

Shaw SMA - Hybrid Income Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Portfolio Overview

Strategy Inception Date: 2 Sep 2015
 SMA Model code: SP0002
 Minimum Investment Amount: \$5,000
 Indicative number of securities: 10 - 25
 Portfolio return objective: RBA Cash rate + 3% (gross)

Portfolio Holdings - Top 5

ASX Code	Issuer	Security Type
WBPCG	Westpac Bank	Capital Note IV
NABPC	National Aust. Bank	Capital Note
CBAPD	Comm Bank	PERLS VII
WBCPF	Westpac Bank	Capital Note III
ANZPG	ANZ Bank	Capital Note IV

Portfolio Characteristics

Expected Yield to Call/Maturity (incl franking):	5.7%
Expected Gross Running Yield (incl franking):	5.5%
Expected Cash Running Yield (ex franking):	4.0%
Expected Years to Maturity:	5.1
Number of Securities:	21
Floating Rate exposure	100%
Fixed Rate Exposure	0%

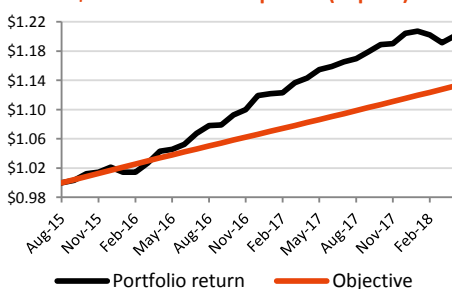
Portfolio Short term Performance *

Total Return	1 Mth	3 Mth	6Mth	1yr
Income Return (Gross)	0.05%	1.42%	2.58%	5.27%
Capital Return	0.69%	-1.99%	-1.58%	-0.27%
Total Portfolio Return	0.74%	-0.57%	1.00%	5.00%
Portfolio Rtrn Objective	0.40%	1.10%	2.30%	4.60%
Excess Rtrn v Objective	0.34%	-1.67%	-1.30%	0.40%

Portfolio Long term Performance *

Total Return	2yr	Incpt'n
Income Return (Gross)	5.37%	5.52%
Capital Return	1.92%	1.57%
Total Portfolio Return	7.28%	7.09%
Portfolio Return Objective	4.60%	4.80%
Excess Return v Objective	2.68%	2.29%

Value of \$1 Invested at Inception* (Sept15)



Market Returns

Return	1 Mth	3 Mth	1yr
ASX200 Accumulation	3.90%	0.34%	5.45%
RBA Cash rate	0.13%	0.38%	1.51%

*Returns are gross of franking credits

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Shaw and Partners

Portfolio Details

Portfolio Name: Shaw Hybrid Income Portfolio
Portfolio Inception Date: 2-Sep-15
SMA Model code: SP0002
Indicative # of securities: 15-25
Portfolio Return Objective: RBA Cash rate + 3% (gross)*
Shaw Model Managers: Steve Anagnos / Cameron Duncan

Investment Strategy

The Shaw ASX Hybrid Income Portfolio aims to provide investors with exposure to a highly transparent portfolio of ASX listed debt and preference securities that offer diversification benefits to both Australian Equities and cash/term deposit investor's allocations.

There is a growing universe of listed assets spanning Senior Debt, Subordinated Debt, Convertible Preference Shares, Convertible Notes and Income Securities (debt and equity). While these "Hybrid" securities each have their own characteristics, research and subsequent implementation and monitoring allows for strategies to extract risk adjusted return from this sector that aims to enhance a core portfolio of Australian Equities and cash.

Investment Objectives

The objective of the Shaw Hybrid Income Portfolio is to provide a sustainable level of income whilst seeking to preserve capital. The target total portfolio return (gross) of the portfolio is 3% above the RBA cash rate. This return will be generated from a combination of cash (interest payments and dividends), franking credits and capital growth (realised and unrealised) from an active portfolio strategy.

Risk tolerance: The portfolio aims to limit the risk of capital loss through security diversification and active portfolio management. It is suitable for investors that have a 3 year + investment horizon that can tolerate secondary market pricing and liquidity risks through the life of the securities, up to the respective first call/maturity date of each security.

Portfolio Highlights

- **A more benign macro environment in April saw positive moves in credit spreads** with the median margin across financial hybrids contracting from 3.75% in to 3.50%. As we expected, fears abated in relation to Labor's proposed change to abolish refundable excess dividend imputation credits, as concessions as to its application were made to the policy by Shorten as commentators highlighted the shortcomings of the original proposal. For the month the total portfolio return was +0.74% and -0.57% for the quarter. Whilst the total return for the quarter fell short of its respective objective, the portfolio was ahead for the month and for the 12 month period. The expected yield to call on the portfolio is sitting steady at 5.70%.
- **April - Capital gain the main driver of return in an out of cycle income month.** The Total Income Return (Gross) was 0.05% for the month and 1.42% for the quarter, whilst the commensurate income return since inception (Sep 2015) is +5.52% p.a. Following a weaker month of March, capital return for the month of April was +0.69% and -0.57% for the quarter. Only one security traded ex distribution during the month.
- **The main contributors to performance during the month** were CGFPB (+2.7%), WBCPF (+1.8%), and MQGPB (+1.4%). The only detractors to performance during the month were CBAPG (-1.2%). All other securities in the portfolio had a positive total return for the month.
- **During the month the CommBank PERLS X Capital Notes (CBAPG) listed on the ASX,** closing below par on day 1 at \$97.65. By month end, the CBAPG price reflected margin improvement to close at \$98.80. This represents a margin of 3.60% versus the 3.40% Issue Margin. No other security rebalances occurred during the month.

Portfolio Performance

The portfolio was established on 2 September 2015 and now has 32 months of performance history. The portfolio has been weighted toward bank hybrids given the risk/return trade-off following on from the large equity raisings undertaken by CBA, NAB and ANZ in 2015. Despite the continued strong performance of this asset class, we maintain its ability to meet the return objective of the Hybrid Income portfolio of 3% above the RBA cash rate.

The Total Return of the portfolio was +0.74% for the month of April, -0.57% for the quarter and +5.00% for the 12 months. The Total Gross Income return for the month was +0.05% and +1.42% for the quarter. Since inception 31 months ago, (2 Sep 2015) the total return of the portfolio is +7.09% p.a, whilst the income returns (Gross) is +5.52% p.a, both ahead of their return objectives.

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Portfolio Outlook and Strategy

Credit spreads contracted over April reflecting lower market volatility and seemingly an improving geo-political situation in respect to North Korea. Australian CDS (iTraxx) reflected the narrower spreads moving from 70.395 bps at the end of March to 65.886 bps at April month end. CommBank PERLS X (CBAPG) listed on April 9 at 2.35% discount to \$100 par, which closed to a 1.24% discount (\$98.76) by month end.

The Royal Commission into financial industry conduct had major ramifications for AMP with the CEO and Chairman stepping down from their roles in the wake of testimonies that revealed misconduct and failures in regulatory disclosures in AMP's advice business. This impacted AMPPA in particular which was the biggest underperformer in the listed hybrid sector for the month. The Hybrid SMA has no holding in this security at present. Also flagged was an intended IPO of CBA's global asset management business Colonial First State, which will bolster CBA's capital position when it occurs, potentially further reducing the AT1 hybrid requirement and therefore supply going forward.

The widening in hybrid margins over the month has translated into the expected yield to call of the portfolio increasing from 5.20% gross to 5.70% gross. Only NABHA traded ex-distribution in April.

The Shaw and Partners Hybrid Income Portfolio is designed to help diversify the risk and return outcome of a traditional Equities/Debt/Cash an income goals portfolio. Over the last few years Hybrid Securities have increasingly been used in income goal portfolios.

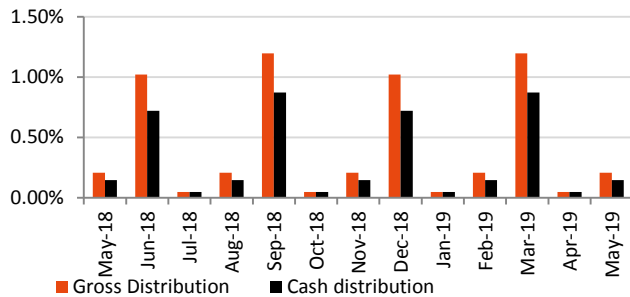
Our in house expertise in this sector has allowed us to use this sector/investment universe as a dedicated Asset Class blending with other income producing assets with the aim of maximising the probability of achieving Investors Income goals.

The Shaw and Partners Hybrid Income Portfolio is a fully managed account (SMA) whose inception date was 12 May 2016. The strategy employed by this portfolio was conceived in August 2015 and first published as the Shaw and Partners ASX Listed Debt and Hybrid Moderate Income Portfolio commencing 2 September 2015. Although this was a model portfolio, it was published on a monthly basis and was used by Shaw and Partners Advisers as a way of managing hybrid income portfolios in conjunction with the Investments team. It provided weights for each security in the portfolio and trade recommendations as at month end. The performance shown in this report is that of the model portfolio from 2 Sep 2015 to 30 June 2016 and the Shaw SMA from 1 July 2016 onward.

The Shaw and Partners' Investment Team actively manage the Portfolio and makes changes to security weights on an ongoing basis (including inclusions/exclusions, and reweightings of investments). The performance stated within this report reflects all changes that have occurred within the Portfolio since inception and have been documented by each month's monthly performance reports that have been distributed into the Shaw network and the wider investment marketplace. Investors' individual portfolio performance will differ to the performance of the Portfolio based on timing of investment, client's specific risk profile and subsequent stock selection, associated transaction and management fees, and tax consideration of the portfolio and underlying investments. Investments can go up and down. Past performance is not necessarily indicative of future performance.

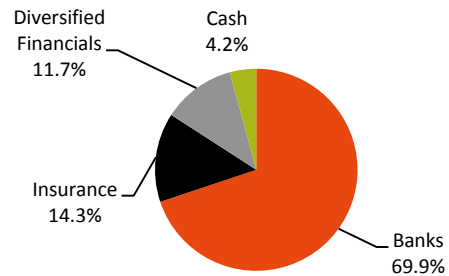
ASX Code	Security	Last Price	Frank'g	Running Yield		Yield to C/M	Call Date/ Maturity	Years	Issue Margin
				Gross	Cash				
WBCPG	Westpac Capital Note IV	\$103.72	100%	6.38%	4.46%	6.20%	20-Dec-21	3.7	4.90%
NABPC	Nat Aust Bank Capital Note**	\$100.36	100%	5.48%	3.83%	5.53%	23-Mar-20	2.0	3.50%
CBAPD	CBA - PERLS VII CPS**	\$95.69	100%	4.96%	3.47%	6.40%	12-Dec-22	4.7	2.80%
WBCPF	Westpac Capital Note III**	\$102.15	100%	5.99%	4.19%	5.73%	22-Mar-21	3.0	4.00%
ANZPG	ANZ Capital Notes IV **	\$103.80	100%	6.49%	4.54%	6.63%	20-Mar-24	6.0	4.70%

Chart 1: Expected Distribution Payment Profile



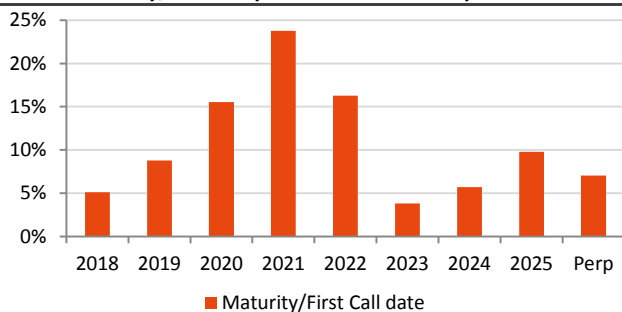
Source: Shaw and Partners

Chart 2: Industry / Sectors



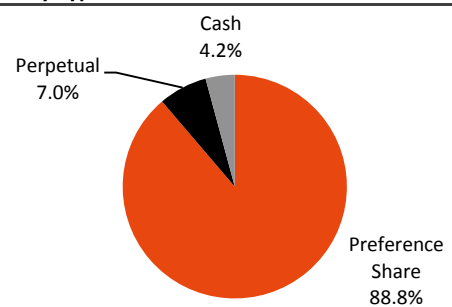
Source: Shaw and Partners

Chart 3: Maturity/First Call profile of securities in portfolio



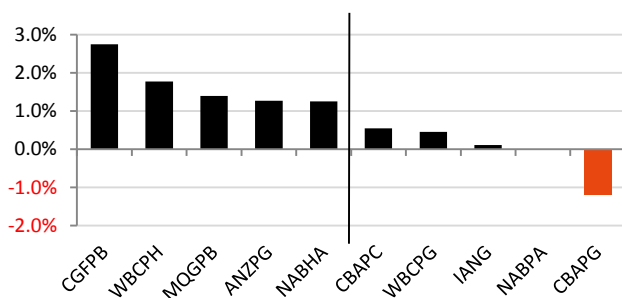
Source: Shaw and Partners

Chart 4: Security Type



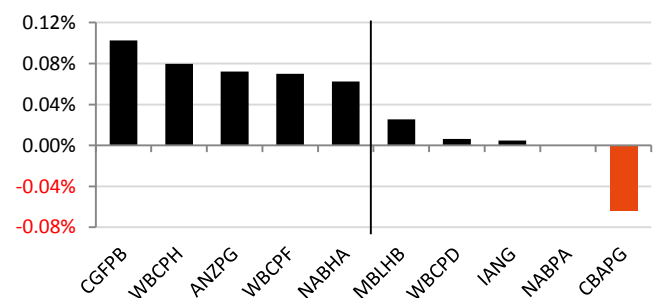
Source: Shaw and Partners

Chart 5: Performers & Detractors - Top 5 / Bottom 5 (1 month Total Return)



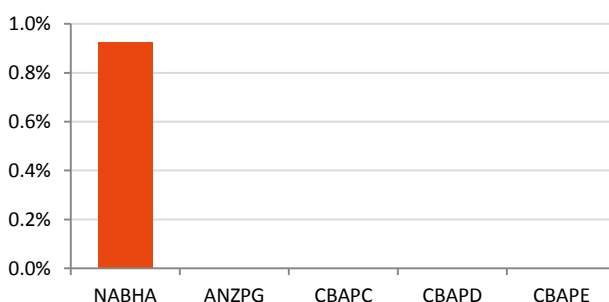
Source: Shaw and Partners

Chart 6: Attribution to return - Top 5 / Bottom 5 (1 month Total Return)



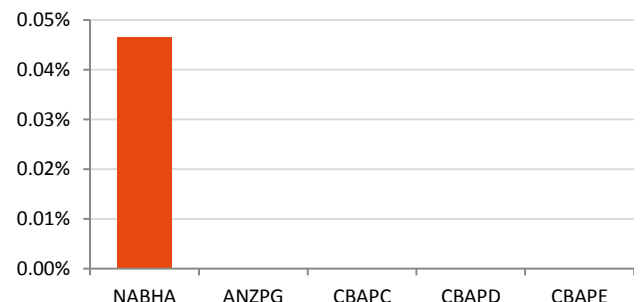
Source: Shaw and Partners

Chart 7: Top Performers (1 month Gross Income Return)



Source: Shaw and Partners

Chart 8: Top Attribution (1 month Gross Income Return)



Source: Shaw and Partners

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