Funds in Court
Common Fund No. 2
Annual Fact Sheet - 30 June 2015

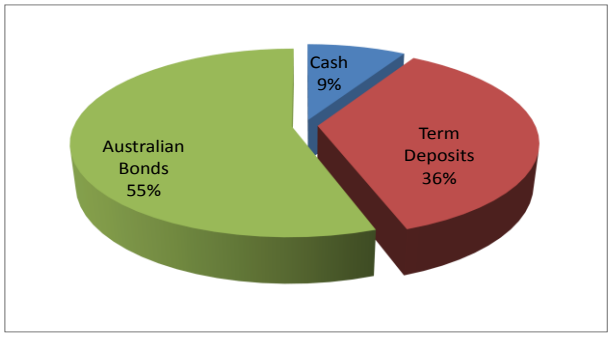
Fund Overview

Common Fund No. 2 [CF-2] is designed to provide beneficiaries with exposure to a low risk portfolio of defensive, income producing assets. The Fund invests primarily in a combination of 'at-call' cash, term deposits and high quality fixed income securities/ bonds.

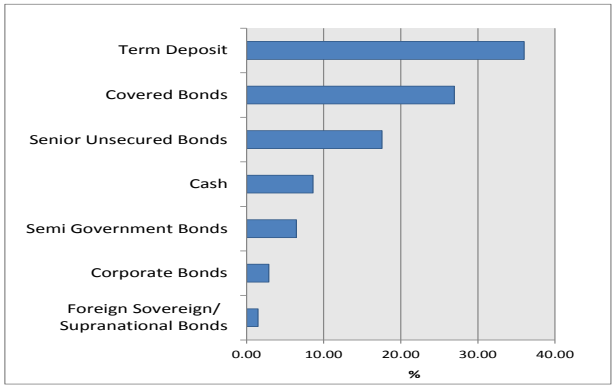
Fund Objective

To provide the maximum possible return with an emphasis on income and capital preservation over the medium to long term via investment in approved securities.

Asset Allocation



Sector Exposure



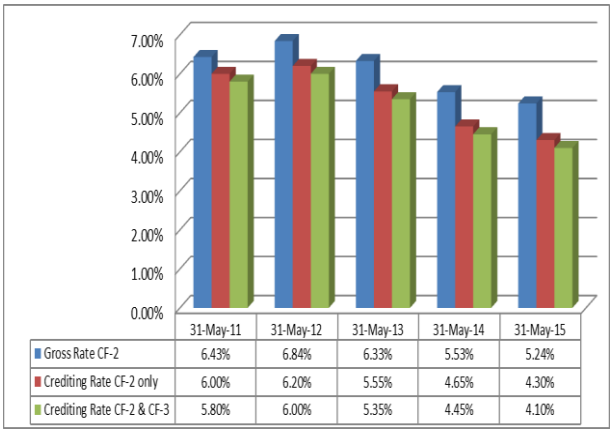
NEED FURTHER INFORMATION?
For further information on how we manage your funds please visit the FIC website at www.fundsincourt.vic.gov.au or call 1300 039 390 to speak to a member of staff.

Interest & Crediting Rate

Interest earned by CF-2 is accrued daily and credited annually to the account of beneficiaries (normally on or around 1 June). The crediting rate is determined by the total gross income earned by CF-2 over the preceding 12 month period ending 31 May, less, the partial recoup of office operating costs. An interim rate equivalent to the Reserve Bank of Australia official cash rate is credited to the account of beneficiaries if funds are paid out of Court during the course of the year.

Since 2011, two separate annual crediting rates have been declared for CF-2. This means that beneficiaries with investments in both CF-2 and Common Fund No. 3 [CF-3] as at 1 June 2014 are credited with a CF-2 interest rate, that is, 0.20% p.a. less than the crediting rate declared for beneficiaries with an investment in CF-2 only. This approach is required to help cover the costs of administering CF-3.

For the 12 month period ending 31 May 2015, the gross interest rate earned by CF-2 was 5.24% p.a. Following the deduction of office operating costs a crediting rate of 4.30% p.a. was declared for beneficiaries invested in CF-2 only, and 4.10% p.a. for beneficiaries invested in both CF-2 and CF-3 as at 1 June 2014. A summary of the five year historical gross interest rate and crediting rates for CF-2 is provided below.



	31-May-11	31-May-12	31-May-13	31-May-14	31-May-15
Gross Rate CF-2	6.43%	6.84%	6.33%	5.53%	5.24%
Crediting Rate CF-2 only	6.00%	6.20%	5.55%	4.65%	4.30%
Crediting Rate CF-2 & CF-3	5.80%	6.00%	5.35%	4.45%	4.10%

Commentary

The Reserve Bank of Australia [RBA] continued to maintain its easing bias with two 0.25% cuts to the official cash rate in the last 6 months of the financial year. The official cash rate currently stands at 2.00% and may need to be cut further in order to help stimulate economic growth.

The 10 year Australian Government Bond Yield finished the financial year at just under 3.00%. Domestic and global bond yields have trended lower over the last 12 months due to a slowdown in the global economy and low levels of inflation. Central Bank policy measures in Europe and Japan have also contributed towards keeping bond yields low.

The market remains focused on when the US Federal Reserve will commence raising interest rates. Uncertainty around the timing and magnitude of the rate rises, along with low levels of bond liquidity contributed to some counter trend movements in bond yields. These counter trend movements may present additional buying opportunities.

Throughout the year we have increased the portfolio's exposure to longer dated bonds, and reduced the portfolio's exposure to bank term deposits. The aim of purchasing longer dated bonds is to enhance the yield of the portfolio compared to investment in shorter dated bonds. The bond exposure also serves to improve the overall liquidity of the portfolio relative to term deposits. We continue to maintain our approach of investing in low credit risk securities in order to meet the Fund's dual objective of capital preservation. The "trade off" of this approach in the current market environment is that future crediting rates are likely to remain under pressure.

IMPORTANT NOTE:
For further information on the investment risks associated with CF-2 and how FIC seeks to minimise these risks, please refer to the relevant Information Guide on our website at www.fundsincourt.vic.gov.au

Fund Details

Portfolio Statistics	
Market Value	$724.6m
Number of Holdings	34
Portfolio Duration	3.72 years
Market Yield	4.06%

Top 10 Holdings (Coupon, Maturity)	%
WBC Bond TCD (6.425%,7 Sept 2020)	9.64
CBA Covered Bond (4.50%,10 July 2024)	7.40
CBA Covered Bond (4.275%,26 Aug 2024)	7.24
WBC Covered Bond (3.875%,4 June 2025)	6.94
Treasury Corp. Vic (5.50%,15 Nov 2018)	4.59
CBA Term Deposit (6.68%,29 June 2016)	4.21
CBA Bond TCD (6.50%,29 June 2018)	3.81
NAB Covered Bond (5.00%,11 Mar 2024)	3.64
ANZ Term Deposit (5.05%,3 May 2017)	3.48
BOM Term Deposit (5.04%,20 Mar 2018)	2.80

Holdings by Credit Rating (excl. Cash & Term Deposits)	%
AAA	50.00
AA+	5.56
AA	11.11
AA-	22.22
A+	11.11

Maturity Profile	%
0 – 1 year	15.41
1 – 3 year	36.48
3 – 5 year	7.75
5 – 10 year	40.36