ShawandPartners

Shaw SMA - Debt Securities Income Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Top 5 Holdings

ASX Code	Security	Alloc: 43.89%
MXT	Metrics Credit	9.92%
SSB0122AU	Legg Mason AUS Bond Trust	9.80%
FRT0027AU	Franklin AUS Absolute Return Bc	9.76%
NABPE	NAB Sub Notes 2 (NABPE)	7.25%
WBCHB	Westpac Sub Note 2 (WBCHB)	7.16%

Portfolio TWR Performance

Number of Securities: 18

Return	1 Mth	3 Mth	6 Mth	1yr	Incep.
Total TWR Portfolio	0.19%	0.23%	0.61%		1.35%
Portfolio Objective	0.25%	0.73%	1.47%		1.93%
Excess vs. Objective	-0.05%	-0.51%	-0.86%		-0.58%

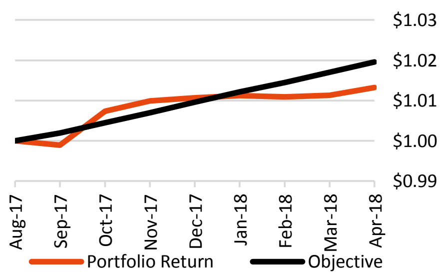
Portfolio Characteristics

% Single name securities in Portfolio:	41.28%
Expected Yield to Call/Maturity (incl frank'g)*:	3.44%
Expected Gross Running Yield (incl frank'g)*:	4.62%
Expected Cash Running Yield (ex frank'g)*:	4.62%
Expected Years to Maturity*:	3.1
Number of Securities*:	11
Floating Rate exposure*:	46.63%
Fixed Rate Exposure*:	53.37%

Rates	Apr-18	Mar-18	Diff
Cash Rate Aus	1.50%	1.50%	0.00%
90 day bank bill rate Aus	2.04%	2.03%	0.01%
3 year bond % Aus	2.22%	2.14%	0.08%
10 year bond % Aus	2.78%	2.61%	0.17%
3 year Swap % Aus	2.25%	2.16%	0.09%
5 year Swap % Aus	2.61%	2.51%	0.10%
iTraxx Aus	64.50	70.15	-5.65
AUD/USD Exchange rate	0.7530	0.7678	-0.0148

*Represents only the single name security component of the portfolio.

Value of $1 Invested at Inception*



As at 6-Sept-17

**Returns are gross of franking credits*

Steve Anagnos | **Co-Head Income Strategies**
+61 2 9238 1513
sanagnos@shawandpartners.com.au

Cameron Duncan | **Co-Head Income Strategies**
+61 2 9238 1544
cduncan@shawandpartners.com.au

Portfolio Details

Portfolio Name:	Shaw Debt Securities Income Portfolio
Portfolio Inception Date:	6-Sept-16
SMA Model code:	SP0003
Indicative # of securities:	15-25
Portfolio Return Objective:	RBA Cash rate + 1.5%
Shaw Model Managers:	Steven Anagnos / Cameron Duncan

Investment Strategy

The Shaw Debt Securities Income Portfolio invests in a portfolio of ASX listed debt and shorter dated hybrid securities, debt based ETFs and debt specialist managed funds. These products offer potential diversification benefits to both Australian equities and cash or term deposits.

The Shaw Debt Income Portfolio seeks to provide investors with a predictable level of income whilst preserving capital.

The model manager aims to achieve the investment objectives via a qualitative and quantitative investment process. Key criteria and areas of focus are: Credit quality, duration, timing of cash flows and liquidity as an example. The portfolio will be diversified across these criteria. A key focus of the portfolio will be the mix of fixed and floating rate exposure in order to meet the portfolios objectives. The portfolio will be monitored against the manager's expectations of equity returns, credit market implied volatilities and underlying interest rates in order to ensure it is invested across a range of market cycles to meet its return objective, while adhering to the risk tolerances set.

Investment Objectives

The objective of the Shaw Debt Securities 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 1.5% above the RBA cash rate. This return will be generated from a combination of cash (interest payments and distributions), 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, manager selection 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

- Total Portfolio Return for the month of April was +0.19%, slightly below its return objective. The portfolio has slightly underperformed its objective since inception.
- The Total Income Return for the month was 0.47%. A total of 10 securities traded ex interest during the month. The largest were IHCB, YTMAZJ and YTMAGL.
- The Total Income Return for the month was 0.47%. A total of 10 securities traded ex interest during the month. The largest were IHCB, YTMAZJ and YTMAGL.
- Fixed income markets were generally Weaker over the period as the benchmark Bloomberg Aus Bond Composite 0+ year Index fell 0.35%. The Government 10 year bond yield rose significantly in April; from 2.61% to 2.78%. Credit spreads however reversed the move in April tightening with the Aussie iTraxx Index 5pts tighter finishing the month at 64.5. Cash rates remained unchanged at 1.5%.

Portfolio Performance

The Portfolio was established on 6 September 2017. The portfolio is a blend of direct securities and active managers designed to maximize the probability of reaching its return objective of RBS cash rate plus 3% on a 3-5 year time horizon. The portfolio has been constructed with a focus toward floating rate securities/strategies and low interest rate duration. Where possible we have appointed external managers to implement strategies that are not available in an ASX listed security.

Total Portfolio Return for the month of April was +0.19%, slightly below its return objective. The portfolio has slightly underperformed its objective since inception.

The Total Income Return for the month was 0.47%. A total of 10 securities traded ex interest during the month. The largest were IHCB, YTMAZJ and YTMAGL.

The main contributors to performance were Metrics Credit (MXT) +2.4%, NAB Sub Notes (NABPE) +1.1%, and Betashares Floating rate ETF (QPON) +0.3%. The main detractors during the month were Dexus Ltd XTB (YTMDX1) -1.3%, iShares Core Composite Bond ETF (IAF) -0.6% and Qantas Ltd XTB (YTMQAN) -0.5%.

Portfolio Outlook and Strategy

Credit spreads reversed their widening in March with the iTraxx index coming back to 64.5. This was against a rising and steepening interest rate curve.

ANZ's March job ads report presented a pause in the growth of employment advertisements but it still bodes well for employment growth, at least in the short term. The RBA had its board meeting, which left the cash rate unchanged at 1.50% as expected.

Towards the end of the month, the only report of any real interest was the March quarter CPI figures. The numbers did not suggest a rapid rise in inflation rates any time soon and economists did not regard them as being anywhere near high enough to be a source of pressure for higher official rates. Producer price figures which followed at the end of the month were largely glossed over.

After all of this, expectations of official rate changes in 2018 and 2019 were trimmed again. A rate increase during 2018 is viewed as an unlikely prospect if prices in the cash futures market are a decent guide. November is the last of the four months in which rate changes have historically taken place with a low probability.

The portfolio currently has 11 direct listed securities, 4 ETFs and 2 Managed Bond Funds. The direct securities represent 42% of the portfolio and have an expected average yield to maturity of 3.10% for that part of the portfolio.

We are closely monitoring the expectations around interest rates and credit margins in particular, and will actively rebalance the portfolio as necessary in order to ensure that the portfolio has the highest probability of achieving its objectives.

The Shaw and Partners Debt Securities Income Portfolio is designed to help diversify the risk and return outcome of a traditional Equities and cash Income goals portfolio. The blend of a variety of direct securities and strategies (LIC/ETF/Managed funds) adopted allows us to diversify the interest rate/duration risk against credit and liquidity factors.

Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 ("Shaw") is a Participant of ASX Limited, Chi-X Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ("personal circumstances"). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

IMPORTANT INFORMATION TO CONSIDER: It is important that before making a decision to invest in a Shaw Managed Accounts, a managed fund, an exchange traded fund, an individual hybrid security or listed debt instrument that you read the relevant Product Disclosure Statement ("PDS"). The PDS will contain information relevant to the specific product, including the returns, features, benefits and risks.

RISKS ASSOCIATED WITH HYBRID SECURITIES: Hybrid securities and listed debt instruments differ from investments in equities and cash products in a number of important respects. The liquidity risk associated with an investment in hybrid securities and listed debt instruments will generally be greater than that associated with equities. The credit risk associated with hybrid securities and listed debt instruments is higher than that of a cash product or term deposit. Some hybrid securities may be perpetual in nature, meaning that they can only be redeemed or exchanged for cash or equity at the issuer's option. Hybrids may also contain terms which automatically trigger the deferral of an interest payment or cause the issuer to repay the hybrid earlier or later than anticipated. ASIC has published information to assist consumers in understanding the risks and benefits associated with an investment in hybrid securities or listed debt instruments. This information can be found under the heading 'Complex Investments' at www.moneysmart.gov.au/investing.

DISCLOSURE: Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously, or may in the future earn fees and commission from dealing in the financial products. Performance of the Model Portfolio is based on a model portfolio and is gross of investment management, administration fees and transaction costs. The total return performance figures quoted are historical and include franking credits. Total returns assume the reinvestment of all portfolio income.

Sydney | Head Office	Melbourne	Brisbane	Perth	Adelaide	Canberra
L15, 60 Castlereagh Street	L20, 90 Collins Street	L28, 111 Eagle Street	L14, 197 St Georges Terrace	L21, 25 Grenfell Street	L1, 18 National Circuit
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Perth WA 6000	Adelaide SA 5000	Barton ACT 2600
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 6188 7643	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300
Fax: +61 2 9232 1296	Fax: +61 3 9650 2277	Fax: +61 7 3036 2599	Fax: +61 8 6188 7607	Fax: +61 2 9232 1296	Fax: +61 2 6113 5399
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 636 625

Holder of Australian Financial Services Licence Number 236048 | ABN 24 003 221 583 | Participant of ASX Limited, Chi-X Australia Pty Limited | www.shawandpartners.com.au