Mason Stevens Australian Fixed Income Managed Portfolio
Performance Report as at 31 August 2024

Investment objective and strategy

The investment objective of the Managed Portfolio is to provide investors with a return that outperforms the RBA Cash Rate by 2% pa after fees over a time horizon greater than three years.

It will seek to achieve this by investing in a 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.

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.

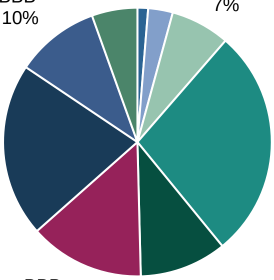
Portfolio performance as at 31 August 2024[1]

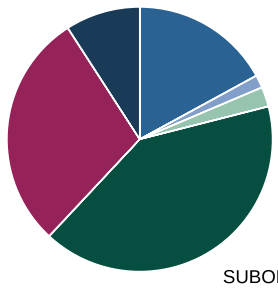
	1 month	3 months	6 months	1 Year	2 Year (p.a.)	3 Year (p.a.)	5 Year (p.a.)	Since inception (p.a.)
Portfolio	**0.58%**	**1.96%**	**3.50%**	**7.31%**	**6.07%**	**3.17%**	**3.25%**	**4.24%**
Benchmark	0.37%	1.10%	2.22%	4.41%	3.90%	2.71%	1.73%	1.64%
Excess Return	0.21%	0.86%	1.28%	2.90%	2.18%	0.46%	1.52%	2.60%

Portfolio statistics and composition

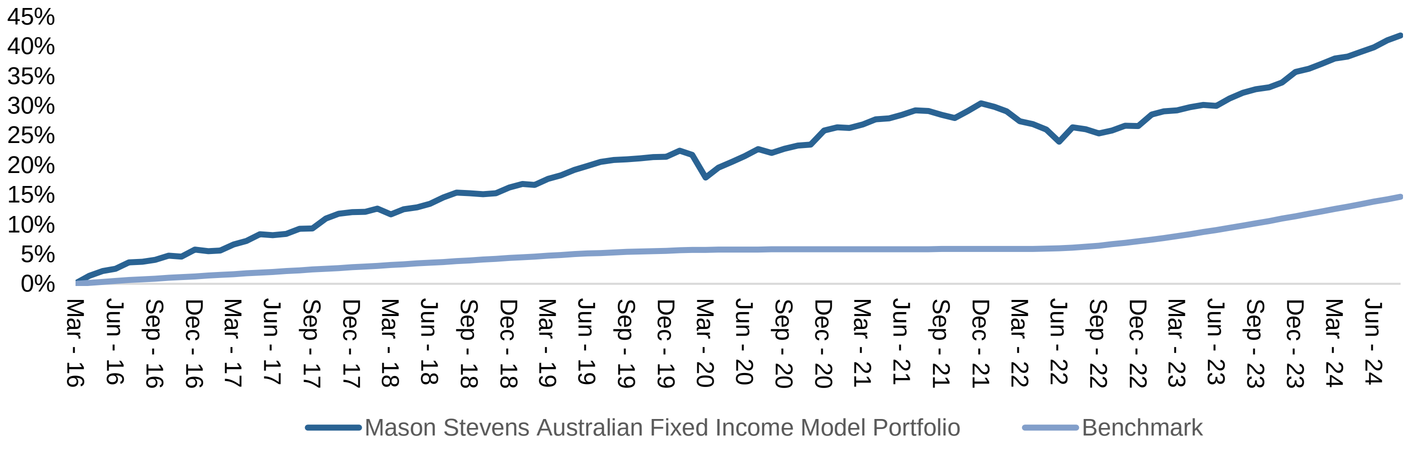
Portfolio Statistics*	
Yield to call[2]	5.74%
Running yield[3]	6.83%
Term to call/maturity[4]	1.73
Interest Rate Duration	0.82
Average Rating	A-

*Ex cash





Performance since inception



Past performance is not a reliable indicator of future performance.

1 Benchmark is 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). Where performance is greater than one year, performance returns are annualised. 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.

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

3 Annual income on a bond divided by its current market value. Includes any applicable franking credits and expected cash distribution.

4 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.

Performance and portfolio overview

The portfolio returned 0.58% (after fees) during the month with long end rates dropping aggressively coupled with a mild widening in credit spreads. The RBA remained on hold and again communicated a data dependent process, however in September it was more balanced between a hike and a cut, i.e. neither were on the table. Last month's CPI release provided much relief in turning back down, although on a core basis remains too high. Domestically, credit spreads were wider at the margin. New issuance was strong for another month, with investors still keen to put cash to work.

The portfolio performed reasonably well due to some capital returns and supported by long end rates dropping and predictable carry. The portfolio will continue to deliver strong carry with potential for upside in capital returns, although some moderation is expected in the short term. Interest rate duration was 0.82 with a weighted average credit duration of ~1.73.

The main trades during the month included selling the Barclays fixed rate and buying the Liberty 2023 RMBS, which helped to take advantage of the large reduction in long end rates and rotating into a relatively short dated higher carry position.

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+
Minimum security weighting	BBB- / Baa3 by a reputable rating agency
Min investment	$20,000 (or as agreed by the Investment-Sub Adviser)
Suggested timeframe	3-5 years +
Portfolio Manager	**Lloyd Mitchell** – Head of Fixed Income & Markets, Mason Stevens
Portfolio management	The Managed Portfolio is managed by Mason Stevens Asset Management Pty Limited (MSAM) as Portfolio Manager. MSAM is part of the Mason Stevens group of companies.

Market outlook

The sharp correction in stocks in July/early August was due to several factors, with the most important one being softer-than-expected economic growth data that culminated in a weak employment report on August 2. In particular, the 0.2pp increase in the unemployment rate is what triggered the Sahm Rule and caused markets to worry again about a hard landing.

Since then, we have received some better economic data led by jobless claims, retail sales and the ISM non-manufacturing survey (though some data has been softer, too). As a result, many equity market indices have rallied back to near all-time highs, while the bond market, yen and commodities reflect lingering suspicions that the coast might not be clear. Even equity market "internals" like cyclical versus defensive stocks have failed to rebound much at all, while lower-beta stocks continue to show very resilient performance amid the mixed data on both the macroeconomic and microeconomic fronts.

Over the past month, it has become clear that inflation is no longer the only risk on the Fed's radar. Confidence in the disinflation progress has increased, with personal consumption expenditures (PCE) inflation now under 3%. However, concerns about downside labour market risks have grown following the softer-than-expected July jobs data. The Fed seems intent on keeping the "soft landing" as was evident in the last Fed meeting where they reduced rates by 50bp and maintained reasonably healthy economic and labour market forecasts. If the labour market continues to hold up rather than collapse, rate cuts should be seen as "normalising" rather than "easing."

The challenge for credit investors is that markets are trading near spread tights, however investors still see value in carry across investment grade and high yield. With downside risk if growth falters, there is a lot riding on upcoming labour reports. However for now job losses and claims remain well contained. Similarly in Australia although GDP per capita is negative (and weaker versus the US), the jobs market is still well above pre-COVID levels.

This is very different than the corrections we experienced in 2022 and most of 2023 when inflation, rather than growth, was the main risk for risky assets. In a late-cycle, soft-landing outcome in which the Fed is cutting rates due to growth concerns and relative labour market weakness, quality credit will be a good place to be. In Australia the core inflation task is far from over, however rates can be seen as getting cut in potentially six or more months' time. Credit spread relative value is similarly rich in Australia and a more selective approach is probably more appropriate now than over the last one to two years both here and the US.

The Managed Portfolio is managed by Mason Stevens Asset Management Pty Limited (MSAM) ABN 92 141 447 654, as the Investment Sub- Adviser. MSAM is a Corporate Authorised Representative (CAR 461312) of Mason Stevens Limited. 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 available at masonstevens.com.au

About Mason Stevens
Mason Stevens is a specialist wealth platform provider that focuses on Managed Account (MA) solutions. The company offers Outsourced CIO (Chief Investment Office) services that complement the platform and MA solutions. Established in 2010, Mason Stevens is led by some of Australia's most experienced finance and investment professionals. With offices in Sydney and Melbourne, Mason Stevens has a dedicated team of over 80 professionals committed to providing exceptional services nationwide.

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