Mason Stevens Australian Fixed Income Investment Mandate

Investment Mandate issuer:
Mason Stevens Limited
ABN 91 141 447 207, AFSL 351578

Investment Sub-Adviser:
Mason Stevens Asset Management Pty Limited
ABN 92 141 447 654

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Mason Stevens has appointed Mason Stevens Asset Management Pty Limited (MSAM) as Investment Sub-Adviser on the Investment Options outlined in this Investment Mandate.

Important Information

This Investment Mandate is issued by Mason Stevens Limited ABN 91 141 447 207 AFSL 351578 (Mason Stevens) as the Managed Discretionary Account (MDA) Provider of the MDA Service. Mason Stevens has appointed Mason Stevens Asset Management Pty Limited (MSAM), ABN 92 141 447 654, as Investment Sub Adviser on the Investment Options outlined in this document. MSAM is a Corporate Authorised Representative (CAR 461312) of Mason Stevens.

In this document, **MDA** refers to a Managed Account provided by Mason Stevens which follows the investment strategy and parameters of a portfolio as defined in the Investment Guide section of this document.

This document is produced without consideration of the investment goals, needs or financial circumstances of any person who may read it. If you are a retail investor, you must obtain personal advice from a licensed financial adviser on whether a particular Investment Option is appropriate for you given your personal goals, needs and financial circumstances.

Investment involves risk, potentially resulting in (but not limited to) delays in payment of withdrawal proceeds and the loss of income and capital invested. Past performance is not necessarily indicative of future performance. Mason Stevens, MSAM, and their respective directors, officers, employees, subcontractors and associates do not assure or guarantee the capital value of your investments will be maintained, or the investment performance of any investments acquired through this MDA Service.

Where there are references to data provided by third parties, neither Mason Stevens nor MSAM has control over that data and nor do they accept any responsibility for verifying or updating that data. MSAM and their respective directors, officers, employees and associates may from time to time hold interests in investments of, or earn fees and other benefits from, corporations or investment vehicles which may be held in your Investment Options.

MSAM consent to statements in this document attributable to them or referring to them, and have not withdrawn their consent. MSAM have confirmed the statements attributable to them or referring to them are not misleading or deceptive at the time of issue.

All amounts in this document are in Australian dollars and all fees are inclusive of GST net the effect of any reduced input tax credits. This document should be read in conjunction with the Mason Stevens Financial Services Guide **(FSG)**, the Mason Stevens Global Investment Service Guide **(Guide)** including the Mason Stevens MDA Service Terms (which together form the Investment Mandate).

The FSG contains information on Mason Stevens and the MDA Service and is available at **masonstevens.com.au/fsg**. This document is incorporated by reference into the Guide which contains important information on the fees and costs you pay when you establish an account with Mason Stevens and use the MDA Service. It also contains information on how to operate your account and how to contribute into your account once it is opened. It is available at masonstevens.com.au/investorguide. If you are unable to access the online information, your adviser or Mason Stevens can provide the information free of charge.

About Mason Stevens Asset Management 1

1.1 About Mason Stevens Asset Management

MSAM is the investment management arm of the Mason Stevens Group. MSAM was established to provide investors with the opportunity to access professionally managed investment strategies and funds that are typically reserved for institutions and professional investors.

MSAM works with a range of clients including financial advisers, financial intermediaries, family offices and selected wholesale investors in the delivery of tailored investment solutions.

MSAM's management team has many years of senior management and transactional experience in the banking, finance and investment sectors, spanning multiple business cycles and across a range of asset classes, combined with a track record of successfully managing their own wealth.

For information on the Mason Stevens' investment management team, please visit the Mason Stevens website at https://www.masonstevens.com.au/about-us/meet-theasset-management-team/.

Investment Guide 2

2.1 Managed portfolio objective

The principal objective of the Mason Stevens Australian Fixed Income Managed Portfolio (Managed Portfolio) is to invest in a portfolio of AUD denominated securities that aims to achieve high risk adjusted returns, while delivering regular cash-flow streams via income from coupons with minimal capital volatility.

The Managed Portfolio will have a focus on income and preservation of capital. The target return of the portfolio is RBA Cash + 2%p.a., after fees, with a suggested investment time frame of 3-5+ years. It is a Managed Portfolio of 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.

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.

2.2 Investment process

The Managed Portfolio seeks to invest in a risk-adjusted portfolio of AUD-denominated fixed income securities unless stated otherwise. Account monies are invested as per the securities and weights as defined in the Managed Portfolio, with the Managed Portfolio reflecting the current investment views and strategies of the MSAM investment team.

While the primary investment strategy is to actively monitor, manage and reposition a portfolio of securities that meets the investment objectives over the suggested investment time frame, the MSAM investment team will act on shorter term market opportunities it has identified to maximise returns. The Investment Sub-Adviser will have full discretion over the timeframe of when monies are invested and will determine security selection based upon the following criteria:

- Assessed quality of the underlying business, including appropriate ratio analysis;
- Sustainability of coupons or other distributions (if applicable);
- Rating of the underlying issuer and rating of the specific issue, if any;
- Balance sheet ranking, if applicable;
- Liquidity of the particular issue;
- Duration of the particular issue; or
- Historical volatility of the underlying securities.

In addition to in-house capabilities, the Investment Sub-Adviser will draw on a wide range of research sources.

This will include leading analysts from the major broking houses and investment banks, company briefings and meetings with company executives and independent specialist Australian and international market analysts.

Unless stated otherwise, all securities in the portfolio must have a minimum rating of investment grade or higher by a reputable rating agency at the time of purchase.

It is expected that the performance will be predominantly income in nature however capital gains (and losses) can also be made.

2.4 Portfolio Parameters

Mason Stevens Australian Fixed Income Managed Portfolio

Feature	Description
Name	Mason Stevens Australian Fixed Income Managed Portfolio
Investment Sub-Advisor	Mason Stevens Asset Management
Inception 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
Investment objective	Aims to provide a return of RBA Cash + 2%p.a. (after fees)
Investment manager fee	0.55%
Transaction fees	Nil
Minimum number of investments	5[1] (subject to market conditions)
Maximum number of investments	Investment Sub-Adviser discretion, however, the Managed Portfolio is unlikely to exceed 50 securities
Minimum cash weighting	1.5%
Maximum cash weighting	100%
Maximum individual security weighting	25%
Minimum security rating	BBB-/Baa3 by a reputable rating agency
Sub-investment grade holding limit	10%[2]
Maximum Major Australian Bank Additional Tier 1 Hybrid/Preferred Equity Weighting	30%
Rebalancing	Investment Sub-Adviser discretion
Minimum initial investment	$20,000
Minimum additional investment	$5,000
Minimum withdrawal	$5,000
Suggested investment timeframe	3-5 years+

1 The Investment Sub-Adviser, at its discretion, may from time to time elect to shift the investment portfolio to a higher weighting in cash to accommodate prevailing or expected negative market conditions. During these occasions, the “cash weighting” mandate requirements will supersede the “Minimum number of investments” mandate requirement.

Please note these parameters are not absolutely fixed at all times. The Investment Sub-Adviser targets these parameters but small variations may develop from time to time due to corporate actions, market share prices, index changes and delays in rebalancing due to the Investment Sub-Adviser minimising turnover of your investments. The timing of additional investments in your Managed Account may also lead to short-term different balances of cash and securities. Mason Stevens will give you reasonable notice of any significant change to these parameters.

Unless otherwise defined in these portfolio parameters, given the nature of fixed income markets, the Investment Sub-Adviser will bring any breaches back within these defined parameters, on a best endeavours basis.

2 Apart from a Major Australian Bank Additional Tier 1 Hybrid/Preferred Equity security, any new investment must initially have an investment grade weighting assigned to it by an external credit rating agency.

Risk of investing 3

Before you make an investment decision, it is important that you understand the risks that can affect your investment. You must be prepared for the risk that your investment does not meet your investment objectives or you lose money on your investment.

Specific investment risks apply to all investments that may have an effect on the value of your Investment Option. The risks of investing in the Investment Options may include, but are not limited to, the following factors:

- Market Risk – Unexpected conditions (i.e. economic, technological or political) can have a negative impact on the returns of all investments within a particular market. General movements in local and international stock markets, prevailing and anticipated economic conditions, investor sentiment, interest rates and exchange rates could all affect the value of listed securities and the investment returns.
- Company or security specific risk – Risks which could affect the value of a specific security, such as a fall in the profit performance of a company, may impact adversely on its share price and may also affect the interest rate it has to pay to borrow funds, which in turn, can affect the value of its debt securities.
- Currency risk – If any international assets held by the Investment Options are unhedged, a rise in the Australian dollar relative to other currencies will negatively impact investment values and returns. Currency markets can be extremely volatile and are subject to a range of unpredictable forces.
- Derivatives risk – A derivative is a financial instrument which has characteristics derived from an underlying asset or index. Typically the derivatives are either cash settled or are realised by being closed out with a derivative of the opposite nature. Derivatives may be used by investment managers or managed funds to protect against changes in market value of existing investments, to simulate an investment position without purchasing or selling the underlying asset, to partially or substantially manage against various risks such as credit and interest rate risks or to gear an investment or a portfolio. The use of derivatives brings additional risks. These risks include the failure of the value of derivatives to move in line with the underlying asset, a derivative position may be costly to reverse, the parties/counterparties associated with the derivative contract do not fulfil their obligations, and derivatives may be impacted by market liquidity. Derivatives which are a leveraged investment can increase your potential losses and gains in relation to movements in the price of the underlying assets. Exchange traded derivatives, including the ETOs available for the Investment Option, do not remove all of the general risks of derivatives, and may have their own risks. Before investing in any derivatives instrument you must fully understand and accept the risks involved.
- Sophisticated product risk – The use of sophisticated financial products, such as derivatives including ETOs has the potential to cause losses that are large in proportion to the money invested in them. Such products may also have embedded leverage thereby potentially magnifying further losses. The cost of using such financial products may also reduce returns. The Investment Option may also invest in the above products and their use has the potential to cause losses that are large in proportion to the money invested in them or even unlimited losses. Before investing in any derivatives instrument you must fully understand and accept the risks involved.
- Custody and margining risk – Mason Stevens is custodian for derivatives held for all of its clients, including for accounts which do not include these Investment Options. While Mason Stevens allocates derivatives to its clients in its records, as with other investment, the derivatives may be aggregated in the accounts of sub-custodians and clearing participants of exchanges. This can lead to derivative assets which are beneficially held for a client being available to meet the margin or other exchange obligations arising due to other derivatives held for Mason Stevens in the same account. This can expose a client's assets to being lost, due to meeting those other obligations (i.e., without any default by the client).

Other risks of investment include:

- Interest rate risk – Changes in interest rates can influence the value and returns of investment in the Investment Option.
- Credit risk – Any change in the market perception of the creditworthiness of a security or the credit rating of the issuer of the security may affect the security's value.
- Investment Sub-Adviser risk – This is the risk that the Investment Sub-Adviser may not achieve their stated investment objectives or that changes in the investment team may impact on the performance of the Investment Sub-Adviser.

- Liquidity risk – The risk that the Investment Option may experience difficulty in realising its assets.
- Time horizon risk – There is no assurance that in any time period, particularly in the short term, a Investment Option will achieve its investment objectives. Many of the underlying assets may be volatile particularly over the short term. The Investment Option is suitable for long term investors and is not designed for short term investment.
- Income risk – The level of income generated on the Investment Option's investments can fall as well as rise and the tax status of such income can change.
- Asset risk – Asset risk is the risk that a particular asset or asset class in which the Investment Option invests may fall in value, which may have an impact on the value of the Investment Option.
- Diversification/Concentration risk – If your Investment Option is concentrated into one investment or sector, a fall in that investment or sector may have a significant adverse effect on your total Investment Option. Diversification is used as a strategy aimed at reducing the impact that volatility in one investment or sector will have on the performance of your overall Investment Option. The Investment Option will have a relatively higher concentration over time of listed securities but it is not possible to advise in advance the levels of concentration or diversification of issuers, types of investments or industry sectors.
- Inflation risk – Your investment may not keep pace with inflation. Broadly, this could mean that prices may increase more than the value of your investments in the Investment Option and if this risk eventuates, you would not be able to buy as much with the value of your investments in the future as you could now.
- Investment risk – All investments have an inherent level of risk. The general expectation is that a high risk investment offers a higher expected return on investment. Investment risk may result in performance less than you expect or the loss of all of the capital invested or reduction in or no income and possible delays in repayment. Whilst it is the intention of the Investment Sub-Adviser to implement strategies designed to minimise potentiallosses, there can be no assurance that these strategies will be successful.
- Specific portfolio risk – The Investment Sub-Adviser's investment approach may result in a Investment Option that differs substantially from an industry benchmark and hence the Investment Option's investment returns may also differ substantially from industry benchmark returns.
- Third party risk – The MDA Provider uses information and services provided by third parties such as sub-custodians and other service providers.Procedures are in place to address risks associated with outsourcing, such as having comprehensive service agreements with service providers. If a service provider advises of an error, it is corrected and if material, it will generally be communicated to you or your advisor (or both).
- Systems and technology risk – The MDA Provider relies on the integrity and reliability of the Investment Option trading and administration systems used to manage your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have back-up arrangements and business continuity plans. In the event that the systems fail there may be delays in processing transactions or in accessing your investment capital and investment returns may differ from those that would have been achieved.

Please note that the risks identified are not meant to be exhaustive as it is not possible to identify every risk factor associated with investing. The appropriate level of risk for you will depend on various factors including your age, investment timeframe, other investments you may hold, and your level of risk tolerance. Investors who have concerns regarding any of the above risk factors, or any other applicable risks, are encouraged to contact their financial adviser.