Mason Stevens Wholesale Fixed Income Managed Portfolio

Performance Report: June 2020

MASON STEVENS

Quarterly Performance Report

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.

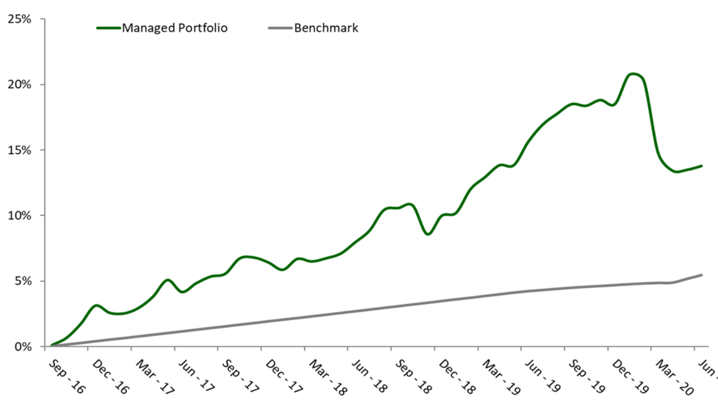
Fund performance as at 30 June 2020[1]

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	3yrs (%)	Since incep (%)
Fund	0.26	-0.86	-4.00	-1.61	2.98	3.48
Benchmark	0.01	0.04	0.19	0.64	1.21	1.27
Excess Return	0.25	-0.90	-4.19	-2.25	1.77	2.21

Past performance is not a reliable indicator of future performance.

[1]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 19/09/16, 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. 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



[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

[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.

Portfolio statistics	
Yield to call[2]	3.95%
Trading margin[3]	3.73%
Running yield[4]	4.05%
Term to call/maturity[5]	3.20yrs

Key features	
Investment universe	Bonds (corporate, bank, government), subordinated debt securities, hybrids, RMBS, ABS, FRNs, cash deposits, term deposits, Securities may be listed on an exchange or unlisted, including repackaged securities, CLNs and CDSs. It may include overseas securities
Benchmark	RBA Cash Rate
Target return	RBA Cash Rate + 3.00% pa, after fees
Cash weighting limits	1.5%-100%
Max non-rated/sub investment grade weighting	20%
Min initial investment amount	$200,000
Maximum foreign currency exposure	100%
Suggested timeframe	3-5 years +

Performance and portfolio review

The Managed Portfolio (MP) delivered a net return of 0.26% for the month of June, -0.86% for the past 3 months, and -1.61% for the past 12 months.

Returns for the quarter were driven by tightening credit spreads of investment grade (IG) bonds, especially Australian major bank Tier 2 bonds and those with longer credit duration profiles. Financial corporate bonds held by the MP also benefitted from accommodative global central bank monetary policy and government fiscal stimulus, performing relatively better than the non-financial bonds held by the MP.

The MP's USD bond holdings also delivered positive returns for the month of June in USD terms, with higher beta AT1 bonds rallying 2-3% in the month of June. However, gains were largely offset by the appreciating Australian Dollar (from 66.69c to 69.04c).

Throughout the quarter, the MP also increased its weighting in the NAB 31 Tier 2, as well as Société Générale's AT1 bond. The Managed Portfolio is fully invested to capture further credit spread tightening which is expected in the near term.

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[1]	2759.08	0.23	1.39	0.72	1.71
AUD/USD	0.6890	3.34	12.91	-1.91	-1.85
ISHARES US IG ETF[2]	134.5	1.88	8.9	5.11	8.15
ISHARES US HY ETF[3]	81.62	-0.97	5.9	-7.19	-6.38

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

[2] iShares IBoxx $ Investment Grade Corporate Bond ETF

[3] 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.

Global macroeconomic data as at 30 June 2020

Country	CPI (%)	Unemployment (%)	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

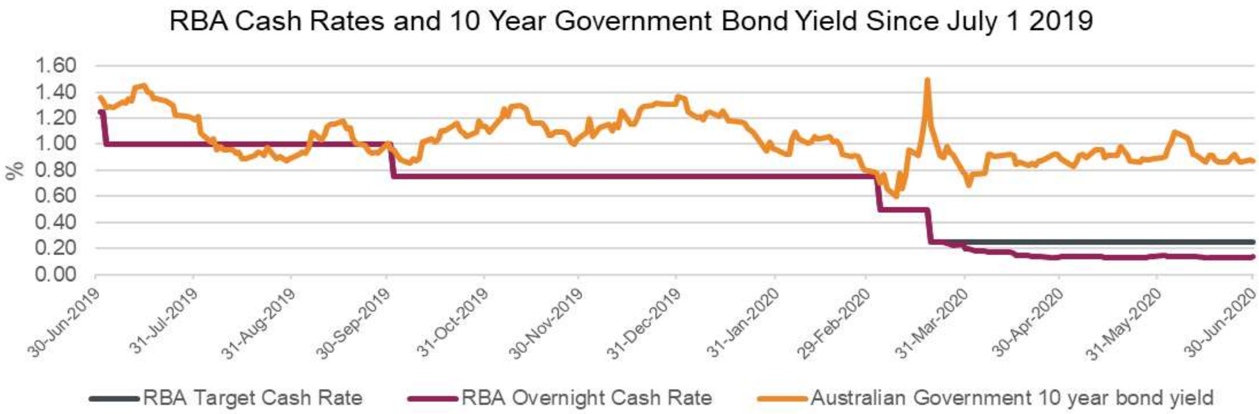
Due to extensive fiscal and monetary policy action, the full impact of the economic shutdown has yet to be realised in economic datasets.

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 a 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 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.

Investment team

Annie Zhao, Portfolio Manager

Vincent Hua, Portfolio Manager & Chief Investment Officer

Other members of the team include: Patrick Eng; Managing Director – Fixed Income; Leanne Leong, Managing Director – Finance & Credit; Peter Liau, 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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