

# Aberdeen Standard Active Index Income Fund

Monthly factsheet - performance data and analytics to 30 April 2019



## Investment objective

To provide exposure to Australian fixed income securities, with a focus on generating income, with some capital growth. The Fund aims to outperform the Bloomberg AusBond Composite Bond Index over the suggested investment time frame, in order to deliver an index-like return after fees.

## Investment strategy

To add value via individual security selection, focusing on robust credit quality and valuations. The portfolio does not seek to take active macro risks versus the benchmark.

## Performance (%)

	1 Month	3 Months	1 Year	Per annum		Since Inception <sup>1</sup>
				3 Years	5 Years	
Aberdeen Standard Active Index Income Fund net returns <sup>2</sup>	0.21	3.05	7.81	4.13	4.83	5.95
Aberdeen Standard Active Index Income Fund gross returns <sup>3</sup>	0.22	3.10	8.02	4.38	5.11	6.21
Bloomberg AusBond Composite Bond Index	0.28	3.07	7.87	4.18	4.94	5.80
Net returns <sup>2</sup> vs index	-0.07	-0.02	-0.06	-0.05	-0.11	0.15
Gross returns <sup>3</sup> vs index	-0.06	0.03	0.15	0.20	0.17	0.41

1. This figure represents the annualised performance of the Fund from the first full month of operation.

2. Net performance figures are calculated using end-of-month exit prices, post standard fees, reflect the annual reinvestment of distributions and make no allowance for tax. If investing through an IDPS Provider, the total after fees performance returns of your investment in the Fund may be different from the information we publish due to cash flows specific to your portfolio and any fees charged by the IDPS Provider.

3. Gross performance figures are calculated using end-of-month exit prices, pre-fees, reflect the annual reinvestment of distributions and make no allowance for tax. These returns are provided for the purpose of wholesale investors only. Retail investors should refer to net returns.

Please note: Prior to 1 May 2009 the Fund was known as the Credit Suisse Passive Enhanced Australian Fixed Interest Fund. Prior to 31 August 2010 the Fund was known as the Aberdeen Passive-Enhanced Australian Fixed Income Fund. Prior to 1 April 2017 the Fund was known as the Aberdeen Income-Focus Bond Fund.

On 29 September 2014 the benchmark was renamed due to the acquisition of UBS Australia bond indexes by Bloomberg Indexes.

Past performance is not a reliable indicator of future results.

## Performance review

The Fund returned 0.22% in April (before fees), underperforming the benchmark by 0.06%.

Credit strategies gave back its outperformance it enjoyed from the previous month. Both financial and non-financial spreads tightened against government bonds. However, this was not enough to offset a general widening in swap against equivalent tenor in the short end and underperformance of semi-government and Supra-nationals bonds. We also invested in Australian Gas Networks, a rare but solid credit inflation-linked security. It had a modest mark-to-market impact on performance.

## Market review

In the first quarter, the Australian bond market was hurt by the release of weak inflation report. The consumer price index fell to the lowest sequential rate on record, at an average 0.2% quarter-on-quarter. This news overshadowed the small improvement in consumer confidence and firm employment gain in March and market priced in a potential cash rate cut in May.

In offshore markets, macroeconomic developments were positive. In the US, core capital goods orders, which lead business investment, improved and retail sales recovered. However, consumer price inflation remained muted. The Federal Reserve Chair Powell communicated a sanguine assessment of low inflation and disappointed the market, which was expecting a more dovish signal. Most of the positive economic surprises came from China, notably an increase in industrial production and faster

## Sector holdings (%)

	Fund	Index
Cash & Cash Equivalents	0.84	0.00
Government	30.93	51.34
Semi Government	26.90	24.14
Corporate	41.33	24.53
Supra/Sovereign	27.76	14.67
Financials	3.27	3.68
Non-Financials	9.99	5.62
Asset-Backed	0.31	0.56
CDS	0.00	0.00
Swaps	0.00	0.00

Figures may not always sum to 100 due to rounding.

## Sector holdings: credit duration (yrs)<sup>4</sup>

	Fund	Index
Cash & Cash Equivalents	0.00	0.00
Government	0.00	0.00
Semi Government	1.60	1.15
Corporate	1.09	0.88
Supra/Sovereign	0.68	0.55
Financials	0.12	0.11
Non-Financials	0.28	0.20
Asset-Backed	0.01	0.02
CDS	0.00	0.00
Swaps	0.00	0.00

4. Credit duration measures exposure to changes in credit spreads. It is a more realistic measure of credit positioning than % holding.

## Portfolio structure (%)

	Fund
Fixed Rate Bonds	95.21
Floating Rate Notes	1.49
Inflation-Linked Bonds	2.46
Swaps & CDS	0.00
Cash & Cash Equivalents	0.84

Figures may not always sum to 100 due to rounding.

## Credit rating profile (%)

	Fund	Index
AAA	72.79	73.87
AA	16.19	19.01
A	3.55	4.36
BBB	6.72	2.76
<BBB	0.00	0.00
A-1+	0.00	0.00
Cash	0.76	0.00

Figures may not always sum to 100 due to rounding.

## Portfolio analytics

	Fund	Index
Modified Duration (years)	5.39	5.34
Yield to Maturity (%)	2.04	1.81

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export growth. The Eurozone continued to lag with a weak purchasing managers' index.

Bond yields drifted marginally higher in the first half of the month and thereafter retreated to varying degrees. This follows several months of an uninterrupted downtrend in yields. Reflecting the above-cited country-specific factors, Australian bonds outperformed their counterparts, notably in bunds and in the US. Short-dated 3-year Australian bond yields ended the month at 1.28%, 11 basis points below their previous month's level. Risk assets had another positive month amid a backdrop of broadly dovish central bank policy. The Australian fixed-income sector delivered a modest positive return with the steepening of the Australian yield curve and a tightening in corporate bond spreads.

### Outlook

In contrast to employment data, the national accounts report suggested that income and consumption were sluggish in the second half of 2018. Not surprisingly, we witnessed low inflation in the first-quarter of this year. As a result, the RBA is likely to shift to a clear easing bias and could eventually follow with monetary easing. This comes at a time when the Chinese economy is improving and the US is stabilising. We are constructive about the prospects for the global economy and expect the recent loosening in financial conditions to be supportive. As such, we anticipate a rise in bond yields for much of the developed markets. In Australia, this will be limited by RBA stance. However, the Australian dollar will continue to benefit from a secular downtrend in current account surplus and positive dynamics for risk assets globally.

We expect the trade dispute between China and the US to end with an agreement, which will be positive for growth globally and reduce policy uncertainty. It is likely that the Eurozone will be the last economy to respond positively as it lags improvements in China. The threat of tariffs on the Eurozone by the US is also likely to remain for longer.

Credit endured an exceedingly tough 2018 and started 2019 at attractive valuation levels relative to the last few years. However, we do not believe that 'the last few years' is the optimal yardstick for assessing relative valuation in 2019 as these years encompassed globally-coordinated quantitative easing from major central banks and record low yield and credit spread levels, and as a result artificially suppressed default rates. We now have a Fed funds rate in the mid-2s that not only impacts core global yield levels (and in turn refinancing rates for corporates) but also the hedging costs for the large overseas buyers of US investment-grade credit that drove 2017s issuance boom. Global economic growth has slowed and our expectation is that US corporate earnings will continue to meaningfully decelerate in 2019. Taking these factors into account, valuations could best be described as fair, but the recent rally in spreads is starting to make this harder to justify. We continue to believe that approaching credit from a 'sell the rally' angle makes more sense than the 'buy the dip' mantra that was so powerful in 2016 and 2017. For these reasons, we will continue to dynamically dial up/down our active credit position with liquid instruments, while maintaining a greater proportion of higher-quality credit in funds (we have increased our allocations to AAA-rated state government and supranational bonds). Ultimately, given we expect default rates to stay low, a degree of credit overweight is warranted but at reduced scale.

### Key information

ASX mFund Code	AFZ25
APIR Code	CSA0130AU
Benchmark	Bloomberg AusBond Composite Bond Index
Date of launch	January 2001
Income payable	Monthly
Management costs	0.20% pa of the net asset value of the Fund comprising: Management Fee 0.20% pa Indirect costs 0.00% pa
Buy/Sell spread	+0.00%/-0.10%
Fund size	A\$59.28m
Redemption unit price	\$1.0513

5. The distribution frequency for this fund changed from half yearly to monthly on 31 August 2010.

### Important information

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### Contact us

Telephone:  
1800 636 888 or +61 2 9950 2853  
if calling from outside Australia  
Email:  
[client.service.aust@aberdeenstandard.com](mailto:client.service.aust@aberdeenstandard.com)  
Website:  
[aberdeenstandard.com.au](http://aberdeenstandard.com.au)