

# Wholesale Global Credit Income Fund

## Monthly update

December 2011

Performance (before fees and expenses)	3 mths	6 mths	1 yr	3 yrs pa	5 yrs pa	Since inception pa
Wholesale Global Credit Income Fund (%)	2.12	-0.77	3.19	11.17	4.90	5.94
UBS Australian Bank Bill Index (%)	1.22	2.47	5.00	4.38	5.48	5.46
Relative performance (%)	0.90	-3.24	-1.81	6.79	-0.58	0.47

### Wholesale Global Credit Income Fund characteristics

Market value (A\$m)	4,134.0
Inception date	Sep-00
Benchmark	UBS Australian Bank Bill Index
Fund duration	0.14
Benchmark duration	0.12
Portfolio Yield	8.0%
Composition: Investment grade	78.2%
High yield*	21.8%
Cash, FX, Interest Rate Swaps	5.8%
Allocation: Domestic	20.1%
International	79.9%
Cash, FX, Interest Rate Swaps	5.8%

\*The high yield portion of the portfolio is part managed by HIM Money

### Fund performance strategy and activity

- The Fund returned 1.11% in December, outperforming its benchmark by 70 bps, reflecting the tightening in global credit spreads.
- Credit spreads on European Financials tightened by 24 bps during the month, rebounding after the European Central Bank (ECB) announced support for European banks via 3-year liquidity tenders, lower reserve requirements and a relaxation of collateral terms. Therefore, The Fund's overweight exposure to Financials added to overall Fund performance.
- Despite a mid-month pause, US high yield securities finished the year on a strong note, outperforming investment grade credit. Market optimism increased despite the deteriorating global backdrop, as US economic data releases continued to steadily improve. Lower quality credits (CCCs +3.2%) led December's rebound. The Fund had around 22% exposure to high yield securities, contributing positively to overall Fund returns.
- During the month, the Fund participated in new issues from BNP Paribas and Santander, taking advantage of the issuer exchange offers to move out of lower tier two subordinated debt into senior unsecured debt. Amgen issued debt to fund a share buy-back. We were able to purchase this name at a good spread given the amount of debt the company needed to issue.
- Volatility in global credit markets is likely to remain elevated in the short-term as market participants continue to cautiously focus on European sovereign debt and financial system risks. Concerns over a possible 'double-dip' recession in Europe, a fledgling US economic recovery, and a hard or soft landing scenario in China is also adding to uncertainty. Market volatility inevitably impacts mark-to-market returns, but we believe that our approach of minimising the impact of defaults allows us to take advantage of current wider spreads.

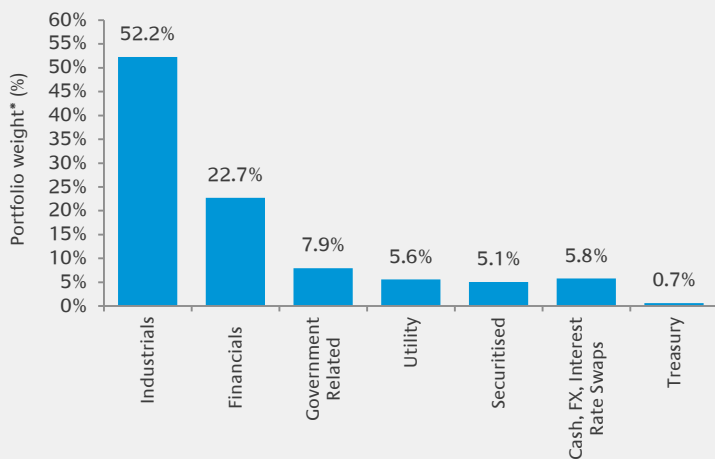
### Credit market review

- Global credit markets continued to whipsaw in December, with the sovereign crisis in Europe remaining the key driver of spread volatility. Although initial market reaction to the latest policy announcements by EU leaders was mildly positive, sentiment soon deteriorated after credit rating agency Moody's Investor Services warned its investors that it would review ratings for European sovereigns given the absence of many concrete new measures at the Brussels summit. Fitch Ratings chimed-in by adding that there was a lack of a comprehensive solution with the 'gradualist approach imposing economic and financial costs'. Furthermore, comments by Chancellor Merkel indicating that the firepower of the ESM would not be increased, further eroded market optimism. However, several better-than-expected peripheral bond auctions (Spain in particular) did encourage market participants in the second half of the month. Also, news that the EU member countries – but notably not the UK – have agreed to provide the IMF with bilateral loans totalling €150 million boosted market sentiment.
- The iTraxx Europe SovX WE Index widened by 12 bps to 350 at December month-end from 338 at November-end. A variety of factors continued to raise the floor on spreads in Europe, including poor liquidity, bank deleveraging, and the deteriorating macroeconomic environment. Credit ratings agencies added to market anxiety with Standard & Poor's placing the ratings of 15 EU member states on credit watch negative, including AAA-rated core sovereigns France and Germany. Moody's lowered Belgium's sovereign rating by two notches to Aa3 despite formation of Belgium's first full-time government in more than 18 months, while Fitch cut France's credit outlook to 'negative' and put Spain, Italy, Slovenia and Ireland on 'rating watch negative' review. There were no further developments towards month-end, but speculation over France's AAA-rating remained intense.
- US credit markets tightened in December with the US IG Lucitoss Index contracting by 12 bps to 199 at December month-end, from 211 at November-end. Market optimism increased despite the deteriorating global backdrop, as US economic data releases continued to steadily improve on the back of better-than-expected employment, consumer confidence, housing and manufacturing data. The resolution of the US payrolls tax-cut deadlock also boosted sentiment after several months of political wrangling, culminating in the loss of the US' coveted AAA sovereign credit rating.
- The US high yield market rebounded in December. The Merrill Lynch broad market and BB/B Constrained indices posted monthly returns of 2.48% and 2.37%, respectively.

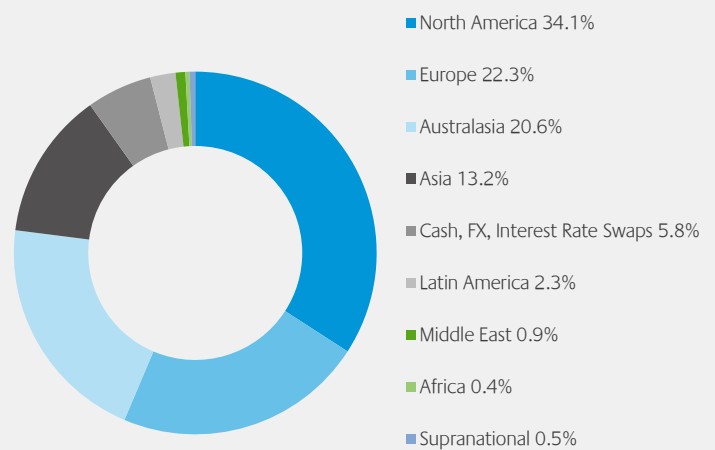
### Basis swap

- Co-ordinated action by major central banks to reduce the cost of USD swap lines led to a sharp correction in basis levels at the start of December. The most notable move was in the front-end of the EUR/USD basis curve, where the 3-month break came in by 40 bps. Whilst the short-term market stabilised, the 1-year and longer EUR/USD basis sold-off into year-end on demand for USD cash. With thin flows and a lack of issuance, the AUD/USD basis market was driven by the risk sentiment and moves in AUD/JPY. Some of the early gains were retained across the curve, with 10-years ending the month 6 bps higher at 19 bps.

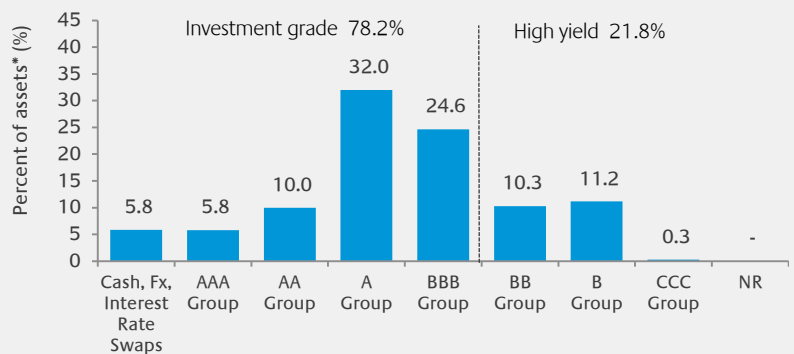
Sector exposure breakdown



Regional exposure breakdown



Quality exposure breakdown



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There are fees and costs payable for managing investments in the Fund that are deducted from the Fund as a whole. The fees payable by investors in the Fund may be negotiated and can differ between investors. For this reason the performance figures used in this document are shown before fees and costs as at 31 December 2011. Investors should have regard to the Information Memorandum or their negotiated fee agreement for further information on the fees and costs applicable to their investment in the Fund.

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