

Products Facts

Manager	Australian Unity Funds Management Ltd	Fund type	Wholesale	Boutique	No
APIR code	AUS0009AU	Specialisation	—	Multimanager	No
Fund status	Open	Peer group	Australian Fixed Interest - Fixed Interest	Inception date	Oct. 31, 2005
Min. investment (A\$)	25000			ICR (% pa)	0.7

Standard & Poor's View

S&P rates this fund four stars, reflecting our high conviction that the manager will consistently generate risk-adjusted returns in excess of both its relevant investment objectives and its peers.

Vianova Asset Management has consistently grown funds under management (FUM) since inception, with the business maturing into a competitive boutique. The team operates with notable cohesion and has forged an impressive track record. All founding members have remained with the firm, reflective of the team's strong culture and equity partnership. The team has been strengthened by an additional resource, with Andrew McLachlan joining the firm as a credit strategist. Broad assistance is provided to the team by the Vianova Asset Management Advisory Board, which assists in discussing investment themes and strategies.

The fund aims to provide investors with regular income distributions, while seeking to preserve capital. The fund is benchmark-agnostic, making it a unique offering in the Australian fixed-interest market. The fund's ability to position the portfolio without restrictive investment constraints, allows the team's thematic views to be reflected with high conviction in the portfolio. Investors should be aware this may potentially result in the portfolio having a different risk and return profile to the benchmark and competitor funds.

The portfolio typically holds between 10-20 positions, and has a broad investment scope. The fund's duration range is wider than peers, as it enables the managers to take both short and longer-term duration positions. This will assist the manager in both rising and falling interest rate environments.

Returns from the outset have been encouraging, giving S&P further comfort in the investment team's ability.

Product Features

The Australian Unity Vianova Strategic Fixed Interest Trust aims to provide investors with regular income distributions, while seeking to preserve capital. The fund has the ability to invest in a broad range of Australian fixed-interest securities, including: interest-bearing investments issued by the Australian government or any State or Territory, deposits with any bank, bank-accepted bills or bank-endorsed bills, interest-bearing asset-backed securities, corporate or supranational debt of any type, including that issued by overseas corporations or supranational in Australian dollars, preference shares, convertible notes, capital notes, and any "debt like"-equity instruments issued by major corporations. Interest-rate derivatives may be applied; however, will not be used to leverage the portfolio. Portfolio limits around quality of corporate issuers, credit quality, and duration apply. The portfolio typically holds between 10-20 securities, with average turnover of 100%.

The fund's MER of 0.70% is at the higher end of the peer group.

Fund Objectives

Benchmark	UBS Composite 0 + Years
Target return (% p.a.)	100 bps above the benchmark over the cycle

Investment Style

Vianova's investment philosophy focuses on protecting investors' capital in a benchmark-agnostic style, unique to the Australian market. The process is highly thematic, with top-down views reflected in the portfolio constituents and construction. The fund invests with a medium-term horizon and would best suit investors with a similar investment time frame.

Sources of Return

Duration selection	Medium
Issue selection	
Sector selection	Medium
Yield curve	Medium
Other	
Arbitrage and spread	

Investment Team

The Vianova team is small, but operates with notably strong cohesion and has forged an impressive track record. All founding members have remained with the firm, reflective of the team's strong culture and equity partnership. The growth of Vianova's business has enabled the team to expand and position itself for future markets with the recent addition of credit strategist, Mr. McLachlan.

Chief investment officer, Michael Schneider is the head of Vianova's investment team, which, including himself, comprises four analysts. Mr. Schneider began his fixed-interest career at JBWere in 1985, followed by a stint at Swiss Re Australia in 1997, where he headed the fixed-interest team. Mr. Schneider spent a short period at National Australia Bank (NAB), before he established Vianova with his colleagues Gareth Apsey and Michael Swan. Mr. Swan is a senior portfolio manager with the team and has worked for Commonwealth Funds Management, UBS, and Perennial Investment Partners in fixed-interest management.

Prior to working at Vianova and NAB, Mr. Aspey held a role with Swiss Re Asset Management for six years.

In June 2008, Mr. McLachlan joined the team from Perennial Investment Partners Pty. Ltd., where he held the role of a senior credit analyst. Prior to this time, Mr. McLachlan held an advisory/consulting position with Economic Logic Pty. Ltd.

Further assistance is provided by managing director Bryan Madden. Mr. Madden's role encompasses all business-related tasks, leaving the remaining four members free to concentrate on investment management.

The team also draws on an advisory board, which is used for sounding investment themes and strategies. The board includes Australian Unity Funds Management Ltd. (AUFM) members, Vianova principals and external members.

New					Experienced
Small					Large
Unstable					Stable

Investment Process

The team's thematic view is the cornerstone of the investment process. Research on domestic and global trends is undertaken by both the investment team and the advisory board to identify fixed-interest themes. Each theme is then analysed for its potential impact on duration, yield curve, and sector exposure. Target duration positions are determined based on the team's expected economic outlook and current market prices. Yield-curve positioning again reflects where Vianova sees mispricing based on its expectation of short- and long-term rates, and what the market is pricing. Sector strategy aims to identify mispricing opportunities between government, semi-government, corporate, asset-backed, and short- and long-term money-market securities, and to position the fund away from sectors the team views as the riskiest. Credit analysis focuses on issues and sectors that meet the thematic view in terms of duration, yield curve positioning, and liquidity requirements. A recommended list of securities is maintained, and reviewed monthly after each advisory board meeting to ensure that it remains consistent with current themes.

Vianova's portfolio construction decisions are not an outcome of a rigid formula, but a result of the team's judgment on duration, yield-curve, sector rotation, liquidity, and stock selection. For each issuer, a detailed report covering industry, management, fundamental analysis, and key risks is prepared to assist with decision making. One of the strengths of the team's process is its ability to position the portfolio in strategies proposing the best value, not restricted by tightly confined benchmark limits.

The team's sell discipline focuses on total return and/or spread-level targets realised, significant change in micro or macro analysis, deterioration in industry conditions and credit fundamentals, a shift in management, and on whether value exists elsewhere.

Performance

Over the year to Oct. 31, 2008, the fund has produced returns of 10.96% (net), above the benchmark return of 10.59%. Three years to the same date, the fund returned 6.89%, relative to the benchmark of 6.16%. Recent performance is largely a result of the manager adding value through issue and sector selection. The fund's returns are encouraging, adding to S&P's conviction in the manager's ability to outperform.

Credit Rating Breakdown (%) (at Oct. 31, 2008)

AAA	75.60
AA	22.2
A	0
BBB	2.2
BB and below	0
Unrated	0
A-1+	0
A-1	0
A-2	0
A-3	0

Source: Australian Unity Funds Management Ltd.

Sector Breakdown (%) (at Oct. 31, 2008)

Government	23.5
Semi-government	0
Corporate	74.5
Asset-backed securities	0
Bank	0
Cash	2.0

Source: Australian Unity Funds Management Ltd.

Risk Management

Vianova's principal tool for managing risk is the use of scenario and stress testing. Each security is analysed as to market risks in both "normal" and "extreme" market conditions.

Portfolio limits do not apply to government-guaranteed exposures; however, the portfolio limits industry or sector exposures to 10% of total assets (excluding cash and bank-discount assets). Issuers are limited according to their S&P credit rating; with 'AAA' and 'AAA-' maximum limits restricted to 10% non-bank and 40% bank issues; limits of 'AA+', 'AA', and 'AA-' restricted to 8% non-bank and 40% bank; limits of 'A+', 'A' and 'A-' restricted to 6% non-bank and 20% bank, and limits of 'BBB+', 'BBB' and 'BBB-' restricted to 4% non-bank and zero bank. Short-term restrictions apply, with 'A-1+' rating limits restricted to 8% non-bank and 40% bank, and 'A-1' restricted to 4% non-bank and 6% bank. All investments must rate higher than 'BBB-', and the duration range for the fund is minus three quarters of a year to plus 6 years. The fund's duration range is wider than peers, as it enables the managers to take both short- and longer-term duration positions. This will assist the manager in both rising and falling interest-rate environments.

Compliance is managed by the Vianova Asset Management compliance committee, which has representatives from both Vianova and Australian Unity Funds Management. Daily oversight is provided by Vianova's Mr. Madden.

Management Group Profile

AUFM is a wholly owned subsidiary of Australian Unity Ltd., and the responsible entity for this fund. Australian Unity was formed in 1993 by the merger of two Victorian friendly societies. Since then, other smaller friendly societies have been acquired. AUFM manages both property and mortgage funds in-house, while all other asset classes are outsourced to either single-fund managers or a multimanager.

In 2005, AUFM acquired a 50% holding in Vianova Asset Management, a boutique absolute-return fixed-interest manager.

Vianova was established in early 2005 by four staff, headed by managing director Mr. Madden and chief investment officer Mr. Schneider. The joint venture with Australian Unity gives the team working capital and retail distribution, while Vianova is free to pursue institutional mandates. Mr. Madden's role encompasses all business-related tasks, leaving the remaining four members free to concentrate on investment management.

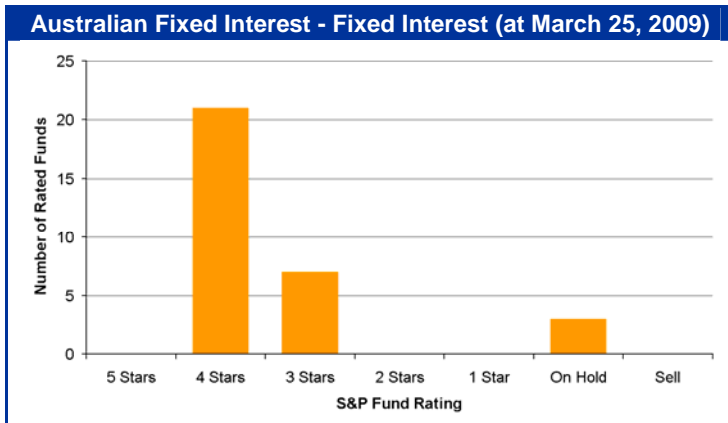
Market Share

At Oct. 31, 2008, the Australian Unity Vianova Strategic Fixed Interest Trust had FUM of A\$206 million.

Analyst(s): Anthony Karaminas; David Erdonmez.

Release authorised by: Mark Hoven.

S&P Fund Rating Reference Information



Reference Material
Sector Reports www.standardandpoors.com.au/funds
Reader's Roadmap www.standardandpoors.com.au/funds
Glossary www.standardandpoors.com.au/funds
Guide to S&P Qualitative Fund Ratings www.standardandpoors.com.au/funds
Fund Rating Team Biographies www.standardandpoors.com.au/funds

Fund Rating Peer Groups by Sector

Australian Equities	International Equities	International Fixed Interest	Alternative Assets
Large Cap Diversified	Diversified Equities	Diversified Fixed Interest	Commodities
Large Cap Income	Emerging Markets	Diversified Fixed Interest Income	Multi-Sector
Large Cap Indexed	Emerging Markets Asia ex Japan	Fixed Interest	Private Equity Listed
Large Cap Industrials	Emerging Markets China	Fixed Interest High Yield	Private Equity Unlisted
Long Short	Emerging Markets India	Fixed Interest Income	Infrastructure Listed
Small Cap	Large Cap Diversified	Mortgages	Infrastructure Unlisted
Specialist	Large Cap Income	Mortgages High Yield	Alternative Strategies
Australian Fixed Interest	Large Cap Indexed	Mortgages High Yield Hybrid	Single Strategy Funds Multimanager
Cash	Large Cap Industrials	Mortgages Conventional	Single Strategy Funds Single Manager
Cash Enhanced	Long Short	Mortgages Hybrid	Multi-Strategy Funds Multimanager
Fixed Interest	Long Short Specialist	International Property	Multi-Strategy Funds Single Manager
Fixed Interest Income	Long Short Regional	Direct Commercial	Multi-sector
Mortgages	Regional Japan	Direct Development	Capital Guaranteed
Mortgages High Yield	Regional UK/Europe	Direct Diversified Direct	20
Mortgages Conventional	Regional US	Direct Industrial	40
Mortgages High Yield Hybrid	Regional Asia	Direct Residential	60
Mortgages Hybrid	Small Cap	Direct Retail	80
Australian Property	Specialist Healthcare	Direct Rural	100
Direct Commercial	Specialist Information Technology	Direct Specialised	Equity
Direct Development	Specialist Resources	Diversified Property	Other
Direct Diversified Direct		Listed	
Direct Industrial			
Direct Residential			
Direct Retail			
Direct Rural			
Direct Specialised			
Diversified Fixed Interest Listed			








Fund Rating Philosophy

A star rating is a forward-looking qualitative assessment of a manager's ability to consistently generate risk-adjusted fund returns (net of fees) in excess of both its relevant investment objectives and its peers.


Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure, and portfolio characteristics; and the manager's business management.

Fund Rating Definitions

	Standard & Poor's has very high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.
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	Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in in-line with its relevant investment objectives and relative to its peers.
	Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
	Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.
	Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

Fund Rating Subscript

 The investment process, fund manager, or the fund has a relatively short history, or the analytical team has changed significantly, but a relevant and demonstrable track record is shown on similar funds.

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