

Investment objective and strategy

The principal objective of the Managed Portfolio is to invest in a portfolio of AUD denominated securities that delivers superior risk adjusted returns, and regular cash-flow streams with minimal capital volatility. The Managed Portfolio is constructed and regularly reviewed to reflect the current views and strategies of the investment team, including qualitative, quantitative, portfolio 'fit' and market technical factors.

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 30 November 2023¹

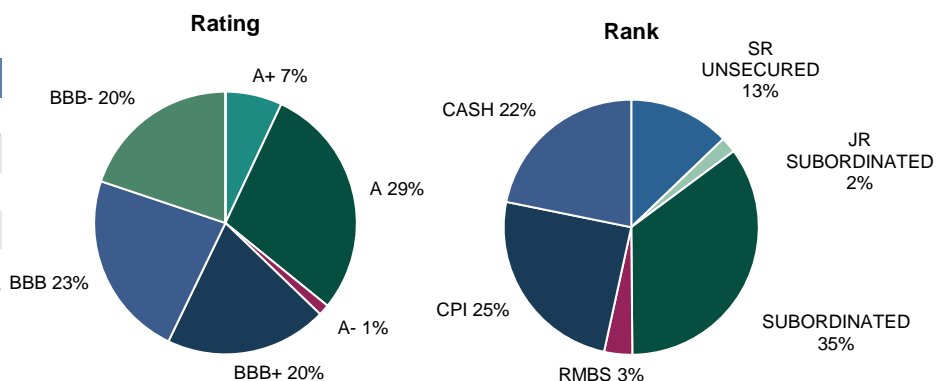
	1 month	3 months	6 months	1 year	3 Year (p.a)	5 Year (p.a)	Since inception (% pa)
Portfolio	0.72%	0.66%	1.54%	4.73%	3.33%	3.39%	4.11%
Benchmark	0.35%	1.04%	2.09%	3.82%	1.60%	1.27%	1.37%
Excess Return	0.37%	-0.38%	-0.55%	0.91%	1.73%	2.12%	2.74%

Portfolio statistics and composition

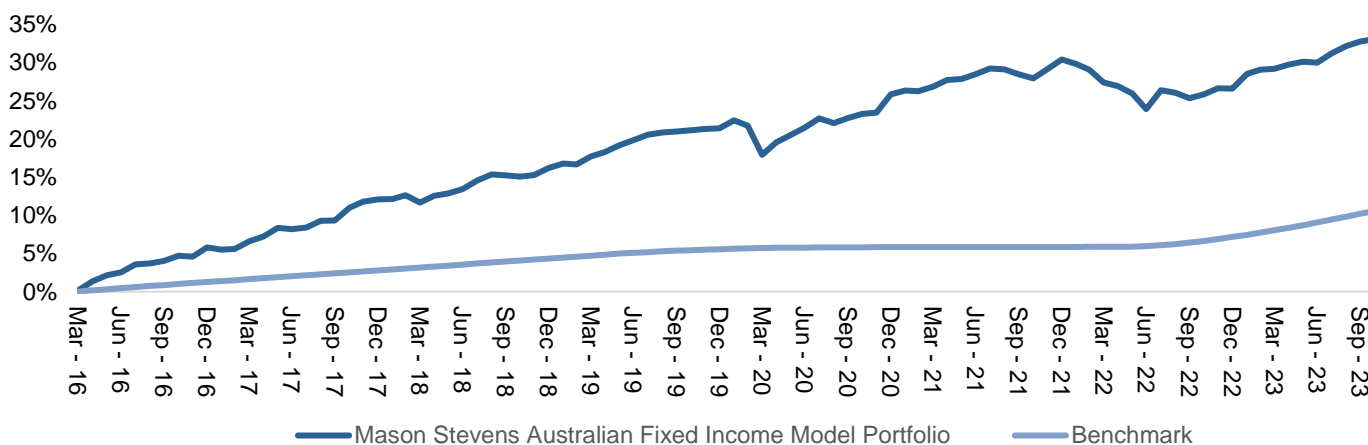
Portfolio Statistics*

Yield to call ²	5.28%
Running yield ³	5.73%
Term to call/maturity ⁴	3.23
Interest Rate Duration	1.30
Average Rating	BBB

*Ex Cash



Performance since inception



Past performance is not a reliable indicator of future performance.

- 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). 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.
- Yield to call is the estimated annual rate of return of a bond if held until its call date
- Annual income on a bond divided by its current market value. Includes any applicable franking credits and expected cash distribution.
- 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 is well positioned to deliver higher returns as the rate hiking cycle gets closer to an end, albeit inflation has proven stickier in recent times and has seen rates volatility remain high. The portfolio aims to have relatively low volatility more broadly. During the month of November, the RBA increased the cash rate to 4.35% (from 4.10%) and the Committee members reaffirmed their intention to bring inflation back to the target band. Although rates volatility remained high, credit spread spreads tightened through the month and the portfolio was able to perform relatively well as result. The portfolio continued to deliver strong carry and helped to offset more muted moves in the CPI bonds. Interest rate duration was steady at 1.3 with a weighted average credit duration of 2.49.

There were trades through the month to sell out of two fixed rate positions, Downer Snr and Netfin. This resulted in elevated cash levels at month end but the majority of this has since been spent. We continue to search for opportunities in the RMBS sector, in particular shorter dated higher yielding lines as potential replacements for lower yielding short dated T2 and cash.

Market outlook

The RBA's decision to increase the cash rate by 0.25% to 4.35% was due some hawkish data leading up to the meeting. The data included a higher inflation (trimmed mean) print of 1.2% QoQ (vs RBA's 0.9% estimate) up from prior quarter of 0.8% and 5.2%YoY. This was further supported by a strong jobs market where the unemployment rate reduced to 3.6% vs. 3.7% and stronger than expected retail sales for Sep-23 0.9% vs. 0.3% expected and prior month. The RBA appear to be getting out of sync with the developed world given were the only CB to hike rates in a number of months globally and the second highest inflation behind the UK (against declining US and EU inflation). Meanwhile the RBA language continued to indicate they remain data dependent on future rate decisions.

Rates markets were volatile, yields ended the month much lower with the AU 10y at 4.40% after an incredible rally from 4.90% at the end of the prior month. Credit spreads followed the lead from the rates market and rallied up to 13bp tighter in the AU iTraxx CDS contract. Australian rates and credit markets remained highly correlated with offshore markets and the Fed. The Fed maintained rates at the range of 5.25-5.50% as inflation continued to print higher than the target band and the underlying economy has not shown enough signs of weakening in demand. US Core PCE reported 2.4% for the Sep-23 quarter on an annualised basis, slightly below consensus (2.5%) and a large reduction from the prior month (3.7%). CPI Core reported 0.2% for Oct-23 and services inflation remains high at 4.0% YoY, however both numbers did print lower than expectations. The unemployment rate ticked marginally higher to 3.9% with non-farm payrolls weaker than expected of 150k new jobs created (vs. 180k est.). Further the number of jobs available for every job seeker sits at ~1.4x, much higher than pre-COVID highs, however does show signs of cooling down from a peak of 2.0x (2022). A combination of relatively weaker data in the jobs market and with inflation showing early signs of softening helped to see USTs rally 60bps to 4.33% at the end of the month.

The rates market has since rallied back to levels not seen since Aug-23 with the UST10y in the 4.90a. Although economic data in recent weeks has showed signs of strengthening with the unemployment rate back to 3.7%, retail sales and PMI services stronger, the Fed's pivot in the DOTs has provided a new anchor for rates in the short term. The US Treasury still has a significant funding task ahead and through to Q124. The curve has remained relatively steep at -51bp of inversion in the 2s10s.

There are also a number of other pressures on yields including Japan relaxing yield curve control, China support for the Yuan and QT (quantitative tightening). The tensions in the Middle East provide additional risks to an elevation in rates. Although AU rates are not directly impacted by UST issuance, they remain highly correlated to US rates and the other global factors mentioned. Duration positioning going forward will be more about protecting on downside risks from a recession, however indicators do not currently suggest this. Increasingly however rates remain under pressure as inflation continues to surprise to the downside in 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.

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, 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.

Contact: Investors please speak to your adviser

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