

# MONTHLY UPDATE

December 2016

## Performance as at 31<sup>st</sup> December 2016

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.51	1.19	2.30	9.48	5.83	7.63
Catholic Values Trust	2.72	4.10	6.57	6.43	4.91	9.53

All returns are net of fees and yearly returns are annualised

## Investment Market Review

Domestic and global equity markets ended the year on a positive note, with the Australian share market, as measured by the S&P/ASX 200 Accumulation Index, returning 4.38% for the month of December, and global shares as measured by the MSCI World ex Australia Index (unhedged), continuing the Christmas spirit to finish the month up 4.48%.

### Domestic Economy

Australia's economy shrank by 0.5% in the September quarter, the first quarterly decline since March 2011. This saw annual GDP fall to 1.8%, the lowest recorded level since March 2009 and down from just over 3% p.a. recorded the previous quarter. Weakness was across the board, with a large decline in public spending (2.4% quarter on quarter), a key component.

Australia's unemployment rate surprisingly rose to 5.8% in December, up from 5.7% in November and to the highest jobless figure since June. The economy added 13,500 jobs while the number of unemployed increased by 14,700, with the participation rate up 0.1% to 64.7%. Full-time employment was stronger than part-time for the third straight month and added 9,300 positions, as part-time employment increased by 4,200 roles.

### U.S. Update

The U.S. Federal Reserve raised interest rates by 0.25% to a range of 0.50% and 0.75%, at its December meeting. This signified their confidence in the improving U.S. economy and was supported by views of a further two rates rises throughout 2017. This was just the second time in a decade that the Fed has raised rates, with the first back in December 2015.

The U.S. unemployment rate rose to 4.7% in December from a nine-year low of 4.6% in November, with the economy adding 156,000 jobs and the participation rate unchanged at 62.7%. Jobs increased across the board, with health care adding 43,000 jobs and social assistance adding 20,000 roles, while food services, transportation and warehousing, financial activities and professional and business services all continued the trend up.

The U.S. economy grew by 3.5% in the third quarter of 2016. This was the best quarter of growth in two years and came of the back of solid consumer spending and a jump in soybean exports.

## CCI Asset Management Updates

### Distributions

The December Quarter/Bi-Yearly distributions are scheduled to be paid next week.

### Income Trust

1st October to 31st December 2016  
Cents Per Unit: 0.4730

### Catholic Values Trust

1st July to 31st December 2016  
Cents Per Unit: 1.8158

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's manufacturing sector expanded for the fifth month in a row in December, however growth slowed slightly with the manufacturing Purchasing Managers' Index (PMI) falling from November's two-year high of 51.7% to 51.4% in December. Inflation also fell in December, retreating from November's seven-month high of 2.3% to 2.1%. Inflation averaged 2.0% in 2016, which is up from 1.4% in 2015 but below the 3.0% target.

## Eurozone Update

The industrial sector in the Eurozone improved in November, growing at the fastest pace in 3 months. Industrial production increased by 1.5% from the previous month, with increased production of non-durable consumer goods and intermediate goods leading the way.

At a country level, Germany's economy slowed down in the third quarter, as exports contracted due to uncertainty in the international trading environment. In politics, Angela Merkel announced her intention to seek a fourth term as German Chancellor in next year's parliamentary election. Given recent results – (Brexit and the U.S. election), this is expected to be a close battle given the recent rise of the far-right AfD party.

# Income Trust

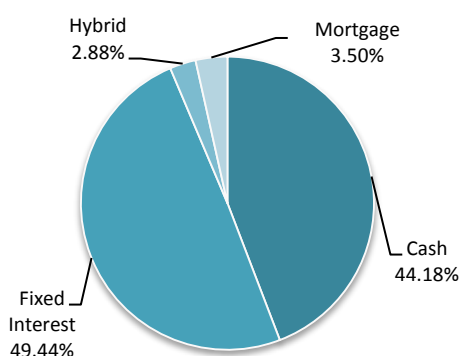
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees)#	0.57	1.35	2.62	10.13	6.48	8.28
Income Trust (Net of Fees)#	0.51	1.19	2.30	9.48	5.83	7.63
Benchmark	0.15	0.44	0.92	2.07	2.36	2.78
<b>Objective:</b> AusBond Bank Bill + 1.0%p.a. rolling 3yrs					3.36	

#All yearly returns are annualised

## Monthly Performance Commentary

The Income Trust continues to exceed its objective and delivered a positive return of 0.51% for December. All asset classes outperformed, with Hybrids and Fixed Interest/Mortgages leading the way. National Income Securities was the top contributor for the third straight month, followed by APA Subordinated Notes, while ANZ Convertible Preference Shares was the sole detractor to performance for the month.

## Asset Allocation



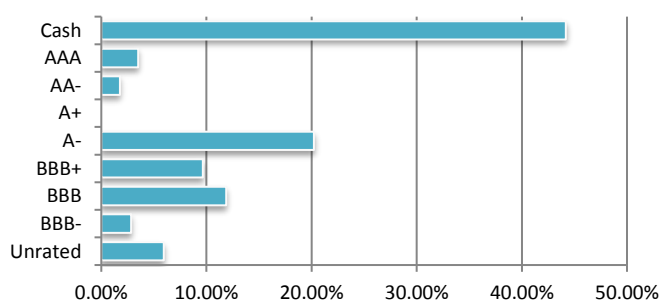
Top Contributors	Asset Class	Return %	Portfolio Contribution %
National Income Securities	Fixed Interest	3.863	0.126
APA Sub. Note	Fixed Interest	1.230	0.074
Colonial Sub. Note	Fixed Interest	0.651	0.039
ANZ Sub. Note	Fixed Interest	0.630	0.039
Westpac Sub. Note (WBCHA)	Fixed Interest	0.484	0.025

Top Detractors	Asset Class	Return %	Portfolio Contribution %
ANZ CPS (ANZPA)	Hybrid	-0.596	-0.003

## Portfolio Credit Rating Allocation

Below is the credit composition of the Income Trust Portfolio.



Unrated securities largely consist of unrated retail issues including Suncorp Group Ltd, Seven Group Holdings Ltd, NAB and CBA Hybrid securities. Together these unrated securities represent 5.93% of the Income Trust Portfolio as at 31 December 2016. 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 December. At the security level, it was a similar story to last two months, with National Income Securities and APA Subordinated Notes the top two contributors, while Colonial Subordinated Notes, ANZ Subordinated Notes and Westpac Subordinated Notes (WBCHA) all made positive contributions for the month. There were no detractors from performance for this period.

## Hybrid Securities

Hybrid Securities strongly outperformed the index this month and in relative terms was the main contributor to the overall performance of the portfolio. Suncorp Convertible Preference Shares, CBA Perls VII, NAB Convertible Preference Shares and Seven Group Holdings Convertible Preference Shares were the top contributors for the month, while ANZ Convertible Preference Shares was the sole detractor from performance.

The portfolio currently maintains an underweight position to Hybrids, while maintaining an overweight position to Cash.

## Hybrid Portfolio

Security	Issuer Margin
ANZ Step Up Preference Share	BBSW 90 Day + 3.10%
CBA Perls VII Capital Note	BBSW 90 Day + 2.80%
NAB Convertible Preference Share	BBSW 90 Day + 3.20%
Seven Group Holdings Ltd Convertible Preference Share	BBSW 180 Day + 4.75%
Suncorp Group Subordinated Notes 3	BBSW 90 Day + 3.40%
Westpac Capital Notes 3	BBSW 90 Day + 4.00%

## Franking Credit Income

#FYTD: 0.0249%

## Fund Distribution History (cents per unit)

31 December 2015:	0.56
31 March 2016:	0.58
30 June 2016:	0.86
30 September 2016:	0.54
31 December 2016:	0.47

# Catholic Values Trust

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Catholic Values Trust (Gross of Fees) <sup>#</sup>	2.78	4.28	6.92	7.13	5.61	10.23
Catholic Values Trust (Net of Fees) <sup>#</sup>	2.72	4.10	6.57	6.43	4.91	9.53
Benchmark	2.73	3.50	6.47	8.21	7.24	10.63
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					4.69	5.00

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

## Monthly Performance Commentary

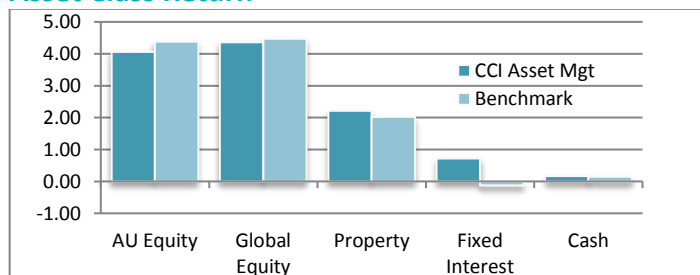
The Catholic Values Trust finished 2016 on a high, as global and domestic equity markets rallied into the Christmas period. This saw the Trust deliver a positive return for December, in line with the benchmark.

All asset classes produced positive returns this month. Australian and Global Equities were the strongest asset classes at an absolute level, although underperformed the benchmark, while Fixed Interest and Property delivered positive returns and outperformed the benchmark.

## Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	36.59%	40.00%
Global Equity	22.80%	20.00%
Property	3.17%	5.00%
Fixed Interest	19.59%	25.00%
Cash	17.85%	10.00%

## Asset Class Return

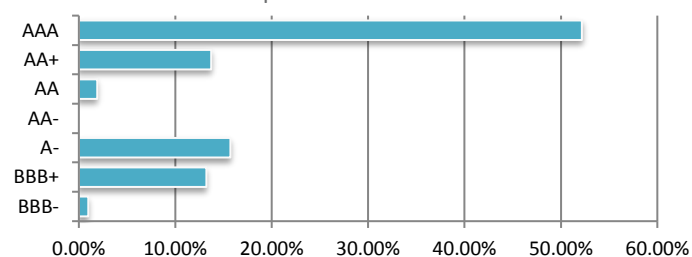


## Fixed Interest

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 delivered a positive return for December, however underperformed the ASX 200 Accumulation Index for the month. At the sector level, Health Care was the top contributor, followed by Consumer Staples and Energy, while Telecommunications was the main detractor. At the stock level, Financials were again prominent with CBA, ANZ, NAB and Westpac the top contributors, while the top detractors were TPG Telecom Ltd and Sydney Airport, with the latter declining following the government's announcement that it could operate the new Western Sydney Airport, however the company would be required to fund the entire project.

## Franking Credit Income

<sup>#</sup>FYTD: 0.2721%

Top Contributors	Return %	AU Contribution %
Commonwealth Bank of Australia	4.78	0.46
ANZ Ltd	7.07	0.43
National Australia Bank Ltd	6.01	0.35
Westpac Banking Corporation	4.25	0.32
BHP Billiton Ltd	2.66	0.22

Top Detractors	Return %	AU Contribution %
TPG Telecom Ltd	-4.48	-0.04
Sydney Airport	-2.07	-0.02
Sonic Healthcare Ltd	-1.83	-0.02
Vocus Communications Limited	-7.19	-0.02
Mantra Group Ltd	-0.96	-0.02

## Global Equities

Manager: AMP RIL International Share Fund

The Fund was up over the December quarter, though slightly underperformed the benchmark for the period. The Fund's emerging market holdings detracted from the return, while within the developed markets, Lazard outperformed the index and Investec marginally underperformed. Lazard's outperformance was primarily driven by strong stock selection in the U.S. and Japan. Time Warner was the largest contributor, with its share price increasing following a bid from AT&T to purchase the company, while Japan's Sumitomo Mitsui Financial Group benefited from positive sentiment towards banks. Investec slightly underperformed the benchmark, but was up strongly in absolute terms. Investec's main gains were within the energy sector, with Hess (U.S. oil and gas company) and Valero Energy (U.S. fuel company) making strong contributions.

## Fund Distribution History (cents per unit)

31 December 2015:	1.37
30 June 2016:	2.34
31 December 2016:	1.82

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

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