

Investment Objective & 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 31 December 2022¹

	1 month	3 months	6 months	1 year	3 Year (p.a)	5 Year (p.a)	Since inception (% pa)
Portfolio	-0.04%	1.01%	2.16%	-2.91%	1.40%	2.47%	3.55%
Benchmark	0.26%	0.70%	1.14%	1.24%	0.51%	0.84%	1.03%
Excess Return	-0.30%	0.31%	1.02%	-4.15%	0.89%	1.63%	2.52%

Past performance is not a reliable indicator of future performance.

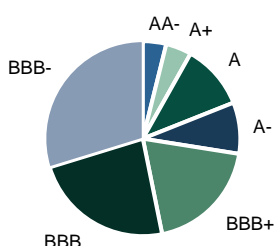
- (1) Benchmark is RBA Cash Rate. Returns are calculated net of management, performance, administration/custody and transaction fees, but excluding any adviser fees from the Managed Portfolio's inception date of 30/03/16 and, assumes reinvestment of all income (but not franking credits). Returns are 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.

Portfolio Statistics and Composition

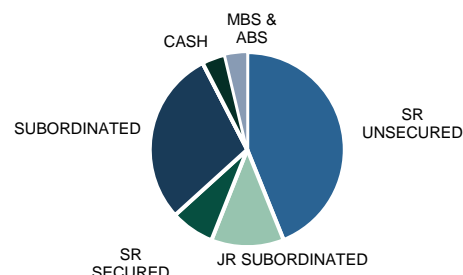
Portfolio Statistics

Yield to call	6.86%
Trading margin	2.72%
Running yield	6.19%
Term to call/maturity	3.42

Rating

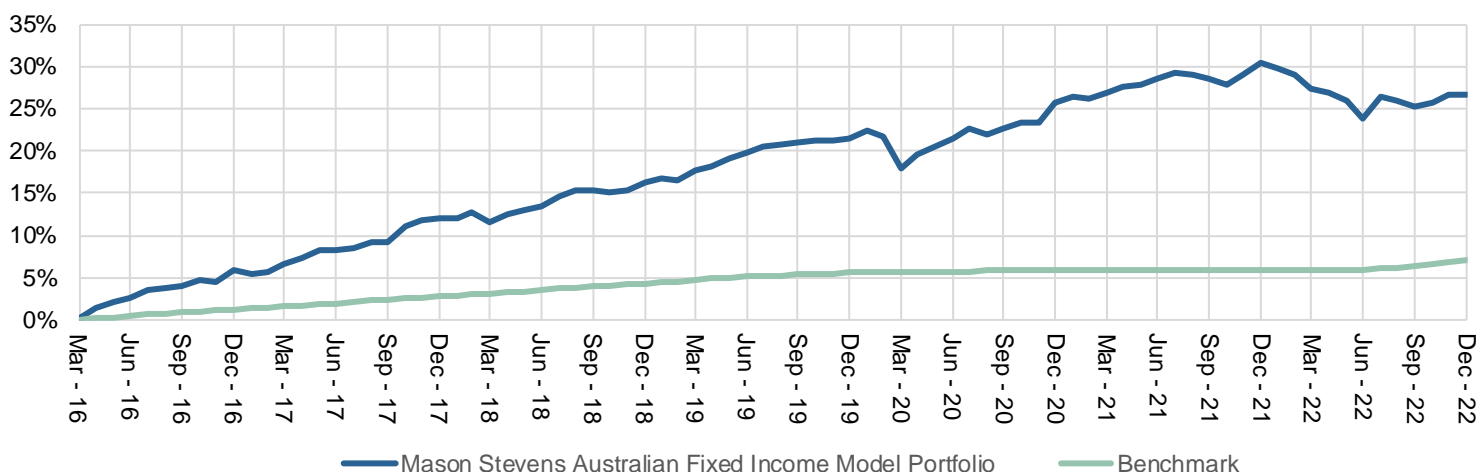


Rank



- (2) Yield to call is the estimated annual rate of return of a bond if held until its call date
 (3) Yield to call/maturity minus the interest margin
 (4) Annual income on a bond divided by its current market value. Includes any applicable franking credits and expected cash distribution.
 (5) 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 Since Inception



Performance and Portfolio Overview

The portfolio returned -0.09% for the month of December, 0.86% for the last 3 months, 1.98% for the last 6 months and -2.83% for the last 12 months.

The selloff in rates in December took the shine off what was an otherwise excellent second half performance for the Managed Account. This higher yield has pushed up our running yield to over 6.80% and augurs well for Q1 23.

The adjustments that were needed to bring the portfolio closer to a sustainable and stable spread over RBA Cash are well underway and December saw the first purchases of ABS which we will continue to do.

We took strength in the listed hybrid space as an opportunity to exit those retail focused bonds and now have only one note that delivers a combination of cash and franking, a wholesale NAB AT1 that is pari passu to the listed hybrids but at much more rewarding returns and had one large maturity.

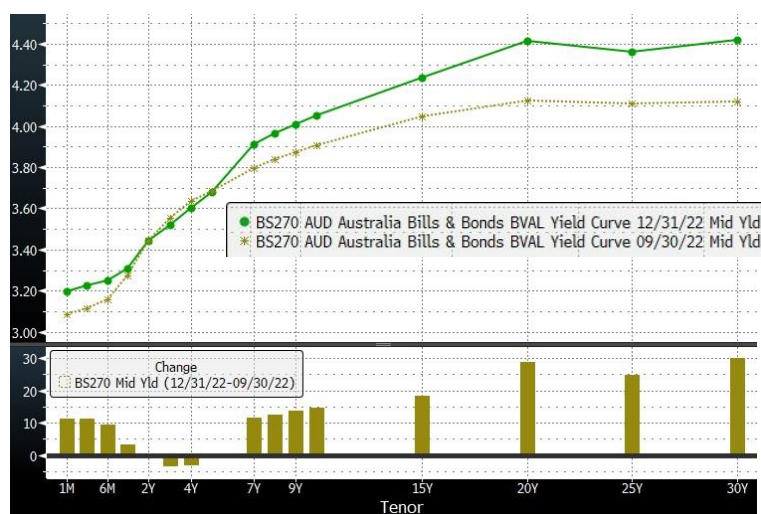
We added very short dated Fixed T2 (could arguably be included as floating), extremely well priced European GSIB bank senior debt (CS), topped up where we could on Australian corporate debt.

We were able to buy extremely well priced ABS and RMBS paper which will enhance our portfolio returns.

There are maturities and calls for over 13% of the portfolio due by the end of May. We will use those maturities to fund purchase of more in the securitised asset class and each opportunity should represent a pick up in yield.

The inflation linked portion of the portfolio is outperforming all others in terms of running yield as we remain in the high CPI environment although the visuals of a low margin are distracting. We will look to hold until inflation is closer to RBA's target range.

Australian Yield Curve 30/09/22 v 31/12/22



Source: Bloomberg

Major equity and credit indices and macroeconomic data as at 31 December 2022

Rates	Dec-22 (%)	Nov-22 (%)	Sep-22 (%)	Jun-22 (%)	Dec-21 (%)
US 10 Year Treasury	3.87	3.61	3.83	3.01	1.51
Aus 10 Year Treasury	4.05	3.53	3.89	3.66	1.67
RBA Cash Rate	3.07	2.82	2.31	0.81	0.04
1m BBSW	3.02	2.95	2.71	1.14	0.02

Market Indices	Price (31/12/22) (\$)	1-Month Return (%)	3-Month Return (%)	6-Month Return (%)	12-Month Return (%)
ASX200	7038.69	-3.37%	8.72%	7.17%	-5.45%
AusBond Credit FRN ⁶	2833.43	0.34%	0.92%	1.64%	1.28%
AUD/USD	68.13	0.37%	6.45%	-1.30%	-6.20%
USD Liquid IG Index ⁷	287.14	-0.83%	4.16%	-2.00%	-17.92%
USD Liquid HY Index ⁸	296.71	-1.08%	4.31%	3.59%	-10.74%

⁶Bloomberg Ausbond Credit Floating Rate Notes 0+ Yr Index ⁷iBoxx USD Liquid Investment Grade Index ⁸iBoxx USD Liquid High Yield Index

Country	CPI (% YoY)	Unemployment (%)	Real GDP (% Qo ¹⁰)	Net Debt (% of GD ⁹)
Australia	7	3.4	0.6	36.1
China	1.6	3.96	3.9	NA
Germany	8.6	3	0.4	47.76
United Kingdom	10	3.7	-0.3	68.5
United States	7	3.5	3.2	96.9

Source: Bloomberg, IMF

Market Outlook

We have seen high volatility over this past quarter as markets continue to adjust their expectations for the terminal rate.

A very abrupt shortage of bank bonds at every part of the capital stack in December 2022 sent credit spreads lower than the likely longer-term equilibrium. Higher issuance needs as TFF rolls off will mean banks issue regularly in 2023.

This rally followed panic selling in November following the APRA announcement of more rigour needed from banks on their call requests.

Hoping to switch to longer dated higher spread financials after new issuance widens spreads

Market skittishness can be expected for the foreseeable future as issuer flows dominate spread pricing.

New corporate issuance has been very scarce, we are hoping to maintain diversification but heavily weighted to Energy and Financials.

Will continue to allocate to ABS/MBS although paydown profiles will be avoided as much as possible and bonds must be seasoned.

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 Program Adviser)

Suggested timeframe

3-5 years +

Portfolio Manager

Andrew Baume – 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.

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 Dynamic ETF Managed Portfolio Investment Mandate.

About Mason Stevens

Mason Stevens provides a multi-asset and multi-currency investment administration and managed account service to help produce tailored investment outcomes for advisers and their clients. Clients benefit from efficient portfolio administration, secure online access to their investments, as well as comprehensive reporting.

Contact: Investors please speak to your adviser

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