash Rate is 0.13%. Excess return equals fund returns minus the benchmark. Target return is 2.5% + RBA Target Cash rate after fees and expenses. Individual returns will vary depending on date of initial investment.

Fund Features

- Global Investment Grade Bonds
- Diversified Fixed Income portfolio
- Regular distribution
- Capital stability

Rated By

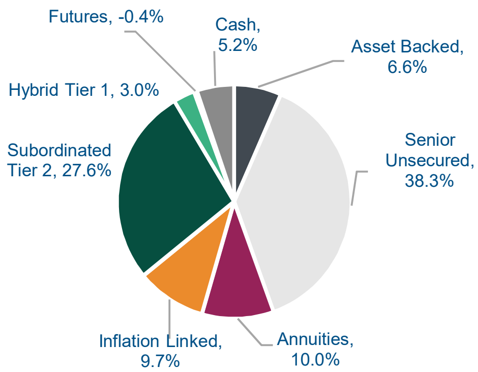
Quantitative

Qualitative

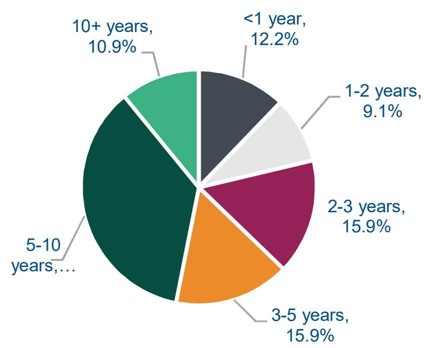
Pricing	
NAV	$1.0009
Entry price	$1.0059
Exit price	$0.9959
Fund statistics	
Interest rate duration[2] (years)	0.55
Spread duration[3] (yrs)	3.94
Current yield to maturity[4](pa)	3.01%
RBA Target Cash Rate (pa)	0.25%
Average credit rating[5]	BBB+
Key features	
Minimum investment (AUD)	$25,000
Applications & Redemptions	Monthly
Management Costs	0.94% pa
Distributions	Quarterly
Buy/sell spread[6]	0.5%/-0.5%

[2]Interest rate duration refers to the sensitivity of the price of the bond portfolio to changes in interest rate
[3]Spread duration refers to the sensitivity of the price of the bond portfolio to changes in the bond spread
[4]Yield to maturity is the estimated annual rate of return of a bond if held until maturity.
[5]Average portfolio credit rating is calculated through a weighted average of available average debt ratings from Moody's, S&P's and Fitch
[6]Buy/sell spread is retained in the fund to cover transaction costs associated with entry/exit to the fund. For further information please refer to the PDS.

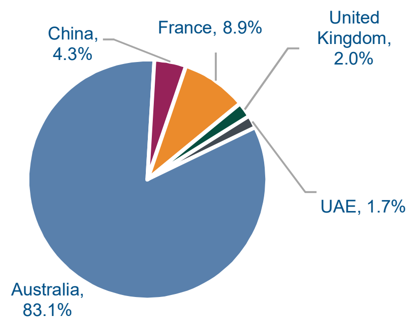
Portfolio composition



Expected Maturity[7]



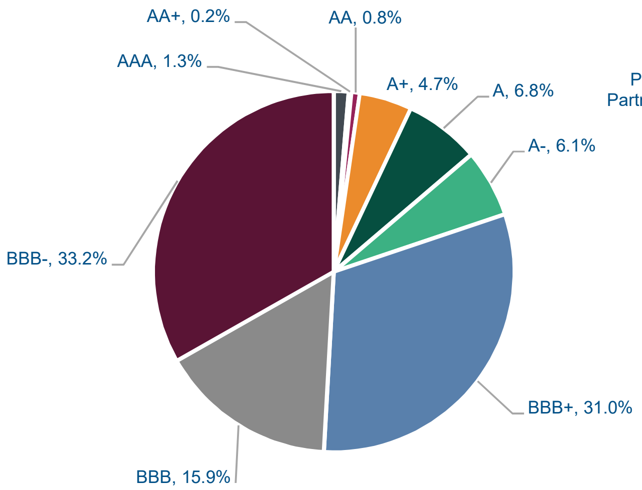
Geographical Exposure[8]



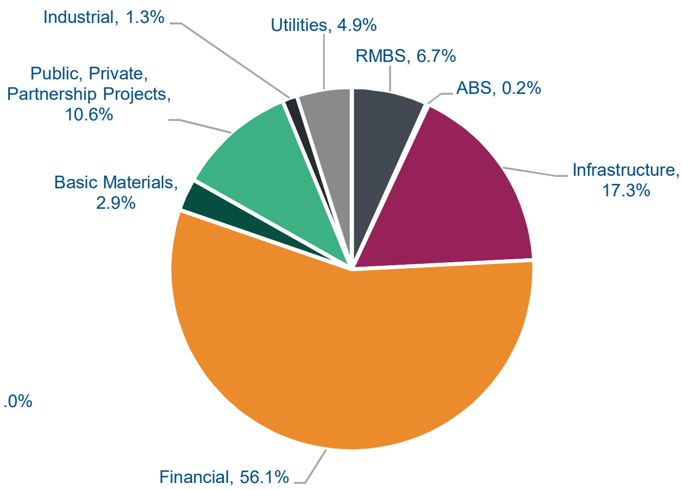
[7]Expected maturity is calculated through using the next call date, or if unavailable, the legal maturity date.

[8]Geographic exposure sourced from Bloomberg issuer location.

Rating



Industry



Portfolio Review

The Fund delivered a net return of 0.67% for the month of July, taking the 1-year return to 1.61%.

The positive return for the month of July was primarily driven by further credit spread tightening in the investment grade (IG) bond market. The largest contributors to performance were bonds with longer credit duration profiles, especially Senior Unsecured non-financial IG bonds, whose recoveries have lagged relative to their financial counterparts.

Australian major bank Tier 1 and Tier 2 bonds also contributed to this month performance, with credit spread contractions primarily driven by a shortage of new bond issuances from the major banks.

The Fund continued to benefit from the strong recoveries of IG bonds in the month of July, reflected in the mark-to-market valuation improvements of the IG bonds held in the Fund. The remaining contribution to the month's performance came mainly from the Fund's active portfolio management approach, which accounted for 22% of monthly performance by taking advantage of movements in IG bond prices.

Market Review

Resurgence of COVID-19 hampered market momentum in the month of July

Equity and credit markets continued their upward trajectory in the month of July, however positive market sentiment was dampened by the resurgence of COVID-19, weak global GDP figures for the second quarter of 2020 and deteriorating geo-political tensions between the US and China. The path of an economic recovery remains uncertain, with market volatility likely to remain elevated until infection rates become manageable, or until the successful development of a vaccine.

In the meantime, we expect fiscal and monetary support from governments and central banks to continue as authorities seek to avert any permanent economic damage from the COVID-19 pandemic.

The resurgence of COVID-19 will also put further strain on the cashflows and earnings of Australian corporates who have not yet recovered from the first wave of the pandemic. Credit markets remain concerned over economic fallout from further lockdowns, which together with weaker consumer consumption, could spill-over into small business and corporate solvency.

Investment grade bond markets continue to perform well

In the month of July, the ASX 200 recorded a positive return of 0.51% and the Bloomberg Ausbond Credit Floating Rate Notes 0+ Yr Index returned 0.42%.

The US IG bond market continued its stellar recovery, with a 12 month return of 11.28%, outperforming the US HY bond market which returned -1.77% over the same period. This was primarily due to prevailing risk sentiment and the confluence of central bank intervention within bond markets.

Performance of major equity and credit indicies

Market Indices	Price (31/7/20) ($)	1-Month Return (%)	3-Month Return (%)	6-Month Return (%)	12-Month Return (%)
ASX200	5927.78	0.51	7.34	-15.53	-12.99
AusBond Credit FRN[9]	2770.65	0.42	0.98	0.94	1.67
AUD/USD	71.43	3.67	9.49	6.74	3.81
ISHARES US IG ETF[10]	138.35	2.86	7.11	5.54	11.28
ISHARES US HY ETF[11]	85.39	4.62	6.17	-2.44	-1.77

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

[10] iShares IBoxx $ Investment Grade Corporate Bond ETF

[11] iShares IBoxx $ High Yield Corporate Bond ETF

Subdued economic conditions can lead to prolonged low interest rate policies from central banks

Weak GDP figures for the second quarter and high unemployment rates demonstrated the magnitude of economic challenges facing governments and central banks globally. With economic recovery hinging upon their on-going stimulus programs, government spending measures have resulted in higher government debt burdens and expanding central bank balance sheets.

So far, Australian sovereign bond issuance has been well supported by fixed income investors globally, with 10-year government bond yields at a historic low of 0.82%, and the RBA Cash Rate at 0.13%. The increased debt burden of governments will likely remain high for an extended period, with interest rates set to remain low.

Global macroeconomic data as at 31 July 2020

Country	CPI (%)	Unemployment (%)	Real GDP (%, QoQ)	Public debt (% of GDP)[13]
Australia	-0.3	7.4	-0.3[12]	59.4
China	2.5	3.7[12]	11.5	64.9
Germany	0.9	4.2	-10.1	68.7
United Kingdom	0.6	3.9[14]	-2.2[12]	95.7
United States	0.6	11.1	-32.9	131.2

Source: Bloomberg, IMF [12]March 2020 [13]April 2020 [14]May 2020

Australian major bank bonds continue to improve in the month of July

Credit spreads of Australian major bank senior unsecured and subordinated notes continued to tighten in the month of July. This was primarily driven by a dearth of supply, with little new issuance planned for the remainder of 2020.

However, performance of non-financial corporate IG bonds continues to lag behind Australian major bank bonds, with the credit spread differential remaining elevated between the two sectors.

The resurgence of COVID-19 in Victoria will further weaken fragile corporate balance sheets, especially for corporates which derive the bulk of their business revenue from the state. We expect further negative rating outlooks and movements to be announced by rating agencies in coming months, especially on those entities who were heavily impacted by the crisis and those which have highly leveraged balance sheets.

Market Outlook

The resurgence of COVID-19 and weak GDP figures for the second quarter of 2020 highlighted the uncertainties to the path of economic recovery.

Given the uncertain economic outlook, the Fund will continue to reposition the portfolio towards higher credit quality corporates and favour sectors less affected by COVID-19 and also those which will benefit the most from central bank monetary support. The Fund will also continue to participate in selected primary issuances which it sees value in.

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