Mason Stevens Wholesale Fixed Income Managed Portfolio
Performance Report as at 31 July 2024

Investment objective and strategy

The investment objective of the Managed Portfolio is to provide investors with a pre-tax return that outperforms the RBA Cash Rate by 3% 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.

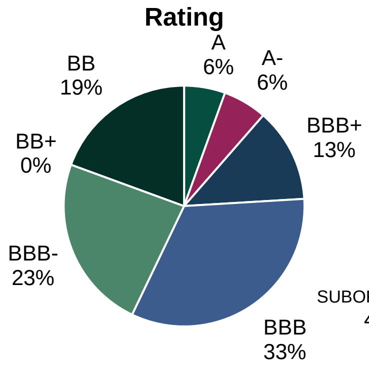
Portfolio performance as at 31 July 2024[1]

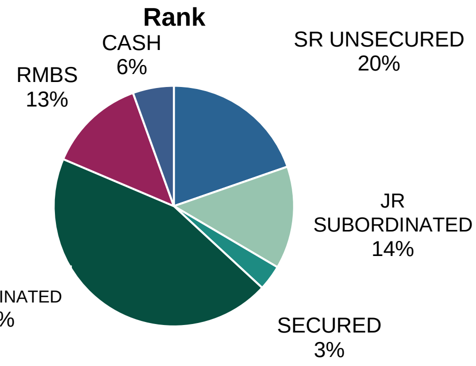
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	5 year (p.a.)	Since inception (p.a.)
Portfolio	**1.36%**	**2.87%**	**4.78%**	**9.34%**	**6.71%**	**3.97%**	**2.72%**	**3.77%**
Benchmark	0.37%	1.10%	2.19%	4.39%	3.78%	2.58%	1.67%	1.60%
Excess Return	0.99%	1.77%	2.59%	4.95%	2.92%	1.39%	1.05%	2.17%

Portfolio statistics and composition

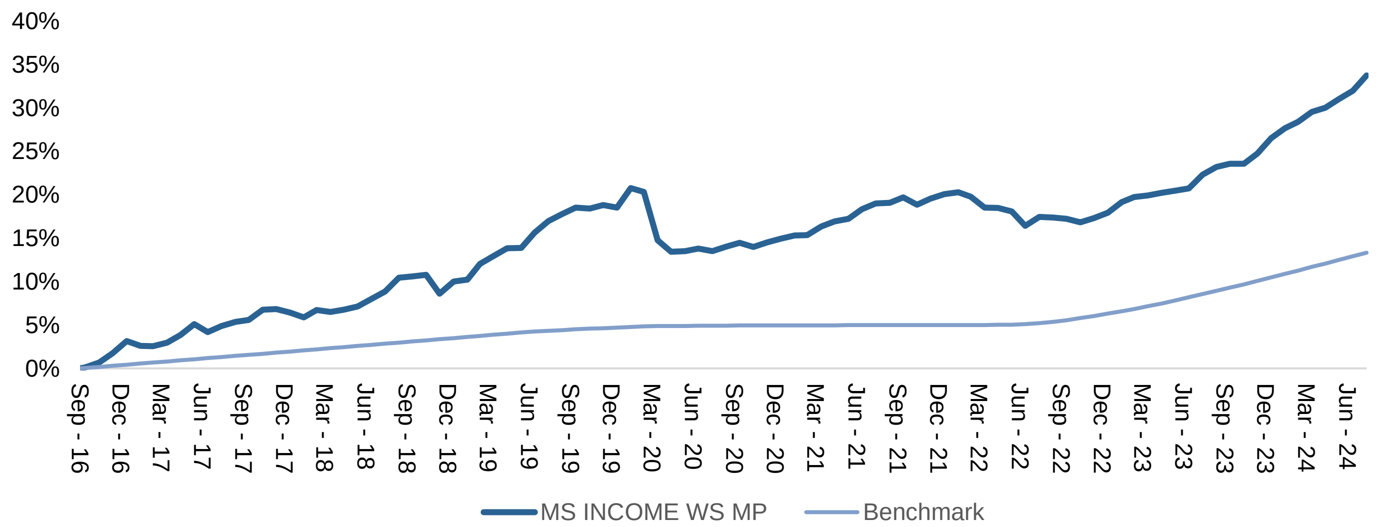
Portfolio Statistics*	
Yield to call[2]	7.37%
Running yield[3]	7.34%
Term to call/maturity[4]	2.74
Interest Rate Duration	1.08
Average Rating	BBB

*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 1.36% (after fees) during the month with long end rates dropping aggressively coupled with a mild tightening in credit spreads. The RBA remained on hold and again communicated a data dependent process, however in August it was a very close decision to raise. Although the RBA appears to be willing to look through short term fluctuations in inflation data, the last month's CPI release came close to tipping the scales towards a hike. RBA minutes most recently supported that view as timing in reaching their goal has been pushed out once again, albeit at the margin. Domestically, credit spreads were tighter at the margin. New issuance was strong for another month, with investors still keen to put cash to work.

The portfolio performed strongly with the best month since December predominantly due to capital returns and supported by predictable carry. Outperforming bonds for the month included LBBW, HSBC, Lloyds & UBS. 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 1.08 with a weighted average credit duration of ~2.29.

The main trade during the month included adding Pioneer to the portfolio and removing ORDE Es for a much better running yield.

Market outlook

Post month end there certainly has been some market volatility. The unexpected rate rise from the Bank of Japan and the subsequent sharp rise in the Japanese Yen (JPY)/US Dollar (USD) is causing a massive unwind of Yen carry trade positions, contributing to the sharp decline in US stocks and the biggest one-day decline in Japanese stocks since 1987.

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 limit

1.5%-100%

Maximum non-rated/sub investment grade weighting

20%

Maximum RMBS/ABS weighting

20%

Maximum foreign currency exposure

100%

Min investment

$200,000 (or as agreed by the Program 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.

For those who do not understand how this works, a brief explanation of the Yen carry trade is below:

- Many traders were borrowing JPY at low interest rates, converting them to USD and using this to buy US stocks and other risky assets globally.
- Now that the Bank of Japan (BOJ) is raising interest rates, the JPY has strengthened significantly against the USD, which increases the liability of those on the carry trade.

Now, these traders are getting hurt on several fronts. Not only must they pay higher interest for the JPY they borrowed, but the value of their debt has also increased, and they are facing material foreign exchange losses. The USD assets they are holding have further decreased in value and may not be enough to repay the JPY they have borrowed.

The other key data point causing consternation is the non-farm payroll data from the US and the resultant rise in the unemployment rate. At the heart of the concern is the idea that the Federal Reserve has made a policy mistake and could be too late and will need to start cutting aggressively to save the US economy from a hard landing. Economists globally are beginning to polarise again with some buying into the recession story, however others pointing out that one data point is insufficient and further data is required before making this assertion.

In our view, a balanced assessment of demand and supply suggests that we are, thus far, transitioning to slower growth rather than a recession. Barring some outside shock, the baseline scenario should be a slowdown scenario, even as volatile markets remind investors of the importance of diversifying and paying attention to valuations. The events of the last week remind us that the market is not the economy. Left field events can cause imbalance, which combines with fear and contagion risk to create dislocation.

More information

Further information about the Portfolio, including fees and costs, is outlined in the Mason Stevens Wholesale 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.

Contact: Investors please speak to your adviser

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