Funds in Court
Common Fund No. 2
Annual Fact Sheet - 30 June 2016

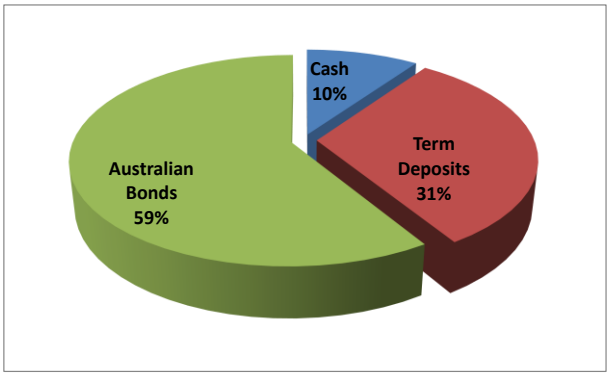
Fund Overview

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.

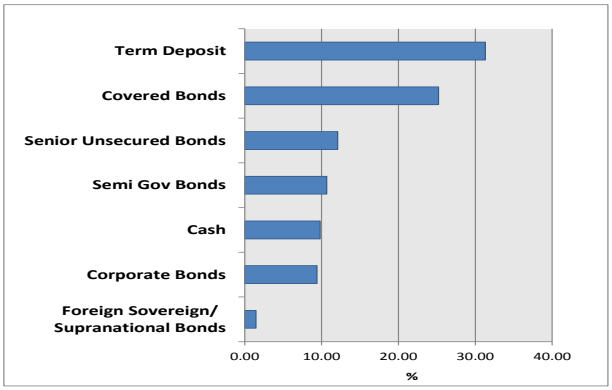
Fund Objective

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



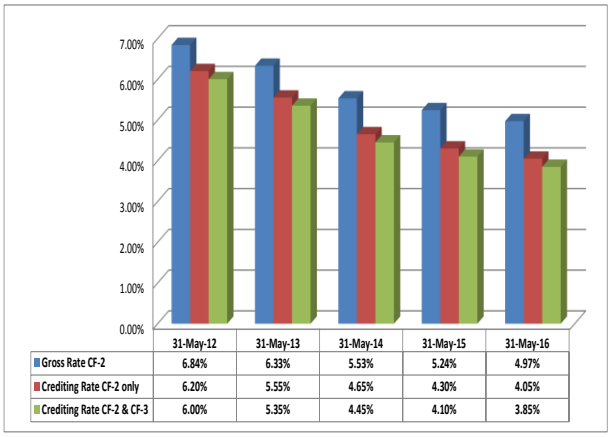
NEED FURTHER INFORMATION?
For further information on how we manage your funds please visit the FIC website at www.fundsincourt.vic.gov.au or call 1300 039 390 to speak to a member of staff.

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 2015 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 2016, the gross interest rate earned by CF-2 was 4.97%. Following the deduction of office operating costs a crediting rate of 4.05% was declared for beneficiaries invested in CF-2 only, and 3.85% for beneficiaries invested in both CF-2 and CF-3 as at 1 June 2015. A summary of the historical earnings and crediting rates for CF-2 over the last five years is provided below.



	31-May-12	31-May-13	31-May-14	31-May-15	31-May-16
Gross Rate CF-2	6.84%	6.33%	5.53%	5.24%	4.97%
Crediting Rate CF-2 only	6.20%	5.55%	4.65%	4.30%	4.05%
Crediting Rate CF-2 & CF-3	6.00%	5.35%	4.45%	4.10%	3.85%

Commentary

The Reserve Bank of Australia [RBA] continued to maintain its easing bias by announcing a 0.25% cut to the official cash rate in May 2016. This rate cut brought the official cash rate at the end of the financial year to a historical low of 1.75%.

Australian bond yields also ended the financial year lower. The 10 year Australian Government Bond Yield closed at 2.00%, down from 3.00% 12 months earlier. Despite being at "all time" lows there remains scope for domestic interest rates and bond yields to possibly fall further. Australian interest rates and bond yields remain high compared to other developed countries and global economic growth remains fragile. Events such as the vote by Britain to exit the European Union have added to political and economic uncertainty. In such an environment demand increases for safe haven assets such as higher yielding Australian Government bonds, placing further downward pressure on yields. The US Federal Reserve may also delay the timing of their interest rate rises which would support bond yields remaining lower for longer.

Throughout the year we have continued to focus on investing in long dated bonds with a preference for Semi Government and Local Government bonds (due to their added liquidity). We have also invested into highly rated Corporate Bonds for added diversification. The aim of this positioning is to help maximise the income return from the portfolio in an environment of lower yields whilst also maintaining the low risk nature of the Fund's investments.

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	$749.5m
Number of Holdings	36
Portfolio Duration	3.91 years
Market Yield	3.39%

Top 10 Holdings excl. cash (Coupon, Maturity)	%
WBC Bond TCD (6.425%,7 Sept 2020)	9.34
CBA Covered Bond (4.50%,10 July 2024)	7.62
CBA Covered Bond (4.275%,26 Aug 2024)	7.48
WBC Covered Bond (3.875%,4 June 2025)	7.24
Treasury Corp. Vic (5.50%,15 Nov 2018)	4.38
NAB Covered Bond (5.00%,11 Mar 2024)	3.72
CBA Bond TCD (6.50%,29 June 2018)	3.60
ANZ Term Deposit (5.05%,3 May 2017)	3.36
Treasury Corp. Vic (3.00%,20 Oct 2028)	2.85
BOM Term Deposit (5.04%,20 Mar 2018)	2.71

Holdings by Credit Rating (excl. Cash & Term Deposits)	%
AAA	50.0
AA+	20.0
AA	10.0
AA-	15.0
A	5.0

Maturity Profile	%
0 – 1 year	28.7
1 – 3 year	18.1
3 – 5 year	9.3
5 – 10 year	41.0
10+ years	2.8