Aberdeen Standard Diversified Fixed Income Fund

Monthly factsheet - performance data and analytics to 30 April 2019

AberdeenStandard Investments

Investment objective

To provide exposure to a diversified portfolio of fixed income investments. The Fund aims to outperform an aggregate benchmark of 50% Bloomberg AusBond Composite Bond Index and 50% Bloomberg Barclays Global Aggregate Bond Index (hedged to the Australian dollar) over the suggested investment time frame (3 years plus).

Investment strategy

To obtain exposure to a wide range of fixed income asset classes including Australian and international fixed income as well as a number of credit funds. This diversified fixed income portfolio provides a broad investment universe that increases the opportunities to generate additional returns while diversifying risk.

Performance (%)

	1 Month	3 Months	1 Year	Per annum 3 Years	5 Years	Since Inception[1]
Aberdeen Standard Diversified Fixed Income Fund net returns[2]	0.12	2.00	5.39	3.45	4.42	6.30
Aberdeen Standard Diversified Fixed Income Fund gross returns[3]	0.16	2.11	5.86	3.95	4.97	6.95
50% Bloomberg AusBond Composite Bond Index + 50% Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	0.14	2.44	6.42	3.65	4.81	6.33
Net returns[2] vs index	-0.02	-0.44	-1.03	-0.20	-0.39	-0.03
Gross returns[3] vs index	0.02	-0.33	-0.56	0.30	0.16	0.62

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 Diversified Fixed Interest 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 0.16% in April (before fees), outperforming the benchmark by 0.02%.

Credit strategies added to performance with corporate spreads tightening against government bonds over the month. The fund benefited from a moderate exposure to global investment grade bonds. In particular, both Euro and US – investment grade generated close to 1% excess returns. The Australian investment grade bonds also performed well, but lagged global peers. The fund continues to prefer Australian corporate bonds over global peers. Conversely, local Asian currency bonds detracted from performance on US dollar strength.

Interest rate strategies was a small drag on performance. While inflation protection, US curve steepener, and short duration bias in Germany added to gains, underweight position in the front end of the Australian government bond curve detracted. Following lower than expected CPI, the market has brought forward rate cut expectations. We have since closed the position in Australia and now expect rate cuts from the RBA in the next six to twelve months.

Sector holdings (%)

	Fund	Index
Cash & Cash Equivalents	16.03	0.21
Government	13.07	52.47
Semi Government	11.06	12.22
Corporate	60.20	35.09
Supra/Sovereign	17.70	12.58
Financials	15.40	5.22
Non-Financials	22.62	9.35
Asset-Backed	4.48	7.94
CDS	0.00	0.00
Swaps	-0.36	0.00

Figures may not always sum to 100 due to rounding.

Sector holdings: credit duration (yrs)[4]

	Fund	Index
Cash & Cash Equivalents	0.01	0.01
Government	0.00	0.44
Semi Government	0.81	0.58
Corporate	2.24	1.75
Supra/Sovereign	0.61	0.60
Financials	0.51	0.22
Non-Financials	1.02	0.55
Asset-Backed	0.10	0.38
CDS	0.00	0.00
Swaps	-0.30	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	73.28
Floating Rate Notes	6.34
Inflation-Linked Bonds	4.71
Swaps & CDS	-0.36
Cash & Cash Equivalents	16.03

Figures may not always sum to 100 due to rounding.

Credit rating profile (%)

	Fund	Index
AAA	33.51	43.83
AA	10.53	30.54
A	14.64	15.34
BBB	27.65	10.22
<BBB	0.84	0.07
A-1+	6.97	0.00
Cash	5.86	0.00

Figures may not always sum to 100 due to rounding.

Credit rating profile: credit duration (yrs)

	Fund	Index
AAA	1.08	0.72
AA	0.55	1.06
A	0.09	0.41
BBB	1.01	0.59
<BBB	0.03	0.00
A-1+	0.01	0.00
Cash	0.00	0.00

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aberdeenstandard.com.au

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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 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.

Portfolio analytics

	Fund	Index
Modified Duration (yrs)	**5.28**	**6.15**
Australia	2.84	2.70
United States	0.65	1.35
Europe	0.84	1.12
Japan	0.76	0.76
Other	0.19	0.22

Key information

ASX mFund Code	**AFZ29**
APIR Code	**CSA0062AU**
Benchmark	**50% Bloomberg AusBond Composite Bond Index + 50% Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)**
Date of launch	**July 2006**
Income payable	**31 March, 30 June, 30 September and 31 December**
Management costs	**0.59% pa of the net asset value of the Fund comprising: Management Fee 0.45% pa Indirect costs 0.14% pa**
Buy/Sell spread	**+0.05%/-0.20%**
Fund size	**A$20.57m**
Redemption unit price	**$0.9900**

Contact us

Telephone:
1800 636 888 or +61 2 9950 2853
if calling from outside Australia
Email:
client.service.aust@aberdeenstandard.com
Website:
aberdeenstandard.com.au