Mason Stevens Wholesale Fixed Income Managed Portfolio
Performance Report as at 30 September 2023

MASON STEVENS

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.

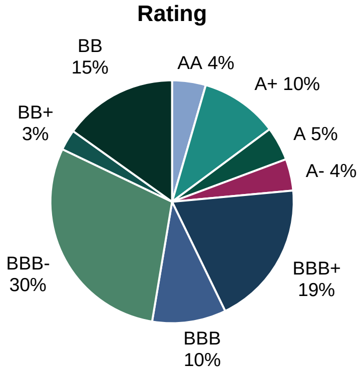
Portfolio performance as at 30 September 2023[1]

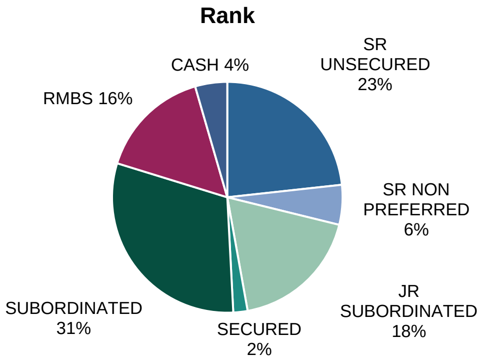
	1 month	3 months	6 months	1 year	3 year (p.a.)	5 year (p.a.)	Since inception (% pa)
Portfolio	**0.29%**	**2.36%**	**3.02%**	**5.41%**	**2.58%**	**2.24%**	**3.06%**
Benchmark	0.35%	1.04%	2.00%	3.55%	1.37%	1.18%	1.27%
Excess Return	-0.06%	1.32%	1.02%	1.86%	1.21%	1.06%	1.79%

Portfolio statistics and composition

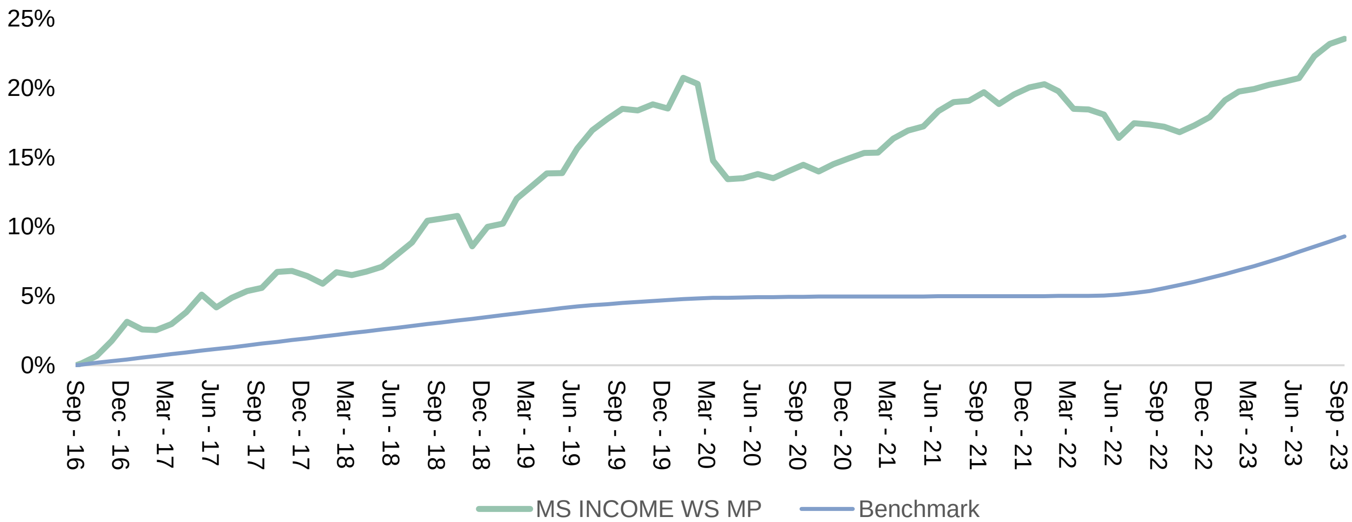
Portfolio Statistics*	
Yield to call[2]	7.46%
Running yield[3]	6.69%
Term to call/maturity[4]	3.12
Interest Rate Duration	1.50
Average Rating	BBB+

*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). 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 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 September, the RBA left the cash rate unchanged and reaffirmed their intention to bring inflation back to the target band. Although rates volatility remained high and some credit spread widening occurred, the portfolio was able to perform relatively well. The portfolio continued to deliver strong carry and helped to offset minor capital depreciation. Interest rate duration was reduced to ~1.50 years (from 1.64) with a weighted average credit duration of ~2.94 years.

There were a few trades through the month which added yield to the portfolio including purchasing Lloyds T2 in the primary market and increasing the position in the listed Latitude AT1.

Market outlook

The RBA left the cash rate on hold for another month, however continued to provide hawkish commentary on the future rates path. The monthly CPI print for Sep-23 was in line with expectations at 5.2% however was higher than the prior month of 4.9%. Employment numbers held steady with the unemployment rate reporting 3.7% with no change versus consensus or the prior month. The labour market remains tight with ~0.72 jobs available for every job seeker, however has reduced in the last month from 0.86; the metric is still at a level well above pre-COVID levels. Rates markets were volatile, yields ended the month much higher with the AU 10y at 4.46%. Credit spreads were slightly wider on the month as risk assets digested the large move in global rates.

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, 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.

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 remains higher than the target band and the underlying economy has not shown enough signs of weakening in demand. US Core PCE reported 3.7%, in line with consensus but unchanged from the prior month, reinforcing that the last mile of inflation will be more difficult to bring down. The unemployment rate remained at 3.8% with non-farm payrolls stronger than expected with 336k new jobs created. Further the number of jobs available for every job seeker sits at ~1.5x, although reduced from 1.6x, is still much higher than pre-COVID highs. A combination of stickier inflation, job market resilience and supply/ demand imbalances kept upward pressure on US treasuries which ended the month ~0.46% higher. The rates market continues to price only a marginal chance of another hike whilst some Fed speakers see one or two more.

Since the end of August there has been significant steepening in rates curves in the US. Between now and the end of the year the US Treasury plans to fund its deficit which will see UST issuance get back to all time high levels only previously seen in the peak of COVID recovery through 2021 when fiscal spending was running quite high. Further, given stronger economic results the term premium has started to reflected this. There are also a number of other pressures on yields including Japan relaxing yield curve control, China support for the Yuan, QT (quantitative tightening), sticky services inflation, to name a few. The tensions in the Middle East provide additional risks to further curve steepening. The risks in long term rates have been somewhat priced in however still appears to be skewed higher given the largest treasury issuance months are yet to come and geopolitical risks continue to build. 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.

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.

Contact: Investors please speak to your adviser

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