CCI Asset Management

MONTHLY UPDATE

February 2021

Performance as at 28th February 2021

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.15	0.70	2.28	2.51	4.03	5.54
Catholic Values Trust	0.54	1.13	8.77	6.56	8.13	9.21

All returns are net of fees and yearly returns are annualised

Investment Market Review

Global equity markets, as measured by the MSCI World ex Australia Index (unhedged) closed the month with a positive return of 1.5% and the Australian share market, as measured by the S&P/ASX 100 Accumulation Index, also returned 1.5% driven by expectations of post-pandemic normalisation and rising bond yields.

The key concern in February was around the impact of rising bond yields on equity market valuations. Bond yields increased significantly, particularly in the US and Australia with the US 10-year government bond yields up by around 100 bps in the U.S. from last year's low and by around 130 bps in Australia.

Domestic Economy Update

The domestic economic recovery continued to run faster than expected where we saw the December quarter GDP grow 3.1%, after September quarter growth of 3.4% as COVID-19 related restrictions continued to ease. The strength of commodities (particularly iron ore) was the key contributor to Dec quarter GDP, followed by an increase in household consumption. Record-low level interest rates combined with government income support measures are feeding into rising house prices alongside growth in housing related debt.

The Australian labour market continued to recover with unemployment falling further to 6.4% and underemployment[1] falling to 8.1%. While the jobs recovery has been faster than expected we are still a long way from full employment and a decent pick up in wages growth particularly in the industries that have been most affected by health-related restrictions on activity and travel. The RBA remains committed to maintain the cash rate at 0.10% (until 2024 at the earliest) where they expect to see real wages growth, with significant gains in employment and a return to a tight labour market for inflation to get back up to 2-3% range.

Oil, metal and iron ore prices rose over the month which helped push the Australian dollar to a three year high at $US0.80. New coronavirus cases also remained under control over February despite another five-day lockdown in Victoria to clamp down on the potential spread of the UK strain of coronavirus.

CCI Asset Management Updates

Need to update any details?

Have you moved, changed bank details or had a change of personnel? If any of these changes or others have occurred, then you may need to update your account details with CCI Asset Management.
Let us know of any change by completing the Change of Details Form via the below address:
www.cciassetmanagement.org.au/forms

Feedback

If you have any feedback or suggestions for the Monthly Update, please email
david.smith@cciassetmanagement.org.au

Global Update

Falling infection rates and the acceleration of vaccine rollout continued to drive global markets higher in February. The U.S. economic recovery in particular is starting to turn up on the back of the expected additional approval of President Biden's fiscal program. President Biden has delivered a US$1.9 trillion stimulus package that includes a one-off payment of $1,400 for most Americans, unemployment support, increased food stamps, grants to businesses and increased education funding. While the enormous size of the fiscal package could lead to a significant increase in consumption and has been boosting the economic recovery, it is increasing concern around potential inflation as reflected in the recent rise in government bond yields. The U.S. 10-year government bond yield ended the month at 1.42% (up from 0.91% at the start of the year).

Further, the U.S. Federal Reserve indicated that while the medium-term outlook is improving, the U.S. economy is still a long way from the Fed's goals of progress on both employment and inflation and has kept its guidance on asset purchases unchanged.

1. In Australia, underemployment rate measures the number of people actively looking for a job as a percentage of the labour force.

Income Trust

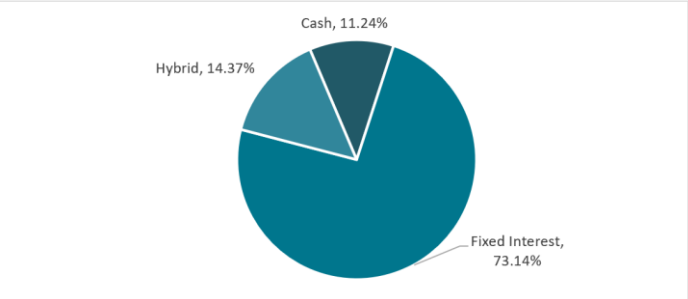
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees)#	0.20	0.86	2.71	3.16	4.68	6.19
Income Trust (Net of Fees)#	0.15	0.70	2.28	2.51	4.03	5.54
Benchmark	0.00	0.00	0.04	0.21	1.16	1.44
Objective: Bloomberg AusBond Bank Bill + 1.0%p.a. rolling 3yrs					2.16	

All yearly returns are annualised
^Benchmark is Bloomberg AusBond Bank Bill Index

Monthly Performance Commentary small

The Income Trust produced a small positive return for February, returning 0.15% net of fees. Fixed interest contributed the most to the overall Trust return, followed by hybrids. Cash returns continued to be muted with interest rates likely to remain low for a while. The Fund has outperformed its investment objective over three years.

Asset Allocation

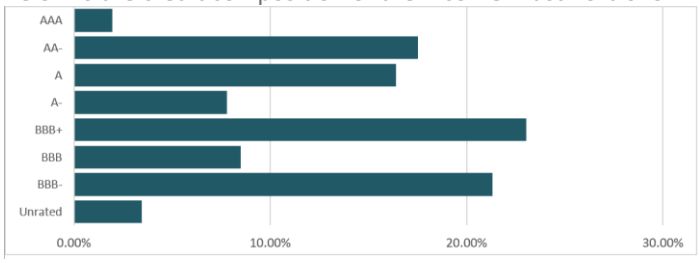


Top Contributors	Asset Class	Return %	Portfolio Contribution %
QUB Subordinated Notes	Fixed Interest	1.801	0.062
ANZ FRN	Fixed Interest	0.652	0.028
Standard Chartered Bank FRN	Fixed Interest	0.663	0.023
WBC Capital Notes 7	Hybrid	1.246	0.018
CBA FRN	Fixed Interest	0.595	0.015

Top Detractors	Asset Class	Return %	Portfolio Contribution %
Canadian Imperial Bank	Fixed Interest	-0.314	-0.016
Bendigo & Adelaide Bank FRN	Fixed Interest	-0.430	-0.015
ANZ FRN	Fixed Interest	-0.133	-0.009
CBA FRN	Fixed Interest	-0.200	-0.008
CBA Perls IX Capital Note	Hybrid	0.239	-0.007

Portfolio Credit Rating Allocation

Below is the credit composition of the Income Trust Portfolio.



Unrated securities largely consist of unrated retail issues including Bendigo & Adelaide Bank, Suncorp Group Ltd and Macquarie Group. Together these unrated securities represent 3.46% of the Income Trust Portfolio as at 28 February 2021. 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

The overweight allocation to floating rate notes contributed the most to returns even with credit spreads widening around 9 bps. We expect the income of these securities to increase to reflect the market's expectations of higher interest rates. Notable, top performers here included Qube Subordinated Notes, ANZ Floating Rate Note and Standard Chartered Bank Floating Rate Note. Canadian Imperial Bank and Bendigo and Adelaide Bank Floating Rate Note were the top detractors for the period.

Hybrid Securities

Hybrids returned a small positive return with median traded margins almost unchanged from the previous month. Westpac Bank Capital Notes 7, NAB Capital Notes 5, Macquarie Capital Notes 2 and ANZPF Capital Note 6 were the top contributors for the month, while CBA Perls IX Capital Note was the key detractor for the month.

Hybrid Portfolio

Security	Issuer Margin
ANZ Bank Preference Shares	BBSW 90 Day + 3.40%
ANZ Capital Notes 6	BBSW 90 Day + 3.60%
Bendigo & Adel Capital Notes	BBSW 90 Day + 3.80%
CBA Perls VII Capital Notes	BBSW 90 Day + 2.80%
CBA Perls XII Capital Notes	BBSW 90 Day + 3.00%
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%

Fund Distribution History (cents per unit)

31 December 2019:	0.32
31 March 2020:	0.32
30 June 2020:	0.30
30 September 2020:	0.12
31 December 2020:	0.15

Catholic Values Trust

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Catholic Values Trust (Gross of Fees)#	0.60	1.31	9.24	7.26	8.83	9.91
Catholic Values Trust (Net of Fees)#	0.54	1.13	8.77	6.56	8.13	9.21
Benchmark	0.75	1.20	8.55	5.75	7.43	8.68
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					4.59	4.71

#All yearly returns are annualised
*Benchmark is the composite of Strategic Asset Allocation returns

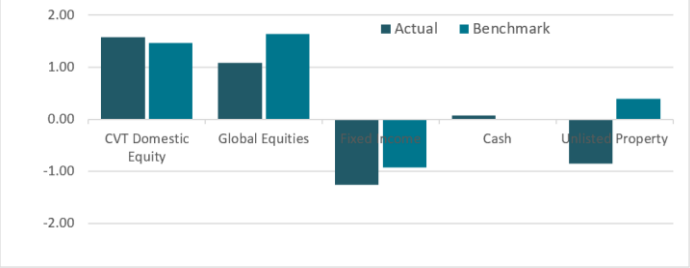
Monthly Performance Commentary

The Catholic Values Trust returned 0.54% net of fees for the month. While Fixed Interest and Cash were flat, Australian Equities was the top contributor for the month, contributing +0.5% followed by International Equities contributing 0.25%. This is offset by Fixed Interest which detracted by 0.22%. The Trust continues to outperform over the 3 and 5 year objectives.

Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	35.77%	35.00%
Global Equity	25.83%	25.00%
Property	2.54%	5.00%
Fixed Interest	17.34%	25.00%
Cash	18.52%	10.00%

Asset Class Return

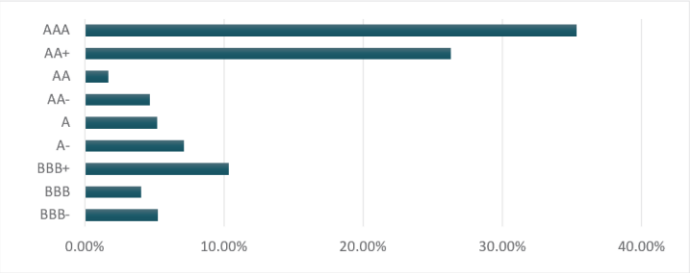


Fixed Interest

The Catholic Values Trust is currently underweight in Fixed Interest, and continues to maintain the majority of its exposure to semi-government securities. Rising Australian government bond yields was the key detractor to returns with majority of the Catholic Values Trust fixed interest holdings consisting of longer-dated government bonds.

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 were the primary contributor to the portfolio – adding +0.51% for the month. Rising bond yields is the key driver to a rotation in the domestic equity markets away from defensive stocks such as technology to cyclical stocks like resources and financials that typically benefit from stronger economic conditions. As a result we saw the big names of BHP, Westpac Bank, ANZ, Rio Tinto and Fortescue Metal be the top contributors for the month, while Northern Star Resources, Wesfarmers and CSL were the top detractors.

Top Contributors	Return %	AU Contribution %
BHP Group Limited	12.79	0.34
Westpac Banking Corporation	12.73	0.20
ANZ Limited	10.38	0.14
Rio Tinto Ltd	15.30	0.13
Fortescue Metals Group	10.65	0.08

Top Detractors	Return %	AU Contribution %
Northern Star Resources Ltd	-26.67	-0.10
Wesfarmers Limited	-7.61	-0.10
CSL Limited	-3.36	-0.09
Afterpay Touch Group Ltd	-11.53	-0.07
Coles Group Ltd	-13.23	-0.07

Global Equities

Manager: Vanguard Ethically Conscious International Shares Index Fund

In February, the Vanguard Ethically Conscious International Share Index Fund returned 1.08%, underperforming the MSCI World ex-Australia ($A unhedged) index by 0.6%. From the sector level, cyclical sectors such as Financials was the top performer over the month. On the other hand, defensive sectors like Healthcare and Consumer Staples and Financials were the worst performers during February.

Fund Distribution History (cents per unit)

31 December 2019:	1.37
30 June 2020:	3.14
31 December 2020:	0.70

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

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