

# MONTHLY UPDATE

May 2017

## Performance as at 31<sup>st</sup> May 2017

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.46	1.33	4.25	10.66	5.57	8.07
Catholic Values Trust	0.10	3.37	10.38	8.39	5.44	9.57

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 May, with the Australian share market, as measured by the S&P/ASX 200 Accumulation Index, falling -2.75% for the month off the back of the budget release, and global shares as measured by the MSCI World ex Australia Index (unhedged), continuing the recent positive trend to finish up 2.75% for the month.

### Domestic Economy

Australia's unemployment rate dropped to 5.5% in May, down from 5.7% in April and to the lowest rate since February 2013, as a further 42,200 jobs were created. The number of full-time jobs rose by 52,100, while part-time employment fell by 10,100. The strong result was supported by a marginal increase in the number of people looking for work, with the participation rate rising by less than 0.1% to 64.9%.

The latest Federal budget was handed down on May 9 and in a snapshot, positives included an increase in infrastructure spending, aid in housing affordability and extra spending in health and defence. This was offset by an increase of 0.5% to the Medicare levy, a cut to university funding and a 0.06% levy to the top 5 banks.

Following the release of the budget, ratings agency Standard & Poor's (S&P) affirmed its AAA sovereign credit rating on Australia, though it remains on negative watch. S&P warned that a downgrade could be issued if the budget does not return to surplus by 2020/21, with concerns around weak wages growth, inflation and a deteriorating housing market.

### China Update

Economic data out of China showed that house prices in 70 large cities rose 0.7% in April. This was higher than the 0.6% recorded in March and was a six-month high. The sale price of newly constructed residential buildings increased in 58 cities, declined in eight cities and remained unchanged in four.

Meanwhile exports rose 8.7% annually in May, while imports rose 14.7% annually, even though purchases of raw materials were relatively stable. Retail sales grew 10.7% year-on-year in May, the same as April, as weaker sales for oil and oil-related products and textile was offset by stronger sales for food and cars.

## CCI Asset Management Update

### End of Financial Year

### Distributions

The June Quarter/Bi-Yearly distributions are scheduled to be paid in early August. Distribution Statements and Taxation Statements will also be sent around this period.

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)

### U.S. Update

The U.S. Federal Reserve raised interest rates for the third time in six months at its latest meeting, with a strong labour market setting the foundations. Rates were raised by 0.25% to a target range of between 1.00% and 1.25%, the highest level since 2008.

Unemployment in the U.S. fell to 4.3% in May, down from 4.4% in April and to the lowest rate since May 2001, as the participation rate fell to a six-month low of 62.7%. There were 138,000 jobs added to the economy in May, below an expected 185,000 new jobs, and was solely driven by the private sector. Healthcare and education services again added the most with 47,000 new jobs, followed by business (38,000) and leisure and hospitality services adding 31,000.

### Eurozone Update

UK Prime Minister, Theresa May, called an early election on 8 June in a bid to strengthen her position in the Brexit negotiations with the EU. Unfortunately, the election resulted in a hung parliament with the Conservative party only securing 318 seats and falling eight seats short to win the majority vote. Prime Minister May is now looking to negotiate a deal with the Democratic Unionist Party (DUP) to stay in Downing Street.

In further news around the Eurozone, the European Central Bank (ECB) decided to keep interest rates unchanged at its recent meeting and made no changes to the bond-buying program. The refinancing rate, marginal lending rate and deposit rate remained at 0.00%, 0.25% and minus 0.40% respectively.

# Income Trust

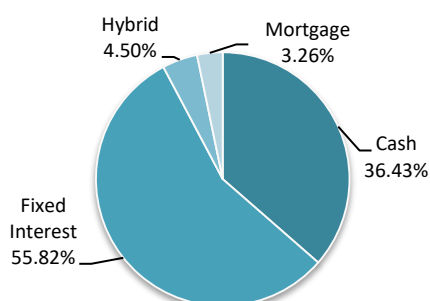
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees) <sup>#</sup>	0.51	1.49	4.85	11.31	6.22	8.72
Income Trust (Net of Fees) <sup>#</sup>	0.46	1.33	4.25	10.66	5.57	8.07
Benchmark	0.15	0.45	1.67	1.84	2.24	2.55
<b>Objective:</b> AusBond Bank Bill + 1.0%p.a. rolling 3yrs					3.24	

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

## Monthly Performance Commentary

The Income Trust continues to exceed its objective and delivered a positive return for May. All asset classes produced positive returns, with Hybrids the strongest performing for the month. National Income Securities was the top contributor, followed by APA Subordinated Notes, while NAB Subordinated Note 2 was the sole detractor to performance for the month.

## Asset Allocation

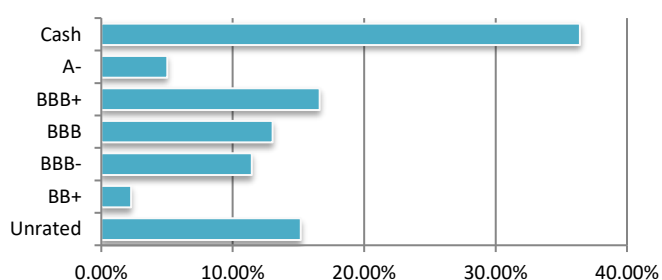


Top Contributors	Asset Class	Return %	Portfolio Contribution %
National Income Securities	Fixed Interest	2.400	0.119
APA Sub. Note	Fixed Interest	1.320	0.073
Comm Bank of Aust FRN	Fixed Interest	0.515	0.062
Qube Holdings Sub Note	Fixed Interest	0.571	0.020
ANZ Sub. Note	Fixed Interest	0.256	0.015

Top Detractors	Asset Class	Return %	Portfolio Contribution %
NAB Sub. Note 2	Hybrid	-0.246	-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, APT Pipelines Ltd, Suncorp Group Ltd, Seven Group Holdings Ltd, CBA and NAB Hybrid securities. Together these unrated securities represent 11.92% of the Income Trust Portfolio as at 31 May 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 May and in absolute terms, was the main contributor to the overall performance of the portfolio. At the security level, National Income Securities reversed last month's position as top detractor, to be the top contributor this month, followed by APA Subordinated Notes. There were no detractors to performance this month.

## Hybrid Securities

Hybrid Securities continued the recent positive trend and strongly outperformed the index this month and in relative terms was the main contributor to the overall performance of the portfolio. Suncorp Capital Notes was the top contributor, followed by Seven Group Holdings Convertible Preference Shares, while NAB Subordinated Note 2 was the sole detractor to performance for the month.

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

## 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

<sup>#</sup>FYTD: 0.0335%

## Fund Distribution History (cents per unit)

31 March 2016:	0.58
30 June 2016:	0.86
30 September 2016:	0.54
31 December 2016:	0.47
31 March 2017:	0.55

# Catholic Values Trust

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Catholic Values Trust (Gross of Fees) <sup>#</sup>	0.16	3.54	11.02	9.09	6.14	10.27
Catholic Values Trust (Net of Fees) <sup>#</sup>	0.10	3.37	10.38	8.39	5.44	9.57
Benchmark	-0.30	2.95	10.35	8.72	7.50	10.55
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					4.58	5.03

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

## Monthly Performance Commentary

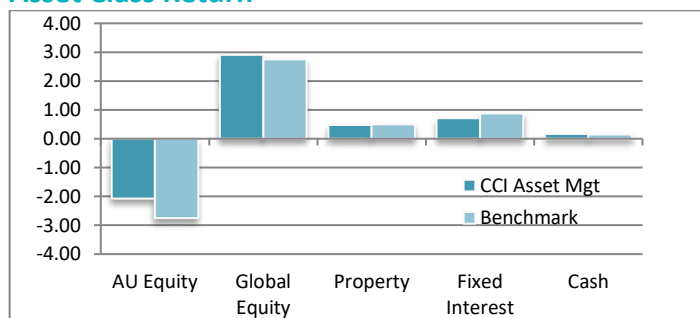
The Catholic Values Trust has continued to exceed its objective of outperforming CPI by 3% p.a. over rolling 3 and 5 year periods, and delivered a positive return for the month, outperforming the benchmark for May.

Global Equities outperformed the benchmark and was the top contributor to performance, while Australian Equities outperformed the benchmark, although delivered a negative return, with Fixed Interest and Property underperforming.

## Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	31.21%	35.00%
Global Equity	26.52%	25.00%
Property	3.08%	5.00%
Fixed Interest	18.79%	25.00%
Cash	20.40%	10.00%

## Asset Class Return

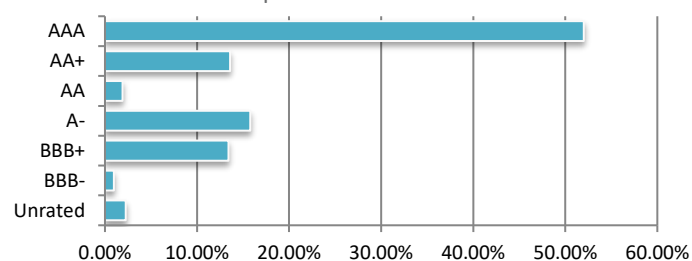


## Fixed Interest

The Catholic Values Trust is underweight in Fixed Interest, and continues to maintain the majority of its exposure to semi-government securities. Fixed Interest 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 retreated for the month although outperformed the ASX 200 Accumulation Index for the month of May. At the sector level, Utilities were the top contributor, followed by Industrials, while Financials were the main detractor. At the stock level, Qantas was the top contributor off the back of lower oil prices and rising passenger numbers, while after the Federal Budget announced a levy on the big banks, it was no surprise to see the Big Four (CBA, Westpac, ANZ and NAB) as the top detractors.

## Franking Credit Income

#FYTD: 0.5128%

Top Contributors	Return %	AU Contribution %
Qantas Airways Ltd	18.31	0.35
Fisher & Paykel Healthcare Corp Ltd	10.07	0.18
Telstra Corporation Ltd	4.26	0.15
Northern Star Resources Ltd	10.23	0.11
Sydney Airport	7.91	0.10

Top Detractors	Return %	AU Contribution %
Commonwealth Bank of Australia	-8.92	-0.78
Westpac Banking Corporation	-9.31	-0.61
ANZ Ltd	-11.28	-0.58
National Australia Bank Ltd	-7.48	-0.36
James Hardie Industries	-13.70	-0.25

## Global Equities

Manager: AMP RIL International Share Fund

The Fund generated a strong return in May and outperformed the benchmark. Within the developed markets, both Lazard and Investec performed well in absolute terms, with Lazard slightly underperforming and Investec outperforming the benchmark. Lazard's underperformance was driven by stock selection, although this partially offset through sector positioning in technology and utilities. Investec performed strongly, driven by their holdings in Spanish electricity operator Red Electrica, which delivered good results and reiterated strong guidance on their attractive growth rates. Aena, a Spanish state-owned airport operator also contributed to performance.

Within the emerging market exposure, both Investec and Colonial First State produced positive returns, with Investec outperforming the benchmark, with Geely Automobile, a Chinese car manufacturer one of the main contributors to performance.

## 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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