

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 30 June 2024¹

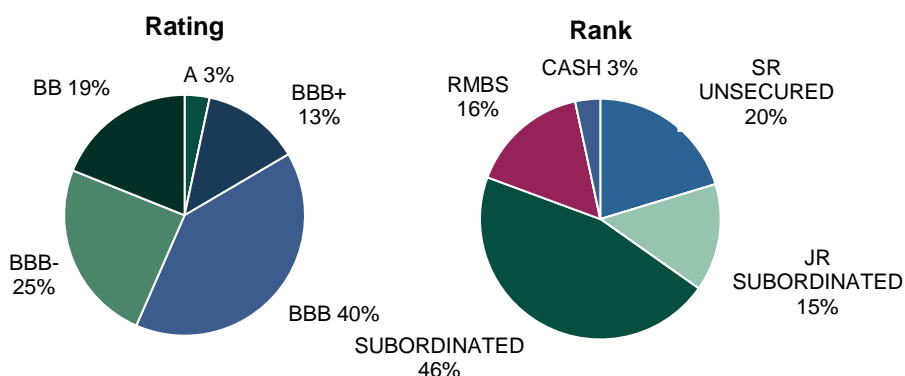
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	5 year (p.a.)	Since inception (p.a.)
Portfolio	0.70%	1.86%	4.31%	9.32%	6.47%	3.70%	2.68%	3.63%
Benchmark	0.36%	1.09%	2.19%	4.36%	3.65%	2.46%	1.61%	1.57%
Excess Return	0.34%	0.77%	2.12%	4.96%	2.83%	1.24%	1.07%	2.06%

Portfolio statistics and composition

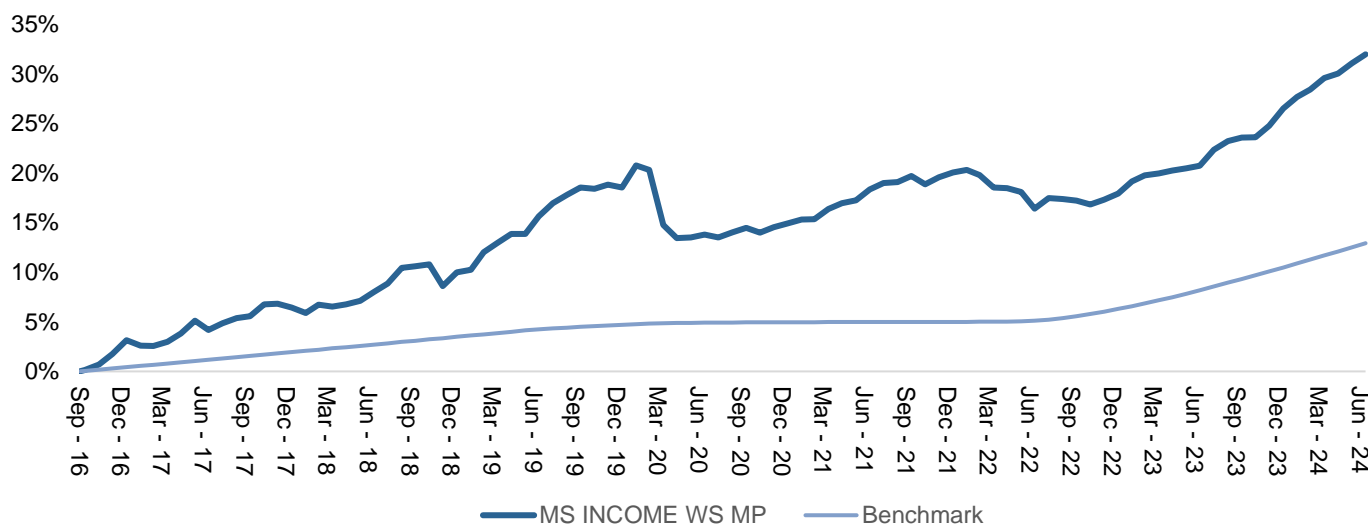
Portfolio Statistics*

Yield to call ²	8.45%
Running yield ³	7.35%
Term to call/maturity ⁴	2.90
Interest Rate Duration	1.14
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). 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.
- 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 returned 0.70% (after fees) during the month with long end rates moving sideways with a mild tightening in credit spreads. The RBA remained on hold and again communicated a data dependent process with no real indication of a move lower or higher in coming months. The RBA appears to be willing to look through short term fluctuations in inflation data, as has been the case in the recent monthly and quarterly CPI releases. However, given recent higher monthly CPI prints, an outsized read of the quarterly trimmed CPI at the end of July may provide enough for the RBA to move rates higher. Domestically, credit spreads were tighter at the margin. New issuance was strong for another month, with investors showing no signs of pulling back.

The portfolio performed in line with expectations with carry the main contributor to performance. There was not a lot of capital price movement across the board, however the outperforming bonds for the month included Arc Infrastructure, Latitude and some ABS & RMBS lines. The portfolio will continue to deliver strong carry with room to the upside for capital returns. Interest rate duration was 1.30 with a weighted average credit duration of ~2.45.

Trades during the month included adding to the portfolio for CBA T2 which replaced Sydney Airport CPI bonds for a much better running yield and liquidity profile.

Market outlook

While the global political environment looks ever more uncertain, equity markets are at all-time highs and volatility recently hit a post-covid low. How do we explain this? In our view, the answer lies in expectations of growth and inflation. Since last October, confidence in a soft landing has been rising, with inflation and interest rates having peaked. Despite the fact that the scale of expected rate cuts has diminished considerably since then, this matters less for equities than bonds. The latest positive earnings season, relative to expectations and a pattern of rising earnings' sentiment across developed markets have been of further support.

In general, if the economy and profits are growing and the cost of capital is moderating, it is likely that equities will rise. We are now at a juncture that valuations are now arguably full, and sentiment is near but not quite euphoric. This leaves equities from here more vulnerable to disappointments, whether it be economic growth, weak labour markets or sticky inflation. Given these risks, we view diversification as paramount, not only at an asset class level, using alternatives, but also within asset classes.

One of the key economic data points that has evolved in recent weeks is the normalisation of the labour force. The job-workers gap has fallen back to 2019 levels, essentially suggesting that we are close to a more balanced labour market. Consensus expectations remain for a softening of the global economy through the second half of the calendar year. This suggests that any further softening in labour demand, could now result in rising unemployment as opposed to falling job openings. Whilst many market participants may consider 'bad news to be good news' in a market setting, as the ever present 'Powell Put' supports the market, we caution against being complacent.

Current economic settings suggest we are late cycle. Whilst from an asset allocation perspective we remain fully invested in terms of our strategic asset allocation to equities, we do believe that investors should consider typical late cycle factor and style tilts such as overweight quality and defensive growth sectors. Additionally, we remain overweight mega cap technology.

In the US the fiscal outcome will largely be determined by the Congressional results. To change federal tax or spending requires legislation. Under a Republican sweep, expect lower taxes and higher spending whilst a Democratic sweep will likely have higher spending and higher taxes narrowing the fiscal deficit. A split government where the party in the Whitehouse is not the same as the party controlling each of the Houses of Congress, probably implies a more muted outcome. Despite this the President can adjust tariff policy outside of Congress. The lessons from the 2018 tariffs policy can meaningfully impact growth and inflation expectations.

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 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.

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.

Contact: Investors please speak to your adviser

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