

AUI - Vianova Core Plus Trust

Fund Performance Update - 31 July 2011

The Australian Unity Investments (AUI) Vianova Core Plus Trust aims to preserve capital and deliver positive returns across all market cycles using a distinctive benchmark unaware investment approach.

Performance as at 31 July 2011	1 mth %	3 mths %	6 mths %	1 yr %	2 yrs % p.a.	3 yrs % p.a.	Since inception* % p.a.
Wholesale return	0.58	1.89	3.88	6.01	6.55	7.16	7.42
UBS Composite Bond Index	0.55	2.33	4.42	5.55	6.70	8.05	6.57
Active Return	0.03	(0.44)	(0.54)	0.46	(0.15)	(0.89)	0.85

Rating summary:



Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
* Inception date for performance calculations is 28 February 2007.

Fixed interest market review

Bond markets in July were characterised by strong absolute returns, as bond yields fell, whilst Australian bank bill yields increased slightly. The UBS Australian Treasury Index returned 2.04% over the month whilst the UBS Composite Bond Index fell short of that mark returning 1.67%. The UBS Credit Index, although shorter in duration, produced a strong result of 1.18%.

During most of the month, Australian bond yields declined gradually before falling dramatically late in the month. The benchmark 3-year and 10-year bond yields finished the month at 4.36% and 4.80% respectively. Swap spreads widened during the month as expectations of higher official cash rates helped push bank bill yields higher.

Sovereign debt concerns were behind July's rally in bonds. In Europe, concerns remained over the Greek sovereign bond default potentially setting off a string of contagion events. The German 10-year Government bond fell 49 basis points to end the month at 2.54%. In the US, unease surrounded the political debate over lowering its debt ceiling and the downgrade of its Standard & Poor's credit rating from AAA. US bond yields fell by a similar magnitude as Australian yields, with the US 10-year bond closing the month at 2.80%.

Poor economic data and flight to quality sector flows were the catalyst for the strong bond demand in July.

In Australia the importance of most local economic data was dwarfed by the late-July release of the second quarter inflation figures. Headline and underlying inflation rates recorded 0.9%, which exceeded forecasts at 0.7% and also increased their annual rates to 3.6% and 2.7% respectively. Australian bond yields reacted poorly to this news and aggressively ratcheted up the chances of an official interest rate increase from the Reserve Bank of Australia (RBA). These higher bond yields were short lived however as confidence in the global economic environment worsened, seemingly overwhelming all Australian-specific economic news.

For a short period late in the month, financial markets reacted favourably to plans announced by the European Central Bank to address concerns of an immediate contagion risk, bank recapitalisation, and the Greece's debt burden. Amidst this, currency markets fluctuated dramatically throughout the month, as money washed throughout financial markets. The Australian dollar gained strongly from much of the global capital flows, ending July at \$1.0990, a 2.8 cent rise.

As mentioned earlier, swap spreads widened over the month. This had negative relative impacts on the semi-government and corporate credit sectors.

continued overleaf



"Our view continues to be that the problems in Europe and the US haven't yet run their full course. Whilst the US politicians have avoided default, the continued pressure on EU peripheral sovereign spreads, particularly in Italy and Spain, is a sign that all is not well in global financial markets. As a result, we continue to adopt capital preservation strategies for the Trust."

Michael Schneider
Chief Investment Officer, Vianova Asset Management

Outlook

Financial markets begun August in a less than confident mood. Risk assets are underperforming whilst the bond sector again seems to be the recipient of capital flows. Australian financial markets have been drawn into the global malaise, which was highlighted by the RBA's inability to raise the official interest rate even with a pressing inflation problem.

The RBA left the cash rate unchanged at 4.75% early in August. In its statement, the RBA said it continued to be concerned about the medium-term outlook for inflation and it "considered whether the recent information warranted further policy tightening", a reference to the CPI data. But given the "acute sense of uncertainty in global financial markets over recent weeks" it decided that rates should remain on hold.

Our view continues to be that the problems in Europe and the US haven't yet run their full course. Whilst the US politicians have avoided default, the continued pressure on EU peripheral sovereign spreads, particularly in Italy and Spain, is a sign that all is not well in global financial markets.

With the global backdrop so uncertain and a domestic economy that is showing clear signs of being 'two-speed', it will take either better news from offshore or a belief in structural adjustment through a higher capital cost base before the Australian bond and bank bill markets remove their bias for lower official cash rates. As a result, we continue to adopt capital preservation strategies for the Trust.

Commentary courtesy of Vianova Asset Management

Exchange rate as at 31 July 2011

AUD/USD 1.099

Regional exposure

Region	Australian %	Global %	Combined %
North America	0.00	26.00	1.00
Europe	0.00	33.00	2.00
Emerging Markets	0.00	3.00	0.00
Australia / Asia	100.00	38.00	97.00
Total	100.00	100.00	100.00

Sector allocation

Asset class	Australian %	Global %	Combined %
Cash / currency	2.84	0.27	3.11
Discount securities	19.87	0.00	19.87
Floating rate notes	0.00	0.38	0.38
Government bonds	48.26	3.82	52.08
Government guaranteed bonds	0.00	0.00	0.00
Semi-government bonds	6.62	0.16	6.78
Corporate bonds	17.03	0.16	17.19
Supranational bonds	0.00	0.59	0.59
Securitised issues	0.00	0.00	0.00
Hybrid securities	0.00	0.00	0.00
Bond derivatives	(18.92)	(0.16)	(19.09)
Effective exposure	18.92	0.16	19.09
Total	94.62	5.38	100.00

Portfolio credit rating

Portfolio credit rating	Australian %	Global %	Combined %
AAA	82.00	80.00	83.00
AA	14.00	3.00	13.00
A	3.00	13.00	3.00
BBB	1.00	0.00	1.00
Not rated	0.00	4.00	0.00
Total	100.00	100.00	100.00

Asset allocation

Asset class	Range %	Actual %
Australian fixed interest (including cash)	50 - 100	94.62
Global fixed interest (including currency)	0 - 50	5.38
Total		100.00

Fund snapshot

Australian Unity Investments Vianova Core Plus Trust - Wholesale Units	
APIR Code	AUS0033AU
Inception date	28 February 2007
Fund size (net asset value)	\$86.02 m
Minimum initial investment	\$5,000*
Contribution fee	nil
Exit fee	nil
Management costs	0.70% pa
Buy/sell spread	Buy: nil Sell: nil
Income distributions	quarterly
Adviser commission - initial remuneration	nil
Adviser commission - service remuneration	nil

* Lower minimum may apply if investing through an IDPS/Masterfund.

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Australian Unity
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