

# Shaw SMA - Debt Securities Income Portfolio

Shaw and Partners Portfolio Strategies

## Monthly Review – November 2018

### Top 5 Holdings

ASX Code	Security	Alloc: 49.55%
CHN0005AU	CC JCB Active Bond	10.66%
SSB0122AU	Legg Mason Aust. Bond Trust	10.61%
MXT	Metrics Credit	9.85%
FRT0027AU	Franklin Aust. Rtrn Bond Fund	9.52%
PLUS	Vaneck Vectors Aus Corp Bond	8.91%

### Portfolio TWR Performance

Number of Securities: 16

Return	1 Mth	3 Mth	6 Mth	1yr	Incep.*
Total TWR Portfolio	0.26%	0.55%	1.84%	2.57%	2.90%
Portfolio Objective	0.25%	0.76%	1.51%	3.22%	3.22%
Excess vs. Objective	0.02%	-0.21%	0.33%	-0.64%	-0.32%

\*Annualised. Performance Period: 06-Sep-17 to 30-Nov-18

### Portfolio Characteristics

% Single name securities in Portfolio:	29.33%
Expected Yield to Call/Maturity (incl frank'g)*:	3.25%
Expected Gross Running Yield (incl frank'g)*:	4.53%
Expected Cash Running Yield (ex frank'g)*:	4.53%
Expected Years to Maturity*:	4.2
Number of Securities (Direct)*:	9
Floating Rate exposure*:	27.55%
Fixed Rate Exposure*:	72.45%

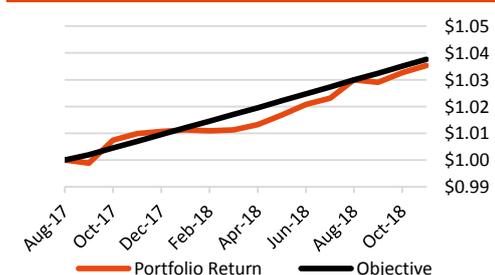
Rates	Nov-18	Oct-18	Diff
Cash Rate Aus	1.50%	1.50%	0.00%
90 day bank bill rate Aus	1.95%	1.91%	0.04%
3 year bond % Aus	2.08%	2.05%	0.03%
10 year bond % Aus	2.60%	2.64%	-0.04%
3 year Swap % Aus	2.11%	2.09%	0.02%
5 year Swap % Aus	2.44%	2.43%	0.01%
iTraxx Aus	86.70	81.60	5.10
AUD/USD Exchange rate	0.7306	0.7073	0.0233

\*Represents only the direct name security component of the portfolio.

### Portfolio Attribution - 1 month

Income Attribution	0.35%
Capital Attribution	-0.08%

### Value of \$1 Invested at Inception\*



As at 6-Sept-17

\*Returns are gross of franking credits

### Portfolio Details

Portfolio Name:	Shaw Debt Securities Income Portfolio
Portfolio Inception Date:	6-Sept-17
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

- The portfolio return for the month of November was +0.26%, 0.02% above the return objective. For the quarter the portfolio is up 0.55%, 0.21% below its objective. The portfolio is 0.32% below its objective since inception.
- The total income return for the month was 0.35%. A total of 7 of the holdings traded ex interest in November. The largest 3 were the Qantas Senior Bond, the Lend Lease Senior Bond & Suncorp Sub Debt.
- The main contributors to performance were MCP Master Trust MXT +0.104%, NAB Sub Notes NABPE +0.038%, and JCB Active Bond +0.034%. The main detractor during the month was YTMDX1, -0.009%.
- No changes were made during the month to weights across the portfolio, with the intention to maintain some interest rate duration exposure via JCB's active strategy.
- Bonds rose and yields fell again during November, with 10 year US Treasury around 15.5bps lower to 2.99%, while Aussie 10 years were down 3.5bps from 2.63% to 2.59%. Credit Default Swaps also widened, with the Aussie iTraxx Index ~ 5 pts wider at 86.70. Yet again cash rates were left at 1.5%.

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## 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 RBA cash rate plus 1.5% 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 October was +0.26%, slightly ahead of its return objective. The portfolio has underperformed its objective since inception by 0.32%.

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## Portfolio Outlook and Strategy

Corporate Bond Spreads widened over November with BBB USD Corporate 10 year Margins ~ 17bps higher, going from 157bps to 174bps. Corporate Bond spreads in Australia in shorter dated paper were more muted, with spreads 3.5bps wider on average, while the Australian 5 year iTraxx index widened by ~ 5bps to 86.7bps.

Primary issuance was busy with about A\$26.5bn issued versus around A\$6bn in October. The yield curve flattened in November, with yields higher at the shorter end (3 year bonds +3bps) and lower at the long end (10 year bonds -4bps).

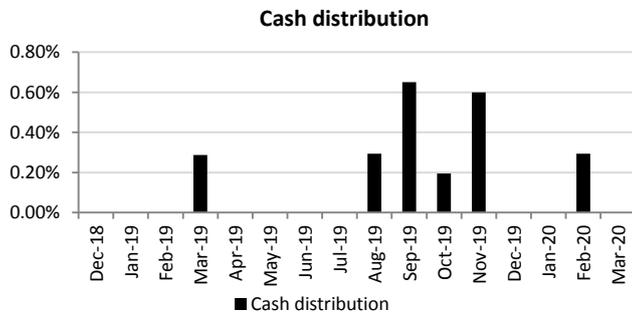
The gap between the cash rate and 90 day BBSW widened by 4bps to 45bps, with month end cash rates at 1.50% versus 3 month bills at 1.95%.

The portfolio currently has 10 direct listed securities, 3 ETFs, 3 Managed Bond Funds and 1 Listed Investment Trust. The direct securities represent 29.9% of the portfolio. The expected average yield to maturity is 3.36% for the directly invested portion of the portfolio. We continue to monitor the expectations around interest rates and credit margins, particularly in the context of wider credit spreads in November.

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.

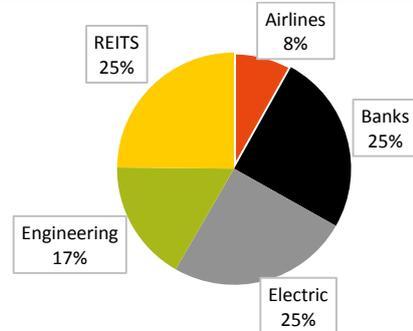
ASX Code	Security	Last Price	Frank'g	Running Yield Cash	Yield to C/M	Call Date/ Maturity	Years	Issue Margin
NABPE	NAB Sub Notes 2 **	\$102.96	-	4.01%	4.00%	20-Sep-23	4.8	2.20%
YTMD01	Downer Group Finance Pty Senior Bond	\$106.04	-	4.24%	2.91%	11-Mar-22	3.3	-
YTMAST	Ausnet Services Holdings Senior Bond	\$113.45	-	5.07%	2.54%	28-Jun-22	3.6	-
YTMDX1	Dexus Finance Pty Ltd Senior Bond	\$108.50	-	4.38%	3.43%	05-Nov-25	6.9	-
YTMMG2	Mirvac Group Finance Ltd Senior Bond	\$103.12	-	3.39%	2.98%	18-Sep-23	4.8	-

**Chart 1: Expected Distribution Payment Profile**



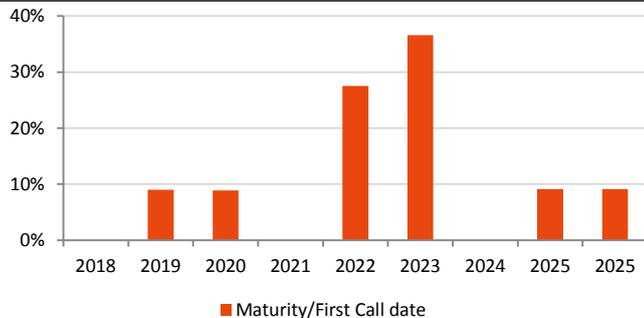
Source: Shaw and Partners

**Chart 2 : Industry / Sectors**



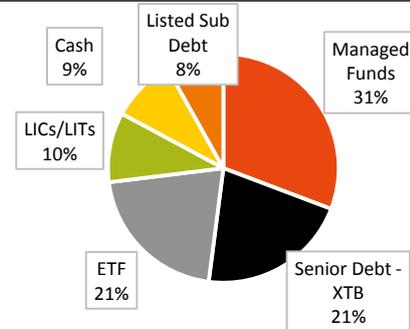
Source: Shaw and Partners

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



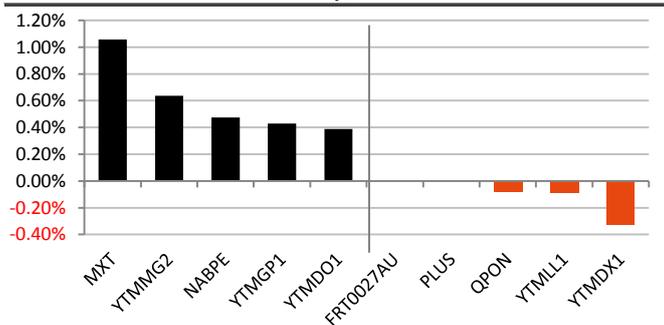
Source: Shaw and Partners

**Chart 4: Security Type**



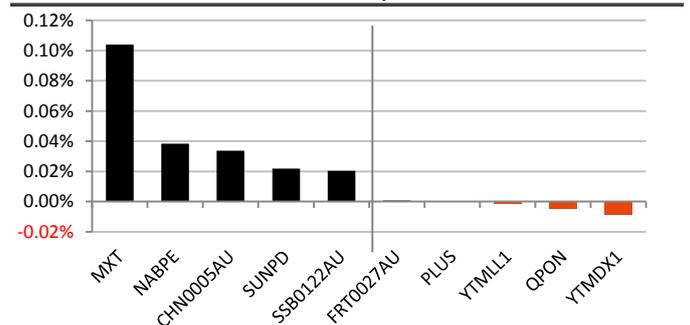
Source: Shaw and Partners

**Chart 5: 1 Month Total Return - Top/Bottom 5**



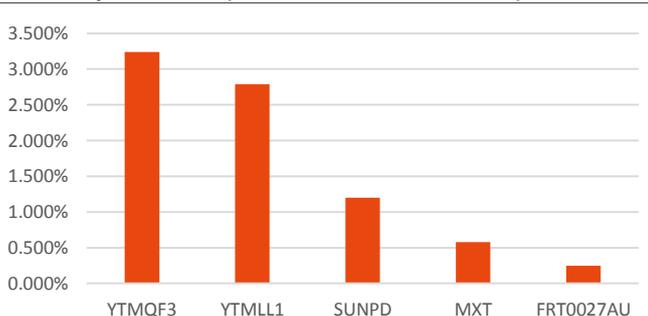
Source: Shaw and Partners

**Chart 6: 1 Month Total Attribution - Top/Bottom 5**



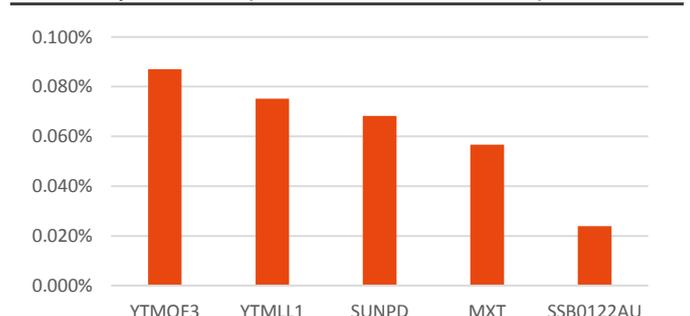
Source: Shaw and Partners

**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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