

# Funds in Court

## Common Fund No. 2

### Annual Fact Sheet - 30 June 2017



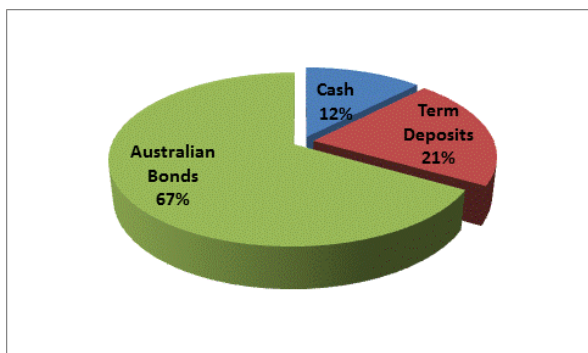
#### Fund Overview

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.

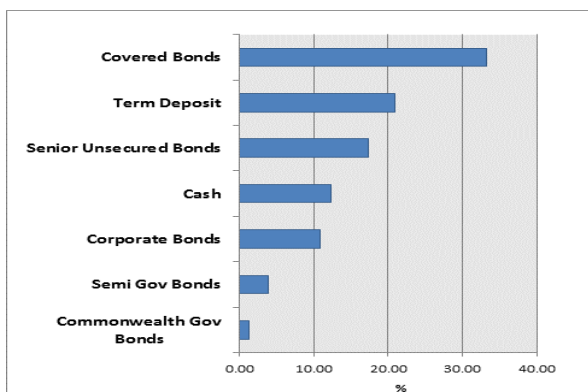
#### Fund Objective

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



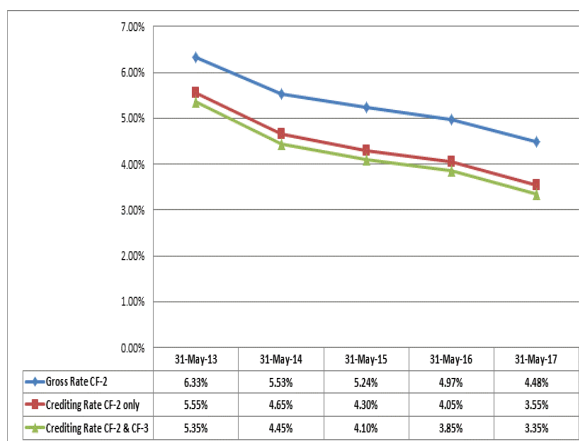
**NEED FURTHER INFORMATION?**  
 For further information on how we manage your funds please visit the FIC website at [www.fundsincourt.vic.gov.au](http://www.fundsincourt.vic.gov.au) or call 1300 039 390 to speak to a member of staff.

#### 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 their funds are paid out of Court during 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 2016 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 helps to cover the costs of administering CF-3.

For the 12 month period ending 31 May 2017, the gross interest return of CF-2 was 4.48%. Following the deduction of office operating costs a crediting rate of 3.55% was declared for beneficiaries invested in CF-2 only, and 3.35% for beneficiaries invested in both CF-2 and CF-3 as at 1 June 2016. The historical earnings and crediting rates for CF-2 over the last five years is provided below.





## Commentary

The Reserve Bank of Australia [RBA] reduced the official cash rate by 0.25% in August 2016 to 1.50%. Since that time the official cash rate has remained unchanged. The historically low cash rate and maturity of a number of higher yielding investments during the year contributed to the lower CF-2 crediting rate.

Australian bond yields ended the financial year higher with the 10 year Australian Government Bond Yield at 2.60%. Whilst bond yields finished higher, the second half of the financial year in particular was notable for its volatility with the 10 year Australian Government Bond trading as high as 3.00% and as low as 2.37%. Mixed signals on the strength of the global economy and the likelihood for higher inflation contributed to this volatility. Australian bond yields took their lead from the US market. The US Federal Reserve started to raise interest rates reflecting more normal economic conditions. Inflationary expectations have also risen due to the US government's fiscal spending plans and intention to block trade and immigration. These factors may drive bond yields higher over the long term however the exact timing remains unclear.

The main change to the portfolio occurred in late 2016 to reflect the change in market conditions. A selection of longer dated bonds were sold in order to realise profits and to reduce interest rate risk. Our preference is to maintain a liquid, shorter dated, high credit quality portfolio. This is reflected in the portfolio's increased exposure to tradeable bonds versus term deposits compared to 12 months prior. The portfolio also holds slightly higher levels of cash in order to take advantage of opportunities should bond yields rise.

### 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](http://www.fundsincourt.vic.gov.au)

## Fund Details

Portfolio Statistics	
Market Value	\$784.3m
Number of Holdings	26
Portfolio Duration	3.30 years
Market Yield	3.01%

Top 10 Holdings (Coupon, Maturity)	%
WBC Covered Bond (2.75%, 31 Aug 2022)	9.45
WBC TCD (6.425%, 7 Sept 2020)	8.69
CBA Covered Bond (4.50%, 10 July 2024)	6.98
Toyota Finance MTN (3.10%, 19 May 2022)	6.89
CBA Covered Bond (4.275%, 26 Aug 2024)	6.86
WBC Covered Bond (3.875%, 4 June 2025)	6.64
Bankwest Term Dep (2.55%, 24 July 2017)	5.11
Treasury Corp. Vic (5.50%, 15 Nov 2018)	4.04
NAB Covered Bond (5.00%, 11 Mar 2024)	3.42
CBA TCD (6.50%, 29 June 2018)	3.33

Holdings by Credit Rating (excl. Cash & Term Deposits)	%
AAA	56.25
AA+	-
AA	12.5
AA-	31.25
A	-

Maturity Profile	%
0 – 1 year	35.1
1 – 3 year	4.7
3 – 5 year	23.0
5 – 10 year	36.0
10+ years	1.2