

# Aberdeen Standard Active Index Income Fund

Monthly factsheet - performance data and analytics to 31 August 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		
				3 Years	5 Years	Since Inception <sup>1</sup>
Aberdeen Standard Active Index Income Fund net returns <sup>2</sup>	1.55	3.62	11.24	4.69	5.22	6.14
Aberdeen Standard Active Index Income Fund gross returns <sup>3</sup>	1.56	3.67	11.46	4.93	5.49	6.40
Bloomberg AusBond Composite Bond Index	1.51	3.54	11.20	4.68	5.30	5.98
Net returns <sup>2</sup> vs index	0.04	0.08	0.04	0.01	-0.08	0.16
Gross returns <sup>3</sup> vs index	0.05	0.13	0.26	0.25	0.19	0.42

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 1.56% in August (before fees), outperforming the benchmark by 0.05%.

The fund outperformed the benchmark despite the surge in risk aversion. Security selection drove the performance, with holdings, such as Aroundtown 2025's outperformed.

## Market review

"Buy bonds, wear diamonds" is a quip that has been doing the rounds on social media over the last few months. Not quite institutional-level investment advice, but very effective if you had followed it in August. Bonds had a solid month, with regime-breaking falls in yields delivering stellar returns to investors positioned on the safe side. Naturally, Donald Trump played a starring role as his volte-face on Chinese trade negotiations caught markets offside. With economic data prints confirming that global corporates are turning off the spending taps during this period of heightened uncertainty, the prolonged effects of the trade war are starting to be priced into markets.

It was notable that during the month, Trump had initially looked to gift US consumers an early Christmas present in the form of deferred tariff implementation, which the market viewed as a major

## Sector holdings (%)

	Fund	Index
Cash & Cash Equivalents	11.15	0.00
Government	45.83	52.36
Semi Government	22.46	23.89
Corporate	20.55	23.74
Supra/Sovereign	9.67	14.16
Financials	5.57	3.53
Non-Financials	4.13	5.51
Asset-Backed	1.18	0.54
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	1.31	1.21
Corporate	0.88	0.87
Supra/Sovereign	0.42	0.55
Financials	0.24	0.11
Non-Financials	0.17	0.19
Asset-Backed	0.05	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	86.31
Floating Rate Notes	2.55
Inflation-Linked Bonds	0.00
Swaps & CDS	0.00
Cash & Cash Equivalents	11.15

Figures may not always sum to 100 due to rounding.

## Credit rating profile (%)

	Fund	Index
AAA	69.86	74.73
AA	10.70	18.25
A	3.62	4.22
BBB	5.25	2.80
<BBB	0.00	0.00
A-1+	1.67	0.00
Cash	8.89	0.00

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## Portfolio analytics

	Fund	Index
Modified Duration (years)	5.62	5.55
Yield to Maturity (%)	1.14	1.06

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concession. Trump also met with multiple industry leaders to discuss the impact of tariffs, including Tim Cook of Apple (not "Tim Apple", as Trump referred to him during the press conference). The good vibes were put to bed with news of new Chinese tariffs, a devaluation of the Chinese yuan and a flurry of retaliatory tweets.

US 10-year Treasury yields fell from 2.0% to 1.5% over the course of August. Shorter bonds rallied to a lesser degree, leading to a flattening of the yield curve. Australian 10-year government bonds slid by 0.3% to yield 0.9% at month-end after having outperformed in prior months. Gold had another solid session, advancing 8% to the highest level in six years, while copper, a decent proxy for global industrial production, fell 5%. Emerging market currencies fell around 4% after the yuan devaluation, with the Australian dollar falling just 2%.

Despite the strong safe haven bid, risk assets stayed relatively solid. After trading in a saw tooth pattern, the S&P 500 fell just 2% and US investment-grade credit spreads widened by just 0.12% during August. Australian credit spreads were flat, delivering small but positive excess returns versus government bonds. Australian swap spreads tightened, which is typically a 'risk-on' kind of price action, while the index credit-default swap contract widened by only 0.04%. This was a very resilient performance considering iron-ore prices fell from USD120/t to around USD90/t. Investors focused on the improvement in domestic property dynamics, where auction clearance rates increased significantly as East Coast house prices rose once again.

### Outlook

Our macro outlook is dominated by two factors –the uncertainty emanating from the US-China trade relationship and easier global financial conditions.

The recent G20 Summit concluded with an uneasy truce but details, as is often the case with Donald Trump, remain scarce. A trade resolution between the US and China remains an upside scenario, resulting in a positive skew to our yield forecasts. In the base case, however, we don't expect any swift resolution of global trade tensions. This will continue to weigh on global economic activity and delay the recovery that we expected earlier in 2019. These dynamics have led central banks to proactively intervene to ease financial conditions, shielding their respective economies from shocks to confidence and investment. We expect the Fed to deliver rate cuts in 2019, and the ECB will remain on hold for the foreseeable future.

In Australia, policy is easing on multiple fronts: monetary, fiscal and macro-prudential. The RBA cut the cash rate in June and we expect another cut in 2019. Further tax cuts are expected to be passed in July, supporting household disposable income. Australian Prudential Regulation Authority has also proposed to lower the debt serviceability test for mortgage holders, offsetting the reduced borrowing capacity of households following closer scrutiny of expenses and harsher enforcement of debt-to-income limits in 2018. Collectively, these policies represent a notable easing of policy to support Australian households; lowering the interest rate burden, releasing disposable income and stabilising house prices. Since the re-election of the coalition government, auction clearance rates have recovered and house prices have stabilised. In the absence of a sharp rise in the unemployment rate, household consumption should gradually recover. Elsewhere, the mining sector is doing well and supporting gross domestic income. With increasing likelihood of infrastructure investment in China (supporting the domestic economy while the trade war remains in place), the growth in national income is sustainable and will be a tailwind. Overall, these policies are reflationary, pinning down real yields at the front end, while supporting longer-term inflation expectations.

The dovish tilt of global central banks underpins the desire for excess spread and reinforces a carry/roll focus for global investors. Given where government bond yields are, credit spreads are an increasingly meaningful contributor to the overall yield on a corporate bond. Global default rates remain very low while revenue/earnings growth is positive, albeit at a much lower level than 2017/18. Given Trump's repeated references to the S&P 500 as being some kind of proof of his presidential prowess, we think that it is unlikely that the current trade spats deteriorate into an all-out war that hurts equities, particularly in the lead-up to the 2020 US election. However, we do acknowledge that we are late-cycle and do not want to be overextending into relatively illiquid parts of the credit spectrum at this juncture.

We 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).

### 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\$59.09m
Redemption unit price	\$1.0813

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

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## Important information

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