

# MONTHLY UPDATE

September 2017

## Performance as at 30<sup>th</sup> September 2017

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.27	0.88	0.88	4.33	5.67	7.37
Catholic Values Trust	0.78	1.06	1.06	8.47	5.22	8.55

All returns are net of fees and yearly returns are annualised

### Investment Market Review

We saw mixed returns between domestic and global equity markets in September, with the Australian share market, as measured by the S&P/ASX 200 Accumulation Index, remaining relatively flat and returning -0.02% for the month, while global shares, as measured by the MSCI World ex Australia Index (unhedged), performed very strongly to return 3.44% for the month.

### Domestic Economy

Australia's unemployment rate dropped to 5.5% in September, down from 5.6% in August, as 19,800 new jobs were created. 6,100 new full-time positions were added to the economy, while 13,700 part-time jobs were created for the month. Full-time employment has now increased by around 271,000 since September 2016, with part-time positions accounting for the remaining 64,000 increase. The unemployment rate of 5.5% is the lowest level in more than four years.

The Reserve Bank of Australia (RBA) maintained interest rates steady for the 14<sup>th</sup> straight month, at a record low of 1.5% at its 3 October meeting. Minutes from the meeting show that the RBA see the current strength in employment is expected to continue and support household spending, although this is partially offset by slow growth in wages and high levels of household debt. As a result, keeping the cash rate steady was consistent with sustainable economic growth and attaining the inflation target over time.

### U.S. Update

In September, employment growth in the U.S. recorded its first contraction since June 2010 off the back of disruptions caused by Hurricanes Harvey and Irma in Texas and Florida. There were 33,000 jobs lost against market expectations of 80,000 new jobs, with the leisure and hospitality sector the worst hit as 111,000 jobs were lost.

Another impact out of the hurricane disaster was retail sales, which jumped 1.6% from the previous month in September – the largest month-on-month increase since March 2015. The increase was largely attributed to reconstruction activity following Hurricane Harvey, with sales increasing in car sales as damaged cars were replaced and building material stores, as rebuilding began in affected areas.

## CCI Asset Management Update

### Income Trust Distribution

We are pleased to announce the September quarterly distribution payment for the Income Trust was made on 11<sup>th</sup> October 2017 and the distribution rate was 0.2430 CPU.

If you have any feedback or suggestions for the Monthly Update, please email [david.smith@cciassetmanagement.org.au](mailto:david.smith@cciassetmanagement.org.au)

### China Update

China reported strong trade data for September, with exports up 8.1% from a year ago and above August's 5.5% increase. Meanwhile imports grew by 18.7% from a year earlier and beat expectations of 13.5% growth, pointing to resilient domestic demand for the Chinese economy.

China's latest inflation report provided mixed news, with consumer price inflation (CPI) growing by 1.6% in the year to September, however decreasing from the 1.8% level reported in August and still around half the level targeted by the People's Bank of China. While CPI remained largely flat, producer price inflation (PPI) rose by 6.9% from a year earlier, largely due to higher commodity prices.

### Eurozone Update

The European Commission (EC) reported that economic sentiment in the Eurozone rose in September, recording the best result since July 2017. The economic sentiment index increased from August's 111.9 to 113.0, with higher sentiment in the manufacturing, retail trade and construction sectors.

Unemployment in the Eurozone came in at 9.1% in August 2017, stable when compared to July 2017 and down from 9.9% in August 2016, to remain at the lowest rate since February 2009. The Czech Republic recorded the lowest unemployment rate at 2.9%, followed by Germany (3.6%) and Malta (4.2%), while Greece (21.2%) and Spain (17.1%) were at the other end of the scale and reported the highest rates of unemployment.

# Income Trust

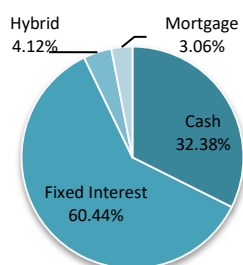
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees)#	0.32	1.04	1.04	4.98	6.32	8.02
Income Trust (Net of Fees)#	0.27	0.88	0.88	4.33	5.67	7.37
Benchmark	0.14	0.43	0.43	1.76	2.14	2.42
<b>Objective:</b> AusBond Bank Bill + 1.0%p.a. rolling 3yrs					3.14	

#All yearly returns are annualised

## Monthly Performance Commentary

The Income Trust continued to exceed its objective and delivered a positive return for September. All asset classes produced positive returns, with Hybrid Securities the strongest performing for the month. Qube Holdings Subordinated Note was the top contributor, followed by Bendigo & Adelaide Bank Floating Rate Note, while National Income Securities was the top detractor for the month.

## Asset Allocation



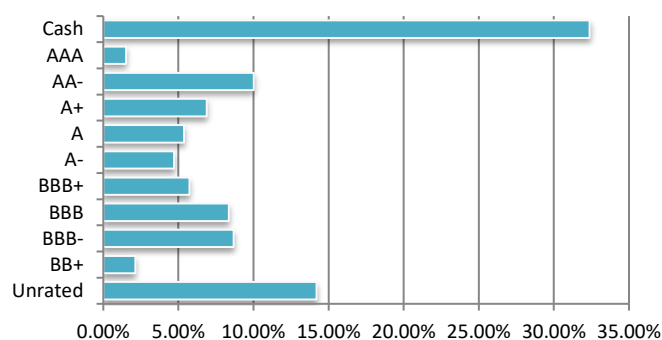
Top Contributors	Asset Class	Return %	Portfolio Contribution %
Qube Holdings Sub Note	Fixed Interest	1.318	0.043
Bendigo & Adel. Bank FRN	Fixed Interest	0.807	0.026
NAB FRN	Fixed Interest	0.376	0.020
Mortgage	Mortgage	0.579	0.018
AMP Limited FRN	Fixed Interest	0.299	0.016

Top Detractors	Asset Class	Return %	Portfolio Contribution %
National Income Securities	Fixed Interest	-0.468	-0.022
APA Sub. Note	Fixed Interest	-0.188	-0.009
NAB Capital Notes	Hybrid	-0.153	-0.001

## Portfolio Credit Rating Allocation

Below is the credit composition of the Income Trust Portfolio.



Unrated securities largely consist of unrated retail issues including Qube Holdings Ltd, APA Group, Suncorp Group Ltd, Seven Group Holdings Ltd, CBA and NAB Hybrid securities. Together these unrated securities represent 11.14% of the Income Trust Portfolio as at 31 September 2017. These securities have not been issued a credit rating by any rating agency in accordance with ASIC regulation regarding credit ratings on retail issues.

Credit ratings as classified by Standard & Poor's

## Fixed Interest

Fixed Interest outperformed the index for the month of September and in absolute terms, was the main contributor to the overall performance of the portfolio. At the security level, Qube Holdings Subordinated Notes was the top contributor this month, with Bendigo & Adelaide Bank Floating Rate Notes and National Australia Bank Floating Rate Notes also adding value to the portfolio. On the other side we had National Income Securities and APA Subordinated Notes as the top detractors.

## Hybrid Securities

Hybrid Securities also outperformed the index this month and in relative terms was the main contributor to performance. CBA Perls IX Capital Notes was the top contributor, followed by Seven Group Holdings Convertible Preference Share and CBA Perls VII, while NAB Capital Notes was the top detractor for the month.

Following recent maturities within Fixed Interest, Cash is currently overweight while a rebalance takes place as opportunities present.

## Hybrid Portfolio

Security	Issuer Margin
CBA Perls VII Capital Notes	BBSW 90 Day + 2.80%
CBA Perls IX Capital Notes	BBSW 90 Day + 3.90%
NAB Capital Notes	BBSW 90 Day + 3.50%
NAB Subordinated Notes 2	BBSW 90 Day + 2.20%
Seven Group Holdings Ltd Convertible Preference Share	BBSW 180 Day + 4.75%
Suncorp Group Capital Notes	BBSW 90 Day + 4.10%
Westpac Capital Notes 3	BBSW 90 Day + 4.00%

## Franking Credit Income

#FYTD: 0.0000%

## Fund Distribution History (cents per unit)

30 September 2016:	0.54
31 December 2016:	0.47
31 March 2017:	0.55
30 June 2017:	0.82
30 September 2017:	0.24

# Catholic Values Trust

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Catholic Values Trust (Gross of Fees) <sup>#</sup>	0.84	1.23	1.23	9.17	5.92	9.25
Catholic Values Trust (Net of Fees) <sup>#</sup>	0.78	1.06	1.06	8.47	5.22	8.55
Benchmark	0.90	1.05	1.05	7.84	7.32	9.52
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					4.39	4.73

<sup>#</sup>All yearly returns are annualised

## Monthly Performance Commentary

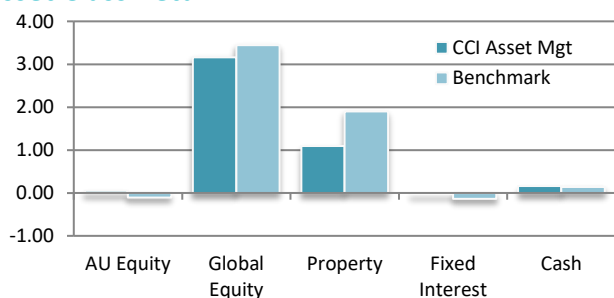
The Catholic Values Trust has continued to exceed its objective of outperforming CPI by 3% p.a. over rolling 3 and 5 year periods, and delivered a positive return of 0.78% for the month of September.

At the asset class level, Global Equities was the best performed, delivering a positive return although underperformed the benchmark, with property in a similar position. Australian Equities and Fixed Interest both outperformed the benchmark, while delivering relatively flat returns.

## Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	31.75%	35.00%
Global Equity	22.63%	25.00%
Property	3.21%	5.00%
Fixed Interest	19.66%	25.00%
Cash	22.75%	10.00%

## Asset Class Return

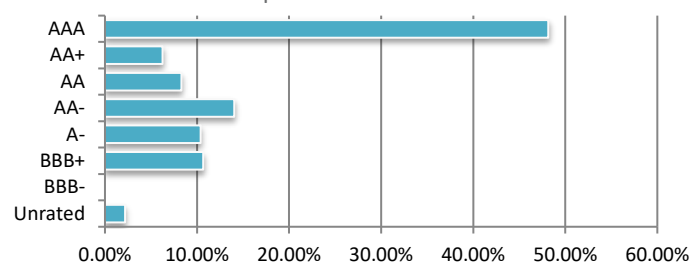


## Fixed Interest

The Catholic Values Trust is underweight in Fixed Interest, and continues to maintain the majority of its exposure to semi-government securities. Fixed Interest outperformed the benchmark for the month.

## Fixed Interest Credit Rating Allocation

Below is the credit composition of the Fixed Interest asset class.



Credit ratings as classified by Standard & Poor's.

## Australian Equities

Australian Equities produced a positive return for September, with Financials the top contributor, while a slide in commodity prices saw Materials as the main detractor. At the stock level, the Financials found favour again, with NAB, Westpac and Macquarie Group all in the top 5 contributors. CSL and South32 also added value, with CSL benefitting from receiving FDA approval for a new product – Priligien. At the other end of the scale BHP was the top detractor as investors took some profits following its recent rally and the decline in commodity prices. Other detractors included Telstra, Wesfarmers, Newcrest Mining and CBA, with CBA still in damage control following the money laundering accusations.

## Franking Credit Income

<sup>#</sup>FYTD: 0.1561%

Top Contributors	Return %	AU Contribution %
National Australia Bank Ltd	4.30	0.25
CSL Ltd	4.95	0.21
South32 Ltd	16.04	0.18
Westpac Banking Corporation	2.08	0.16
Macquarie Group Ltd	4.75	0.10

Top Detractors	Return %	AU Contribution %
BHP Billiton Ltd	-3.25	-0.19
Telstra Corporation Ltd	-4.92	-0.15
Wesfarmers Ltd	-3.03	-0.10
Newcrest Mining Ltd	-7.50	-0.10
Commonwealth Bank of Australia	-0.74	-0.07

## Global Equities

Manager: AMP RIL International Share Fund

The Fund produced a positive return in the September quarter and outperformed its benchmark. The Fund's developed market managers, Lazard and Investec, outperformed their benchmark, while the emerging market managers were mixed for the quarter. Investec's developed markets portfolio outperformance was driven by Information Technology stocks such as Lam Research and Samsung Electronics, along with an underweight position in Apple which declined following weak demand for the iPhone 8, while Lazard benefitted from holdings in Applied Materials after a favourable earnings guidance. Within the Emerging Markets, Investec returned over 6% for the quarter and comfortably outperformed the benchmark, with its South Korean holding in Samsung Electronics and Chinese car maker Geely, leading the way.

## Fund Distribution History (cents per unit)

30 June 2016:	2.34
31 December 2016:	1.82
30 June 2017:	6.19

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For any queries in relation to this CCI Asset Management Monthly Update please contact

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