

# MONTHLY UPDATE

October 2017

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

	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust	0.30	0.81	1.18	4.33	5.59	7.09
Catholic Values Trust	2.55	3.72	3.64	12.07	5.67	8.86

All returns are net of fees and yearly returns are annualised

## Investment Market Review

October was a great month for both domestic and global equity markets, with the Australian share market, as measured by the S&P/ASX 200 Accumulation Index, returning 4.01% for the month, while global shares, as measured by the MSCI World ex Australia Index (unhedged), also performed extremely strongly to return 4.28% for the month.

### Domestic Economy

Australia's unemployment rate dropped to 5.4% in October, down from 5.5% in September, the lowest jobless rate since February 2013, as 3,700 new jobs were created. Full-time employment rose by 24,300 new jobs, while part-time employment decreased by 20,700.

The Reserve Bank of Australia (RBA) maintained interest rates steady at a record low of 1.5% at its 7 November meeting and continued similar comments to previous months. With weaker than expected inflation and low or no wages growth, it is forecast that interest rates will remain unchanged in the short term.

The Australian dollar has continued to come off its highs from July and has now fallen over 4% in the last couple of months. After ending July at \$0.8003, the Australian dollar finished October at \$0.7656 after sliding lower on the back of soft Chinese economic data.

### U.S. Update

The U.S. economy added 261,000 jobs in October and the unemployment rate reduced to 4.1% as labour conditions returned to normal following the hurricanes of September. Job growth was particularly strong in sectors that were hardest hit by bad weather, with leisure and hospitality adding 106,000 jobs in October, after losing 102,000 jobs in September. Manufacturing and construction jobs added 24,000 and 11,000 respectively for the month.

The Federal Open Market Committee (FOMC) met on 31 October and 1 November and decided to keep its target for the federal funds at between 1.00% and 1.25%. Comments out of the meeting pointed to a slightly more positive outlook on the economy, with the exception of weak inflation, and saw many experts support a December rate hike.

## CCI Asset Management Update

### Looking to make a new or additional investment?

For further information on investing with CCI Asset Management, please contact our Business Development Manager, David Smith on (03) 9934 3077.

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

Industrial production and retail sales both slowed in October. Retail sales grew 10% year-on-year, however was below the 10.3% rise in September and was the weakest rise since February because of weaker retail sales growth in cars, oil and oil related products. Meanwhile industrial production expanded 6.2% over the same month last year and was below September's expansion of 6.6%. A slowdown in manufacturing output was the biggest factor, while conversely, growth in electricity, gas and water supply accelerated, while the decline in the mining sector softened.

### Eurozone Update

The Eurozone economy has grown by 2.5% over the last year, to the highest annual growth rate since the first quarter of 2011. At the same time, the jobless rate has fallen to the lowest since 2009. Off the back of this, the European Commission (EC) reported that economic sentiment in the Eurozone rose in October, recording the best result in over 17 years. The economic sentiment index increased from September's 113.1 to 114.0, with Germany and Italy recording the biggest rise.

Inflation across the Eurozone was 1.4% in October, below September's reading of 1.5%, and below the European Central Bank's target of close to, but below 2.0%. At the country level Cyprus (0.4%) recorded the lowest inflation rate, followed by Ireland (0.5%) and Greece (0.5%), while at the other end, Lithuania recorded the highest level at 4.2%.

# Income Trust

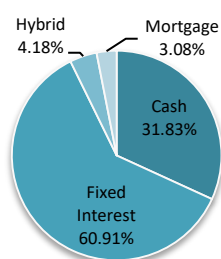
	Month	Quarter	FYTD	1 Year	3 Years	5 Years
Income Trust (Gross of Fees)#	0.35	0.97	1.39	4.98	6.24	7.74
Income Trust (Net of Fees)#	0.30	0.81	1.18	4.33	5.59	7.09
Benchmark	0.15	0.43	0.58	1.76	2.11	2.39
<b>Objective:</b> AusBond Bank Bill + 1.0%p.a. rolling 3yrs					3.11	

#All yearly returns are annualised

## Monthly Performance Commentary

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

## Asset Allocation



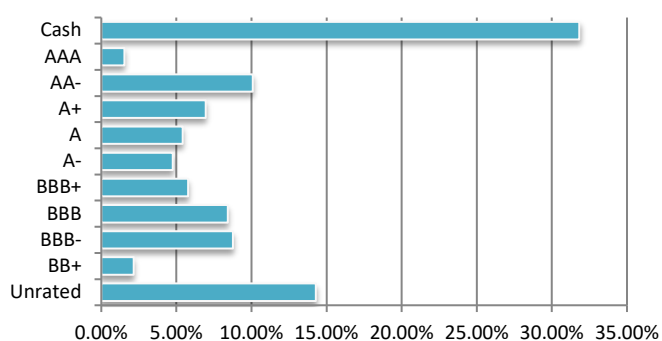
Top Contributors	Asset Class	Return %	Portfolio Contribution %
National Income Securities	Fixed Interest	1.426	0.068
CBA FRN	Fixed Interest	0.526	0.029
NAB FRN	Fixed Interest	0.523	0.028
AMP Limited FRN	Fixed Interest	0.435	0.024
UBS AG Australia	Fixed Interest	0.315	0.022

Top Detractors	Asset Class	Return %	Portfolio Contribution %
Qube Holdings Sub Note	Fixed Interest	-0.280	-0.009

## 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 11.20% of the Income Trust Portfolio as at 31 October 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 October and in absolute terms, was the main contributor to the overall performance of the portfolio. At the security level, there was a reversal of last month's performance with Qube Holdings Subordinated Notes moving from the top contributor last month, to the sole detractor this month and National Income Securities moving from the top detractor last month, to the top contributor in October.

## Hybrid Securities

Hybrid Securities also outperformed the index this month and in relative terms was the main contributor to performance. Seven Group Holdings Convertible Preference Share and NAB Capital Notes were the top contributors, while there were no detractors 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>	2.61	3.90	3.87	12.77	6.37	9.56
Catholic Values Trust (Net of Fees) <sup>#</sup>	2.55	3.72	3.64	12.07	5.67	8.86
Benchmark	2.64	4.00	3.71	12.04	7.52	9.85
Objective: CPI + 3%p.a. rolling 3 & 5 yrs					4.59	4.85

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

## Monthly Performance Commentary

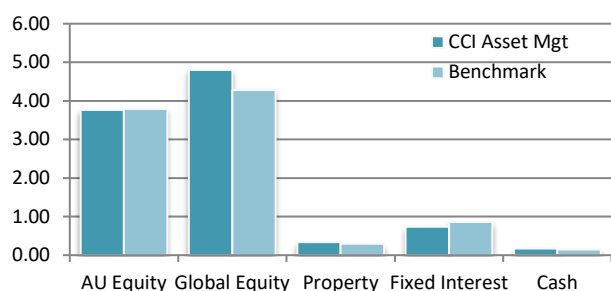
The Catholic Values Trust has continued to exceed its objective of outperforming CPI by 3% p.a. over rolling 3 and 5 year periods, and delivered an extremely positive return of 2.55% (after fees) for the month of October.

At the asset class level, Global Equities performed best, delivering a positive return of just under 5% for the month and outperforming the benchmark. Australian Equities also had a positive month and was in line with the benchmark, as was Property, while Fixed Interest delivered a positive return, although slightly underperformed the benchmark.

## Asset Allocation

	CCI Asset Management	Benchmark Allocation
AU Equity	31.01%	35.00%
Global Equity	24.80%	25.00%
Property	3.09%	5.00%
Fixed Interest	19.77%	25.00%
Cash	21.33%	10.00%

## Asset Class Return

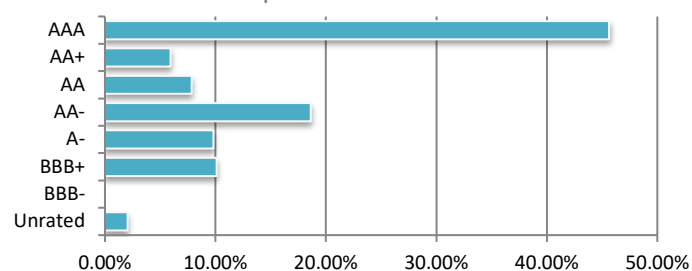


## Fixed Interest

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 produced a positive return for October, with Materials the top contributor versus benchmark, while Utilities was the main detractor versus benchmark. At the stock level, the Financials were again the top contributors, with CBA, Westpac, NAB and Macquarie Group all in the top 5 contributors off the back of solid earnings reports and the lead up to dividend payments. BHP was the other security to make the top 5. The top detractors for the month included Lendlease, Fortescue and Perpetual, with Lendlease falling after announcing the sale of 25% of its Retirement Living business and also the underperformance of its Australian construction business.

## Franking Credit Income

<sup>#</sup>FYTD: 0.1570%

Top Contributors	Return %	AU Contribution %
Commonwealth Bank of Australia	3.16	0.30
Westpac Banking Corporation	3.35	0.27
National Australia Bank Ltd	3.68	0.22
BHP Billiton Ltd	2.95	0.18
Macquarie Group Ltd	8.17	0.17

Top Detractors	Return %	AU Contribution %
Lendlease Corporation Ltd	-9.54	-0.07
Fortescue Metals Group Ltd	-9.73	-0.06
Perpetual Ltd	-6.45	-0.01
Westfield Corporation	-0.89	-0.01
Bendigo & Adelaide	-1.98	-0.01

## Global Equities

Manager: AMP RIL International Share Fund

The Fund generated a strong return and again outperformed its benchmark in October. The Fund's developed market managers, Lazard and Investec, outperformed their benchmark, with stock selection the main contributor. Investec was the best performer, with Information Technology stocks such as Samsung Electronics, PayPal and Apple leading the way. Apple's strong performance was off the back of strong sales of the iPhone X. Lazard also performed strongly, particularly in the Industrial, Information Technology and Financial sectors.

Within the emerging markets, Investec was the top performer, returning over 5% for the month, although slightly below benchmark. Ping An Insurance Group of China was the top contributor following strong profit growth.

## Fund Distribution History (cents per unit)

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

## Farewell to Ian Smith

### CCIAM's Chief Investment Officer will depart the organisation after an amazing 21 year history with CCI.

Ian joined Catholic Church Insurance in 1996 from National Australia Bank's Group Treasury Operations. In December this year, Ian will finish up his time with CCI in order to pursue new opportunities. In a journey that spans more than 2 decades with the organisation, Ian has seen enormous change in CCI's investments services to clients, as well as some of the best and worst times in the markets. Ian's primary responsibilities have been the management of the CCI and CCI Asset Management's investment portfolios, which means responsibility for funds under management of more than \$1.5bn, but Ian's contribution to the organisation more broadly is something that just can't be quantified. During his time with CCI, Ian has seen many changes and improvements, including most recently overseeing the introduction of CCI Asset Management's Individually Managed Accounts, which has driven significant growth in funds under management and opened up the opportunity to work with many more of CCI's Catholic clients.

This is just the last of many ways Ian has contributed to CCI and our clients, and we would like to take this opportunity to thank him for everything he has done in his time at CCI.

### The next chapter

While the chapter may be closing on Ian's time with us, we are excited about the next steps for CCI Asset Management and what the future brings. Ian leaves behind a new look team and a compelling investments offer for Catholic organisations.



#### **Shali Lingaretnam – MAppFin, Head of Investments**

Shali joined CCI in 2008 and manages both the CCI and CCI Asset Management portfolios, along with the operational management of the investment team. Shali has more than 15 years market experience having previously worked in research and analyst roles at Macquarie Bank, Lonsec and IOOF Investment Management.



#### **William Manuel – BBus, ADFP, Head of Asset Management**

William joined CCI in 2016 with more than 30 years market experience across banking and insurance institutions in Australia and the UK. He has previously worked for Zurich Ltd, ING, MLC UK, Quilter Cheviot Investment Management UK. As Head of CCI Asset Management, William has primary responsibility for building the strategic direction and asset management capability within the business, in particular, the CCIAM Individually Managed Accounts solution.



#### **Gareth Apsey – MAppFin, Portfolio Manager**

Gareth joined CCI in 2017 and is portfolio manager for both CCI and CCI Asset Management portfolios. Gareth has more than 15 years investment market experience and specialises in fixed income management. Gareth previously worked as portfolio manager at Brookline Partners and Vianova Asset Management.



#### **David Smith – Business Development Manager**

With more than 15 years experience in finance, David is responsible for managing, developing and broadening CCI Asset Management's client relationships. David joined CCI Asset Management in 2011 and has a wealth of experience having previously spent time as Sales and Relationship Manager for NAB/MLC.



#### **David Chen – BCom, MAppFin, Quantitative Analyst**

David joined the CCI Asset Management team in August 2016 and performs quantitative analysis to identify potential investment buy and sell opportunities. He also assists with producing risk analytics for the portfolio and is responsible for providing analytical assistance to support the implementation of investment strategy and portfolio management decisions. David has 5 years of experience with his most recent position as a financial services consultant in the UK.



#### **Bianca Lee – BFin, GradDipAcc, Investment Assistant**

Bianca joined CCI in 2008 and provides administrative and investment support to assist with research at CCI Asset Management. In her role as Investment Assistant, she reports on the performance and attribution of the funds, monitors fund performance and asset allocation, as well as ensuring compliance with the Catholic Values Ethical Investment policy. Bianca also provides client service support to CCI Asset Management clients.

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

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