Mason Stevens Credit Fund

Performance Report as at 30 April 2022

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 30 April 2022[1]

	1mth (%)	3mths (%)	6mths (%)	1yr (%)	3yr (% p.a)	5yr (% p.a)	Since incep (% p.a)
Fund	0.26	-0.89	-0.83	0.20	2.96	3.22	4.98
Benchmark	0.01	0.01	0.02	0.04	0.32	0.80	1.39
Excess Return	0.25	-0.90	-0.85	0.16	2.64	2.42	3.59

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 Cash rate. As at 30/04/2022, the RBA Target Cash Rate is 0.10% and the RBA Cash Rate is 0.06%. Excess return equals fund returns minus the benchmark. Target return is 2.5% + RBA 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

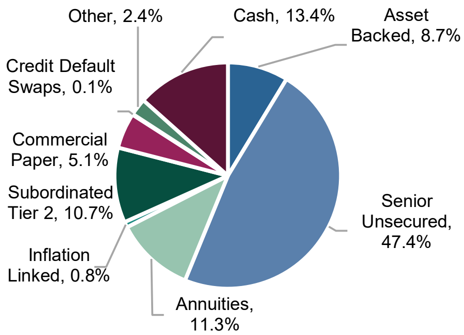
Superior

Qualitative

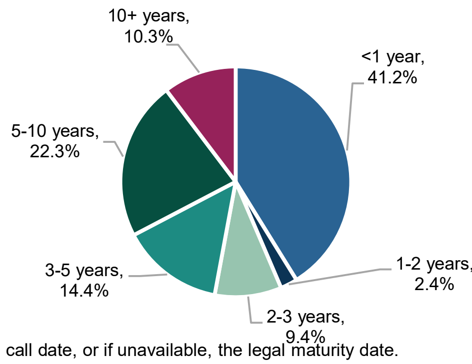
Pricing	
NAV	0.9783
Entry price	0.9832
Exit price	0.9734
Fund statistics	
Interest rate duration[2] (years)	-0.10
Spread duration[3] (yrs)	1.08
Current yield to maturity[4] (pa)	3.81%
RBA Cash Rate[5] (pa)	0.06%
Average credit rating[6]	BBB+
Key features	
Minimum investment (AUD)	$25,000
Applications & Redemptions	Monthly
Management Costs	0.94% pa
Distributions	Quarterly
Buy/sell spread[7]	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]Interest rate which banks pay to borrow funds from other banks in the money market on an overnight basis.
[6]Average portfolio credit rating is calculated through a weighted average of available average debt ratings from Moody's, S&P's and Fitch.
[7]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.

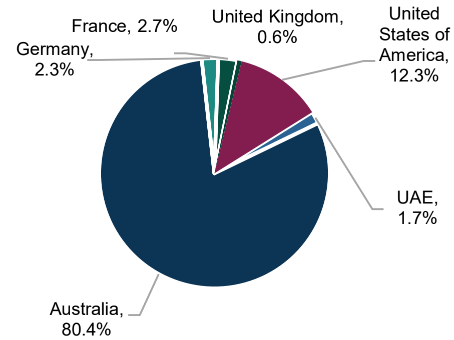
Portfolio composition



Expected Maturity[8]



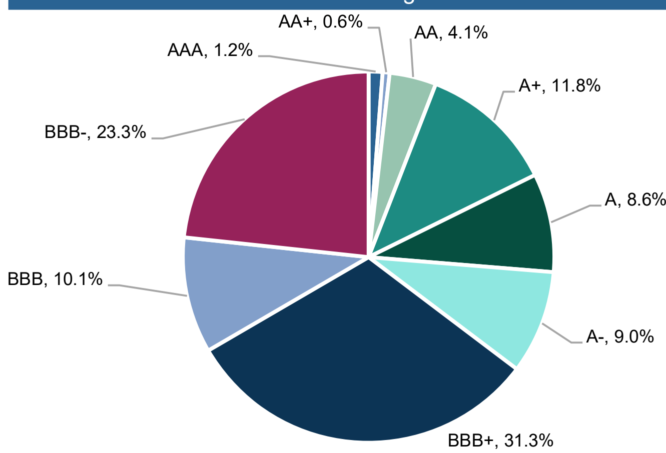
Geographical Exposure[9]



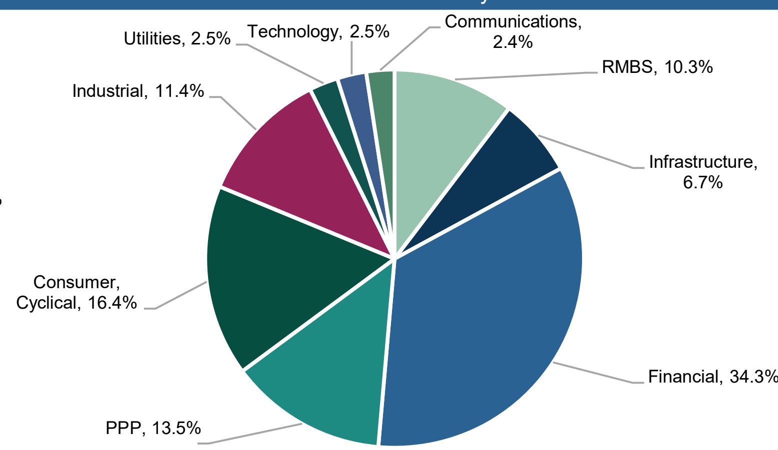
[8]Expected maturity is calculated through using the next call date, or if unavailable, the legal maturity date.

[9]Geographic exposure sourced from Bloomberg issuer location.

Rating



Industry



Portfolio Commentary

The investment team further de-risked the portfolio over the month of April, in response to the continued unfavourable market conditions.

The primary focus of this more defensive strategy was to reduce capital volatility within the portfolio through the continued reduction of credit spread duration, given that the Fund was already running a neutral to negative interest rate duration strategy.

The continued sell down of the Fund’s higher beta positions - primarily the ongoing sell down of its subordinated debt and longer dated fixed rate bond positions - combined with hedging through credit default swaps, allowed the investment team to reduce the portfolio’s credit spread duration to 1.08yrs, down from 3.48yrs at the start of the month.

In order to reduce cash-drag as a result of recent sales, the investment team re-deployed the majority of the cash into shorter dated bonds with generally less volatility. The investment team currently views short-dated bonds (less than 18 months) as attractive given their more rapid value accretion as these securities move towards maturity and their par value, offsetting any adverse mark-to-market moves and realising yield for investors more rapidly.

Despite the ongoing market volatility, the Fund, through the defensive strategies deployed, has been able to immunise the portfolio from these extreme market conditions while being able to maintain a robust level of carry to support returns.

While market volatility continues, and the Fund will continue to re-balance the portfolio in response to these conditions and evolving view, the silver lining is that the portfolio’s yield has risen through this period, and as such, the expected returns of the Fund. The Fund continues to invest in high quality investments and as such, remain confident that it will meet its target return objective.

Portfolio Commentary (cont.)

The portfolio's yield to maturity is 3.81%, and well over the target return of RBA cash + 2.5%. This higher yield level combined with a portfolio that has de-risked, provides a stronger attractive risk adjusted return profile for investors.

Market Commentary

Volatile market conditions continued during the month of April.

Inflation and geo-political uncertainty remained the key drivers of continued market fear, as rising government bond yields drove financial markets continuing through April.

Central bank 'hawkish' tone increased and became more geographically widespread, with Australia no longer being able to support its more 'measured' tone, raising official interest rates by 0.25% in its most recent May meeting, with the Governor apologising for its past communications around maintaining a 'neutral' interest rate policy until 2024.

More broadly, the US Fed continued to be beholden to playing 'catch up' monetary policy, communicating a more aggressive rate hike strategy in response to correcting the growing real wage-price disparity, where US CPI has accelerated in recent months, with a rising fear that the Fed is behind where they should be.

According to market pricing as of the writing of this report, the US Fed is forecast to raise official interest rates to 2.72% over the remainder of the 2022 calendar year, utilising a number of 50bp rate hikes to get their cash rate towards that level, sooner.

It's also expected that the Fed will finesse the movement of their cash rate by hiking in 25bp increments above 2%, so as to ameliorate the chance of a 'hard landing', by hurting the broader economy.

Performance of major equity and credit indices and macroeconomic data as at 30 April 2022

Market Indices	Price (30/04/22) ($)	1-Month Return (%)	3-Month Return (%)	6-Month Return (%)	12-Month Return (%)
ASX200	7435.01	-0.86%	6.65%	1.52%	5.82%
AusBond Credit FRN[10]	2788.36	-0.05%	-0.35%	-0.31%	-0.16%
AUD/USD	70.61	-5.63%	-0.01%	-6.08%	-8.49%
USD Liquid IG Index[11]	299.43	-6.61%	-11.00%	-14.46%	-11.75%
USD Liquid HY Index[12]	305.34	-3.94%	-5.43%	-7.18%	-5.61%

[10]Bloomberg Ausbond Credit Floating Rate Notes 0+ Yr Index [11]iBoxx USD Liquid Investment Grade Index [12]iBoxx USD Liquid High Yield Index

Rates	30/04/2022 (%)	31/03/2022 (%)	31/01/2022 (%)	31/10/2021 (%)	30/04/2021 (%)
US 10 Year Treasury	2.93	2.34	1.78	1.55	1.63
Australian 10 Year Treasury	3.13	2.84	1.90	2.09	1.75
RBA Cash Rate	0.06	0.09	0.05	0.03	0.03
1M BBSW	0.21	0.01	0.01	0.01	0.02

Country	CPI (%, YoY)	Unemployment (%)	Real GDP (%, QoQ)	Gross Public Debt (% of GDP)
Australia	5.1[15]	4.0[15]	3.4[13]	60.1
China	2.1	4.0[13]	1.3[15]	77.8
Germany	7.4	2.9[15]	0.2[15]	70.9
United Kingdom	7.0[15]	3.8[14]	1.3[13]	87.8
United States	8.5[15]	3.6	-1.4[15]	125.6

Source: Bloomberg, IMF [13]Dec 2021 [14]Feb 2022 [15]Mar 2022

Taper Tantrum 2022

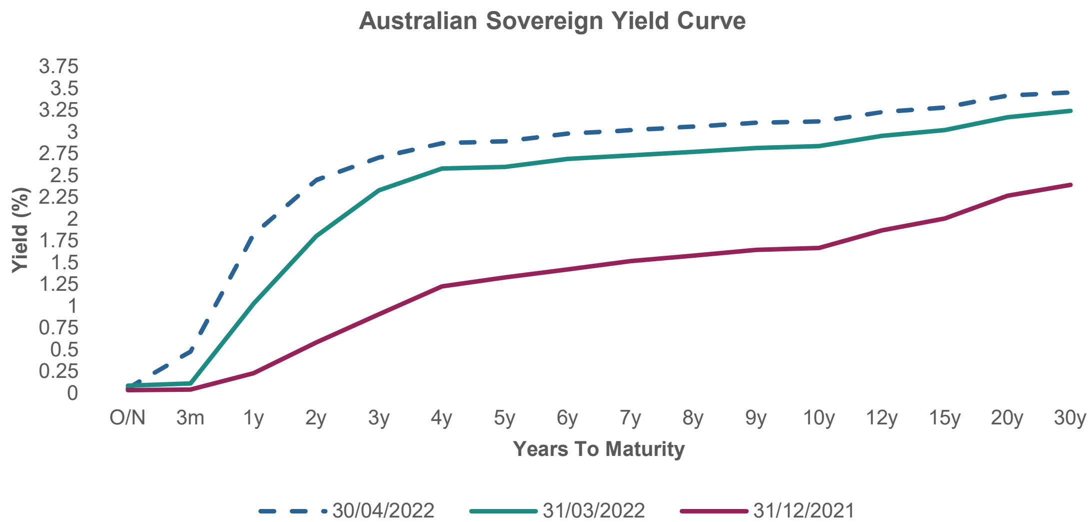
To put the recent move of bond yields in perspective, we can compare the move to the 2013 'Taper Tantrum'.

In 2013, US 10y yields rose from 1.63% on 30/4/2013 to 3% on 5/9/2013, a +1.37% move in 128 days.

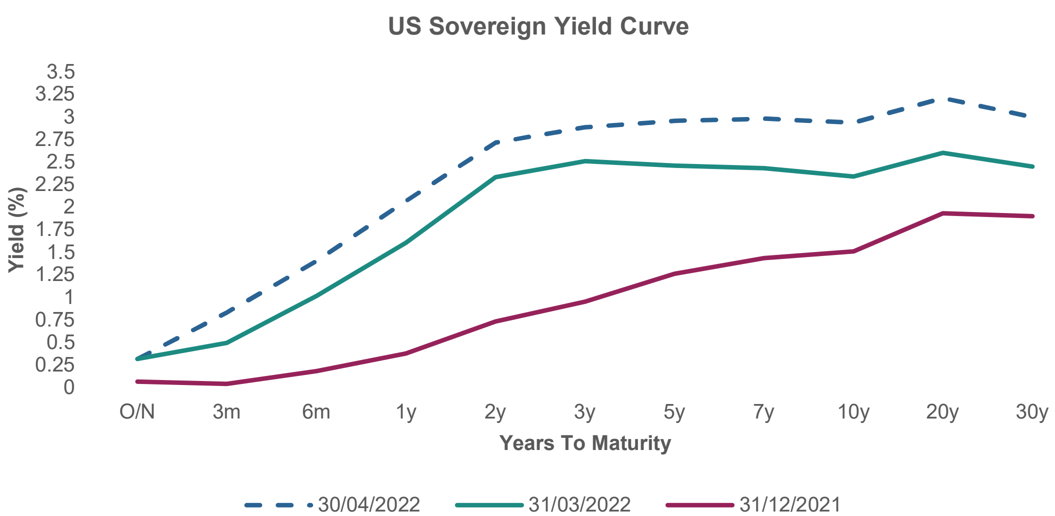
In 2022, US 10y yields rose from 1.51% on 1/1/2022 to 3.13% on 6/5/2012, a +1.62% move in 125 days.

The Bloomberg Ausbond 0+yr Composite index continued its decline in April, dropping a further 1.49%, extending the worst decline by the index, since inception.

Internationally, the Bloomberg Global Aggregate Index declined 5.48% in April, also the largest monthly decline since its inception in 1990.



Source: Bloomberg, Mason Stevens

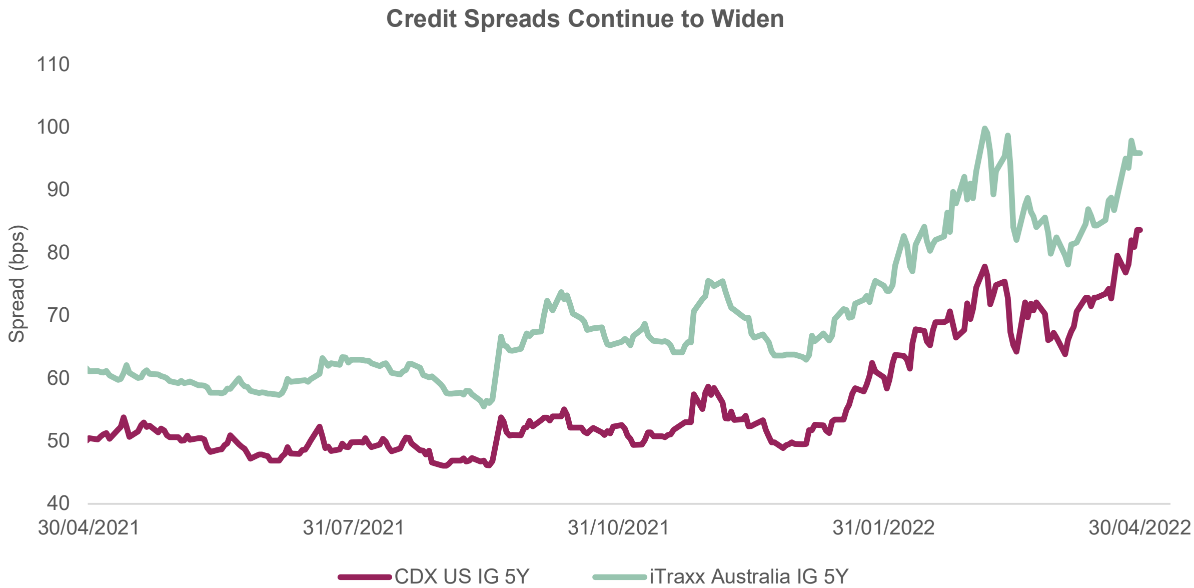


Source: Bloomberg, Mason Stevens

Credit spreads continued to move wider over the month, as higher risk-free rates (government bond yields) push corporate borrowing costs higher, as well as expected (future) borrowing costs, slightly increasing default risks.

The swiftness of rising government bond yields is now starting to effect credit spreads, where securities with lower credit ratings and/or longer terms to maturity are adversely impacted relative to higher grade or shorter-term securities.

We view this as a 'flight to quality' style movement, an internal rotation within bonds where investors seek relative higher quality securities.



Source: Bloomberg, Mason Stevens

Uncertainty remains a key driver for interest rate and credit market sentiment.

As such, we expect volatility to remain over the medium term, with wider trading ranges for financial markets.

The silver lining from the recent sharp sell-offs in the fixed income market is that expected future returns are some of the highest we have seen in a number of years. At the time of writing this report, Australian 10-year bonds are currently yielding over 3.40%, up from just 1.25% 8 months ago. Credit spreads are also trading wider from their 10-year averages, feeding directly into improved bond yields

The investment team will continue to position the portfolio in a defensive manner and take advantage of short-term opportunities, with the excess liquidity it has.

We continue to thank you for being an investor in the Fund.

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