

## Vianova Strategic Fixed Interest Trust

### Fund Update – 31 May 2009



The Australian Unity Investments Vianova Strategic Fixed Interest Trust aims to preserve capital and deliver positive returns across all market cycles using a distinctive benchmark unaware investment approach.

#### Key benefits

- Provides access to a high conviction Australian fixed interest manager
- Focuses on capital preservation without unduly compromising investment returns
- Provides a benchmark unaware investment approach
- Focuses on absolute returns
- Provides investors with quarterly income
- Fixed interest generally has a low correlation of investment returns with other asset classes, and can therefore provide diversification in a client's investment portfolio

#### Investment objective

The Fund aims to provide investors with regular income distributions, while seeking to preserve capital.

#### Investment strategy

The Fund primarily invests in Australian fixed interest securities and cash equivalents with an emphasis on positive performance returns, and protection of investor's capital in a rising interest rate and or a deteriorating credit environment.

#### Investment manager

In line with Australian Unity Investments' strategy to provide distinctive investment opportunities not readily available in the market, we have created a joint venture with Vianova Asset Management Pty Ltd (Vianova). Vianova has been appointed as the investment manager of the Fund.

#### Investment approach

Vianova's investment approach focuses on capital preservation, without unduly compromising returns. Vianova's investment approach is unique for two reasons:

1. It aims to deliver positive returns regardless of the direction of fixed interest markets;
2. By not focusing on a benchmark, Vianova is free of the constraints that benchmarking brings to portfolio construction and portfolio returns.

Managers that use a benchmark may see their portfolios produce a negative return when their benchmark produces a negative return. Vianova believes that benchmark constraints can add risk to a fixed interest portfolio. Vianova actively manages the portfolio to minimise this benchmark risk.

#### Rating summary

Research house	Current rating
Lonsec	Recommended
S & P	★★★★

#### Performance as at 31 May 2009

	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	Since inception* % p.a.
Retail return	(0.05)	0.29	1.90	10.25	6.68	6.29
UBS Composite Bond Index	(0.72)	(0.60)	0.80	11.83	6.65	6.23
<b>Active return</b>	<b>0.67</b>	<b>0.89</b>	<b>1.10</b>	<b>(1.58)</b>	<b>0.03</b>	<b>0.06</b>
Wholesale return	(0.03)	0.40	2.14	10.77	7.20	6.82
UBS Composite Bond Index	(0.72)	(0.60)	0.80	11.83	6.65	6.23
<b>Active return</b>	<b>0.69</b>	<b>1.00</b>	<b>1.34</b>	<b>(1.06)</b>	<b>0.55</b>	<b>0.59</b>

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 31 October 2005

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### Investment process

#### Identify themes

The starting point of Vianova's investment process is to identify structural interest rate themes. Each theme is then applied to the fixed interest market elements being duration, yield curve position, and sector exposure.

#### Analyse strategies

This produces multiple strategies for further evaluation. Vianova then identifies and analyses the pricing inefficiencies and investment opportunities that these strategies present.

#### Duration strategy

The portfolio's sensitivity to changes in interest rates is managed and compared to Vianova's expectations on economic outlook with current market pricing.

#### Yield curve strategy

Vianova's aim is to position the Fund's portfolio to take advantage of current and expected differences between short and long term interest rates.

#### Sector strategy

Vianova seeks mis-pricing opportunities across the Australian fixed interest landscape, considering Government, semi-Government, corporate, and short term money market sector

### Portfolio credit rating

Portfolio credit rating	%
AAA	66.60
AA+	7.10
AA	20.80
A+	0.20
A	3.00
BBB+	2.30
<b>Total</b>	<b>100.00</b>

### Fund snapshot

	Australian Unity Investments Strategic Fixed Interest Trust - Retail Units	Australian Unity Investments Strategic Fixed Interest Trust - Wholesale Units
APIR Code	AUS0008AU	AUS0009AU
Inception date	31 October 2005	31 October 2005
Fund size (net asset value)	\$17.39m	\$256.39m
Minimum initial investment	\$1,000	\$25,000*
Contribution fee	up to 4.10%	nil
Exit fee	nil	nil
Management costs	1.20% pa	0.70% pa
Buy/sell spread	Buy: nil Sell: nil	Buy: nil Sell: nil
Income distributions	quarterly	quarterly
Adviser commission - initial remuneration	4.40%	nil
Adviser commission - service remuneration	0.44%	nil

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

### Asset allocation

Asset class	Actual %
Fixed interest	69.39
Cash / short term securities	30.61
<b>Total</b>	<b>100.00</b>

### Sector allocation

Asset class	Actual %
Cash / discount securities	32.00
Government & corporate bonds	68.00
Hybrid securities	0.00
<b>Total</b>	<b>100.00</b>

### Risk/return

Fund	1yr	2 yrs	3 yrs
<b>Retail</b>			
Standard deviation (% pa) <sup>(1)</sup>	2.07	2.09	1.83
Risk reward <sup>(2)</sup>	4.94	3.65	3.64
<b>Wholesale</b>			
Standard deviation (% pa) <sup>(1)</sup>	2.08	2.11	1.84
Risk reward <sup>(2)</sup>	5.19	3.87	3.90

(1) Annualised standard deviation of the Fund's monthly returns. A measure of the variability of returns.

(2) Return divided by standard deviation. A measure of the return earned per unit of risk taken.

### Sector in review

Bond and bank bill yields in Australia moved higher in May, more so at the longer end of the yield curve. The benchmark 3 and 10 year Government bond yield moved 52 and 71 basis points higher respectively. Bank bill yields also rose, but by a lesser margin as the official cash rate remained anchored at 3.00% throughout the month. The RBA Board meeting early in the month offered a balanced view regarding future movements in the official cash rate. The market however responded by increasing the probability of future pauses from the central bank (as implied by the bank bill futures market).

The RBA view was supported by a range of economic releases over the month. The Unemployment Rate decreased by 0.5% to 5.4%, Retail Sales for March gained 2.2%, the Q1 Capital Expenditure survey showed a sharp pullback in expectations of 8.9% with weaker Private Credit data and Consumer Confidence data (-4.3%).

In the US, supply concerns impacted bond yields with the benchmark US 10 year yield closing the month at 3.46%, some 34 basis points higher. The US economic data released over the month had little impact on both debt and equity markets.

Notwithstanding the moves in Government bond yields, corporate bond spreads tightened aggressively. Limited "forced selling" and maturing debt laid the platform, resulting in strong demand from both retail and institutional investors. The credit sector was clearly the best performing sector over the month. The UBS 0+yr Credit Index, (although shorter in duration), returned 0.95% against a negative 0.72% from the UBS Composite Bond Index.

### Fund in review

- The retail and wholesale Funds returned -0.05% and -0.03% respectively during May.
- The retail and wholesale Funds outperformed the UBS Composite Bond Index during May by 0.67% and 0.69% respectively.
- Duration strategy was a positive contributor to relative performance as yields rose during the month.
- Yield curve strategy had no material effect to relative performance.
- The portfolio's sector strategy was a negative contributor to relative performance.

### Market outlook

The pipeline of bond issuance from central banks around the world has gone broadly to script to date. That is, increased supply, all things being equal, should increase bond yields. Notwithstanding, bond yields have moved higher and at a faster pace than thought possible only a short time ago. Deflation concerns of a few months ago have largely dissipated. Financial markets (and in particular bond yields), are now attempting to 'price' the first signs of global economic recovery into yields.

As often is the case in economic cycles, bond yields attempt to anticipate inflection points. In this instance bond yields are anticipating a time when central banks will start to remove stimulus from the economy through higher official cash rates. While we believe official cash rate increases are a long way off, supply issues will impede bond markets for a long time yet.

In such an environment as outlined above, even if the desired growth outcomes disappoint, there is little to suggest a slowing in supply pressures that would enable bond yields to retrace the increase of the past few months. Under either scenario of slowing or increasing growth the cost of debt is under pressure, and as a result caution is still warranted with regard to long dated fixed interest securities.

Commentary courtesy of Vianova Asset Management.

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### Important information

The Fund is issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. This information is intended only to provide a general update on the investment particulars and the performance of the Fund. Investment decisions should not be made upon the basis of its past performance, distribution rate, or any rating given by a ratings agency, since each of these can vary. In addition, ratings need to be understood in the context of the full report issued by the ratings agency itself. You should refer to the Product Disclosure Statement (PDS) dated 7 December 2007 if you wish to know more about this product. A copy of the PDS can be obtained by calling us on the contact details listed above or from our website [australianunityinvestments.com.au](http://australianunityinvestments.com.au). The information provided here was current at the time of publication only.

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