

# MONTHLY UPDATE

May 2019

## Performance as at 31<sup>st</sup> May 2019

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.28	1.01	3.26	6.05	6.53	5.15
Catholic Values Trust	-0.26	2.86	7.13	8.96	8.18	6.48

All returns are net of fees and yearly returns are annualised

### Investment Market Review

Equity markets were mixed across the globe in May, with the Australian share market, as measured by the S&P/ASX 100 Accumulation Index, continuing on its way and returned 2.13% for the month, while global shares, as measured by the MSCI World ex Australia Index (unhedged), gave back most of last month's gains and returned -4.43% for May.

### Domestic Economy

In a surprise result, Australian Prime Minister Scott Morrison and the Liberal-National Coalition won re-election, after Australia went to the polls in May. With Bill Shorten conceding defeat and also stepping down as the Labor Party leader, the Coalition will govern with a slight majority.

The Reserve Bank of Australia (RBA) made the historic move of cutting interest rates for the first time in three years, to an all-time low of 1.25% at its meeting in early June. Following weeks of speculation, RBA governor Phillip Lowe announced the cash rate would be slashed by 25 basis points and said the decision was made "to support employment growth and provide greater confidence that inflation will be consistent with the medium-term target".

Australian's unemployment rate remained at 5.2% in May, despite the creation of 42,300 new jobs, as 66% of adults were either in jobs or looking for work (participation rate) last month. We saw part-time employment increase by 39,800, while there was only 2,500 new full-time positions.

### U.S. Update

The U.S. unemployment rate remained at its record low of 3.6% in May, however only 75,000 new positions were created, compared with 180,000 new jobs which the market had expected. There was weakness across the board with the public sector leading the way. Retail jobs fell by 7,600 for the month, while government jobs were cut by 15,000 and manufacturing slowed to 3,000 jobs, compared with an average of 22,000 per month throughout 2018. On the positive side, professional and business services added 33,000 jobs, leisure and hospitality created 26,000 new positions and health care put on 16,000 new roles. Further concerns for the labour market appeared in the slow wage growth. While wage growth remained above 3% for the 10<sup>th</sup> month in a row, it did drop from 3.2% to 3.1% year over year.

## CCI Asset Management Update

### End of Financial Year

**With the end of the financial year approaching, it's an ideal time to ensure that all your client information is up to date. Have your bank details changed, do you have a new email address or is there a change of authorised signatories?**

**Let us know of any change by completing the Change of Details Form via the below address:**

[www.cciassetmanagement.org.au/forms.htm](http://www.cciassetmanagement.org.au/forms.htm)

If you have any feedback or suggestions for the Monthly Update, please email me at

[david.smith@cciassetmanagement.org.au](mailto:david.smith@cciassetmanagement.org.au)

### China Update

The trade war between China and the United States worsened in recent weeks with both countries imposing new tariffs on one another in May and the U.S. threatening to slap tariffs on all remaining Chinese imports. The United States raised tariffs from 10% to 25% on USD 200 billion of Chinese imports and China retaliated by increasing tariffs from between 5% and 10% to between 10% and 25% on USD 60 billion of U.S. imports. The biggest risk to the Chinese economy is additional tariffs with the U.S. reviewing a further 25% tariff on all remaining imports.

### Eurozone Update

The Eurozone labour market continued to improve in April, with the number of unemployed people decreasing by 108,000 and the unemployment rate falling from 7.7% in March, to 7.6% in April. This is the lowest unemployment rate since August 2008. Greece (18.5%) and Spain (13.8%) continue to have the highest unemployment rate, while Germany (3.2%) and the Netherlands (3.3%) have the lowest unemployment rates.

Economic sentiment in the Eurozone improved for the first time in 11 months and rose 1.2 points from the previous month. The improvement was a result of higher confidence in industry and services and amongst consumers, while on the flip side, sentiment in the construction sector took the sharpest fall in around three years and retail trade was flat.

# Income Trust

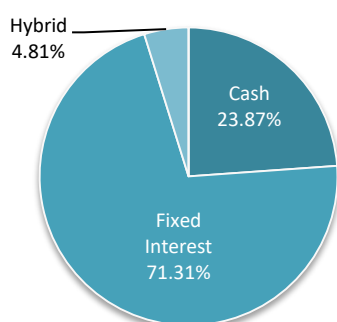
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees)#	0.33	1.17	3.86	6.70	7.18	5.80
Income Trust (Net of Fees)#	0.28	1.01	3.26	6.05	6.53	5.15
Benchmark	0.15	0.48	1.84	1.99	1.87	2.10
<b>Objective:</b> AusBond Bank Bill + 1.0%p.a. rolling 3yrs					2.87	

#All yearly returns are annualised

## Monthly Performance Commentary

The Income Trust continued to exceed its objective and delivered a positive return for May, with Fixed Interest the top contributing asset class. National Income Securities was the top contributing security for the month, while Members Equity Bank Note was the top detractor.

## Asset Allocation

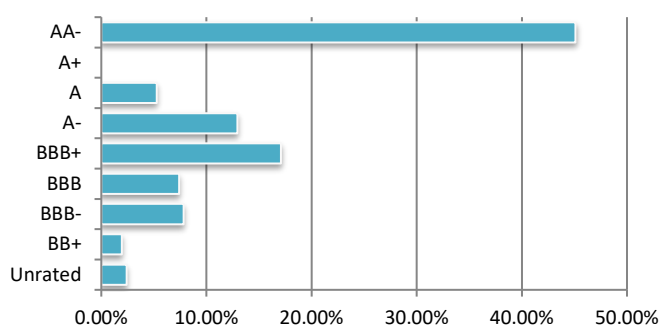


Top Contributors	Asset Class	Return %	Portfolio Contribution %
National Income Securities	Fixed Interest	1.238	0.067
Qube Holdings FRN	Fixed Interest	1.225	0.039
Credit Union Australia FRN	Fixed Interest	1.032	0.017
CBA FRN	Fixed Interest	0.212	0.015
AMP Bank FRN	Fixed Interest	0.245	0.013

Top Detractors	Asset Class	Return %	Portfolio Contribution %
Members Equity Bank	Fixed Interest	-0.15	-0.02
NAB Subordinated Notes 2	Hybrids	-0.39	-0.02

## 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 and Westpac Hybrid securities. Together these unrated securities represent 2.40% of the Income Trust Portfolio as at 31 May 2019.

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 May and was the main contributor to the overall performance of the portfolio in absolute terms. At the security level National Income Securities was the top contributor, followed by Qube Subordinated Note, Credit Union Australia Floating Rate Note and CBA Floating Rate Note. On the down side, Members Equity Bank was the sole detractor for the month.

## Hybrid Securities

Hybrid Securities also delivered a positive return, however underperformed the index for the month. Like April, there was little movement in the returns, with Suncorp Capital Notes the top contributor, followed by Westpac Capital Notes 3 and CBA Perls VII Capital Notes. NAB Subordinated Notes 2 was the sole detractor for the month, although they were basically flat.

## Hybrid Portfolio

Security	Issuer Margin
ANZ Bank Preference Shares	BBSW 90 Day + 3.40%
ANZ Capital Notes 1	BBSW 90 Day + 3.40%
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%
Suncorp Group Capital Notes	BBSW 90 Day + 4.10%
Westpac Group Capital Notes	BBSW 90 Day + 3.70%
Westpac Capital Notes 3	BBSW 90 Day + 4.00%

## Franking Credit Income

#FYTD: 0.03%

## Fund Distribution History (cents per unit)

31 March 2018:	0.51
30 June 2018:	2.34
30 September 2018:	0.54
31 December 2018:	0.55
31 March 2019:	0.49

# Catholic Values Trust

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Catholic Values Trust (Gross of Fees) <sup>#</sup>	-0.20	3.03	7.77	9.66	8.88	7.18
Catholic Values Trust (Net of Fees) <sup>#</sup>	-0.26	2.86	7.13	8.96	8.18	6.48
Benchmark	-0.11	2.99	6.87	9.02	8.19	7.67
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					5.00	4.71

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

## Monthly Performance Commentary

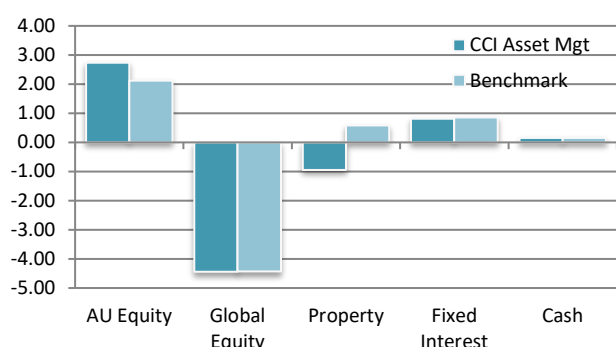
After a very strong start to the year for the Catholic Values Trust, it took a breath and delivered -0.26% (net of fees) for the month of May. Although we saw a slight negative for the month, the financial year to date performance was a solid 7.13% (net of fees), as it continued to exceed its objective of outperforming CPI by 3% p.a. over rolling 3 and 5 year periods.

Australian Equities was the best performing asset class, with strong gains within the financial sector. Global Equities was the top detractor, followed by property, while Fixed Interest was a positive contributor although it marginally underperformed the benchmark.

## Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	33.27%	35.00%
Global Equity	24.64%	25.00%
Property	3.07%	5.00%
Fixed Interest	18.85%	25.00%
Cash	20.17%	10.00%

## Asset Class Return

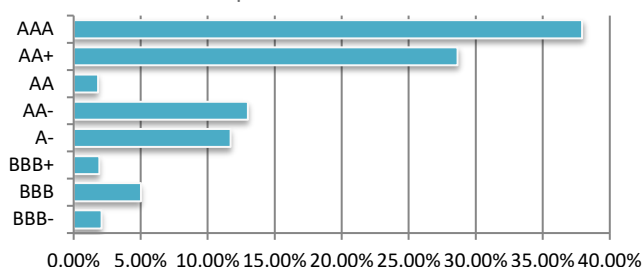


## Fixed Interest

The Catholic Values Trust is underweight in Fixed Interest, and continues to maintain the majority of its exposure to semi-government securities. Fixed Interest marginally underperformed 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 had another strong month and was the top performing asset class, with Financials leading the way, while Energy detracted from performance. At the security level, the banks continued on from last month with the Big 4 banks (NAB, CBA, ANZ and Westpac) the top contributors, followed by Telstra. On the other side, Macquarie Group shares retracted even after announcing a record \$3 billion profit, as guidance for the year ahead was soft. Other detractors included QBE Insurance, Bluescope Steel, Treasury Wines Estate and Reliance Worldwide, which also revised its guidance down for FY 2019.

## Franking Credit Income

<sup>#</sup>FYTD: 1.04%

Top Contributors	Return %	AU Contribution %
National Australia Bank	14.720	0.208
Commonwealth Bank	5.354	0.148
ANZ Bank	6.932	0.113
Westpac Banking Corporation	4.927	0.092
Telstra Corp Ltd	7.988	0.071

Top Detractors	Return %	AU Contribution %
Macquarie Group	-7.49	-0.07
QBE Insurance	-9.74	-0.04
Bluescope Steel	-21.64	-0.04
Treasury Wines Estate	-12.50	-0.02
Reliance Worldwide Corp	-24.80	-0.02

## Global Equities

**Manager: Vanguard Ethically Conscious International Shares Index Fund is replacing Perpetual Investments**

Over the end of May and start of June we have transitioned our Global Equities portfolio from Perpetual Investments to Vanguard Ethically Conscious International Shares Index Fund. This decision was made following our constant monitoring of all our fund managers and ongoing market analysis to ensure we offer market leading solutions. Some key factors that supported this decision, was a change from active management to passive management and the ability to align with our Catholic Values Screening Policy, in a cost effective manner. The fund tracks the FTSE Developed ex Australia ex Non-renewable, Vice Products and Weapons Net Tax Index and aligns with the same passive management style implemented for our Australian Equities asset allocation. (Note, performance commentary will return for next month's update).

## Fund Distribution History (cents per unit)

31 December 2017:	1.42
30 June 2018:	9.01
31 December 2018:	2.93

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

**1300 655 220**

[www.cciassetmanagement.org.au](http://www.cciassetmanagement.org.au)

**David Smith**

Business Development Manager

**03 9934 3077**

[david.smith@cciassetmanagement.org.au](mailto:david.smith@cciassetmanagement.org.au)

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