

# The changing nature of fixed income funds

Presented By Roger Bridges, Head of Fixed Income

26 August 2009

Tyndall Investment Management Limited ABN 99 003 376 252 AFSL 237563

# Disclaimer

Tyndall

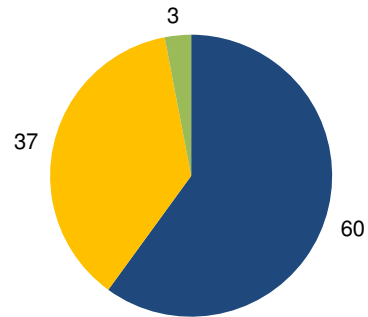
- This document was prepared and is presented by Tyndall Investment Management Limited ABN 99 003 376 252 AFSL 237563. The financial products disclosed in this presentation are issued by Tasman Asset Management Limited ABN 34 002 542 038 AFSL 229664. It is for the use of only of researchers, licensed financial advisers and their authorised representatives. This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal advice, and must not be relied on as such.
- Before making a decision based on this material, a potential investor should consider the appropriateness of the advice, having regard to their objectives, financial situation and needs and obtain independent advice. Investment decisions should be based on information contained in the current PDS available at [www.tyndall.com.au](http://www.tyndall.com.au) and applications to invest will only be accepted if made on an application form attached to that current PDS.
- Past performance is not a guarantee of future performance. While we believe the information contained in this presentation is correct at the date of presentation, no warranty of accuracy or reliability is given and no responsibility is accepted for errors or omissions.

# Agenda

- Changing composition of Australian fixed income market
- Credit markets grow to fill the supply/demand gap
- GFC has changed the fixed income landscape
- Term risk to replace credit risk
- Government needs to withdraw but still have a presence
- Corporates need an attractive alternative to bank funding, therefore still a need for credit market

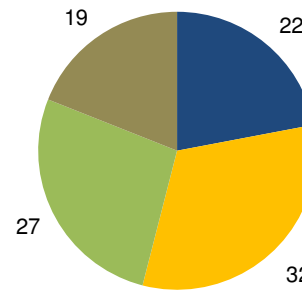
# Will we see a return to 1996?

Fixed income market composition 1996 (%)



- Commonwealth government bonds
- Semi-government bonds
- Credit

Fixed income market composition 2008 (%)

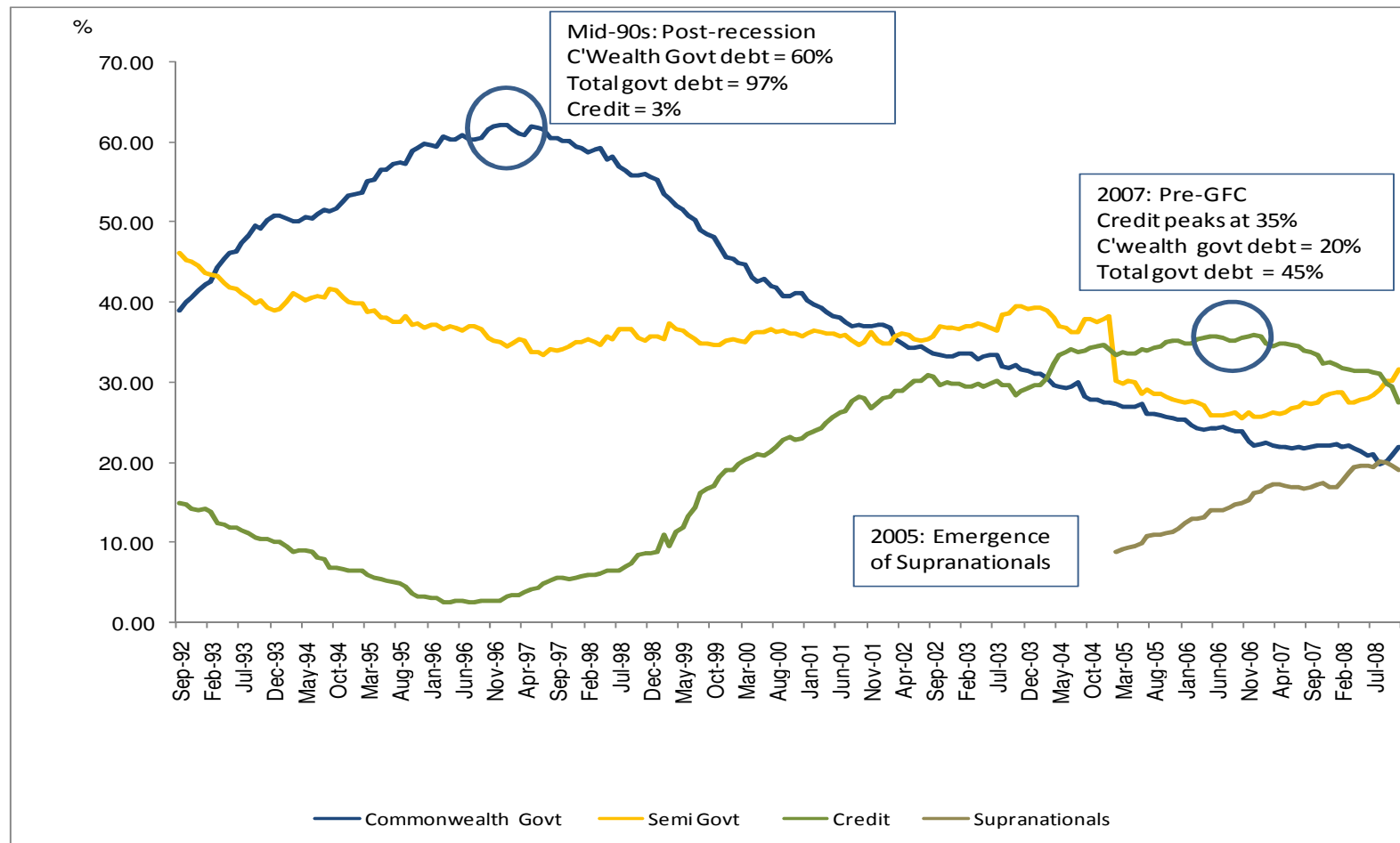


- Commonwealth government bonds
- Semi-government bonds
- Credit
- Supra-Sovereigns

Source: UBS

# Changing composition of fixed income market

Tyndall



Source: UBS

# Transfer of risk from government to private sector

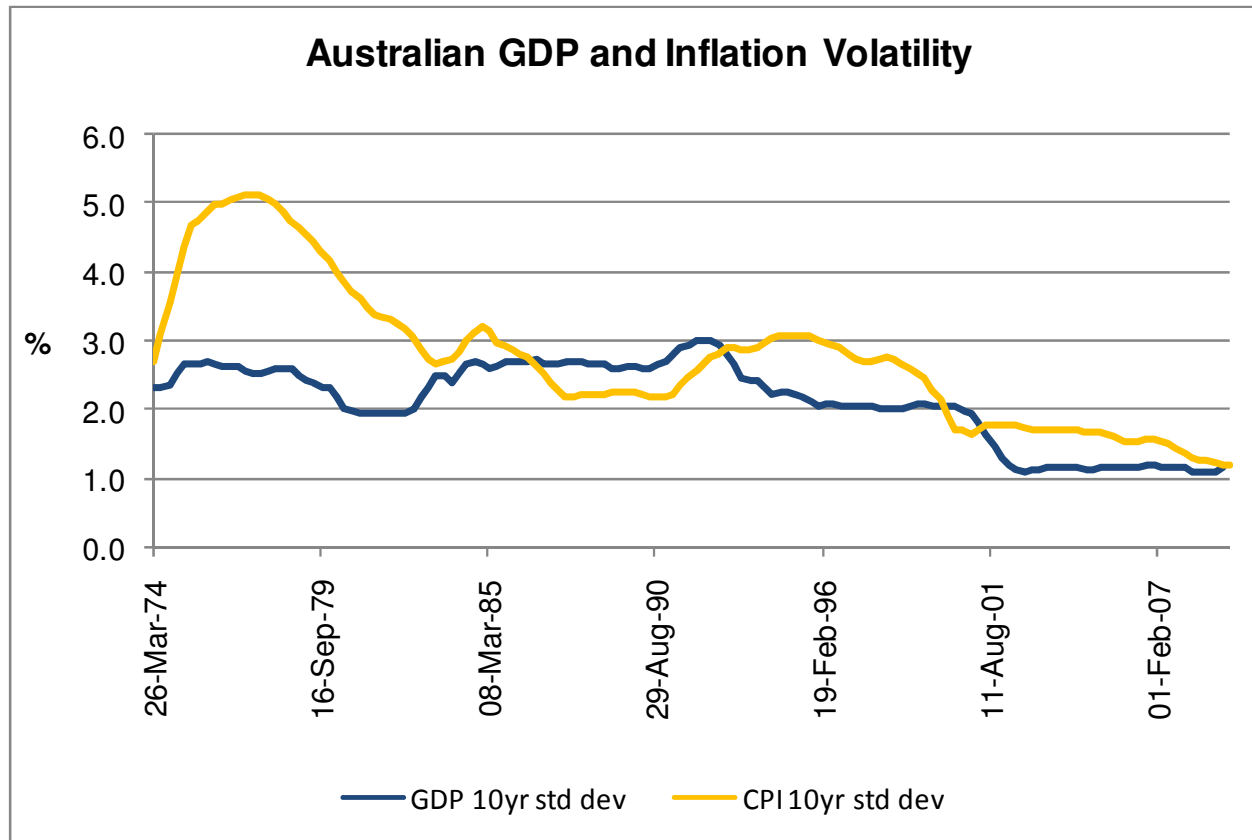
1996:

- Large Commonwealth budget deficit
- Reduced semi-government issuance
- Limited corporate issuance

Period to 2008:

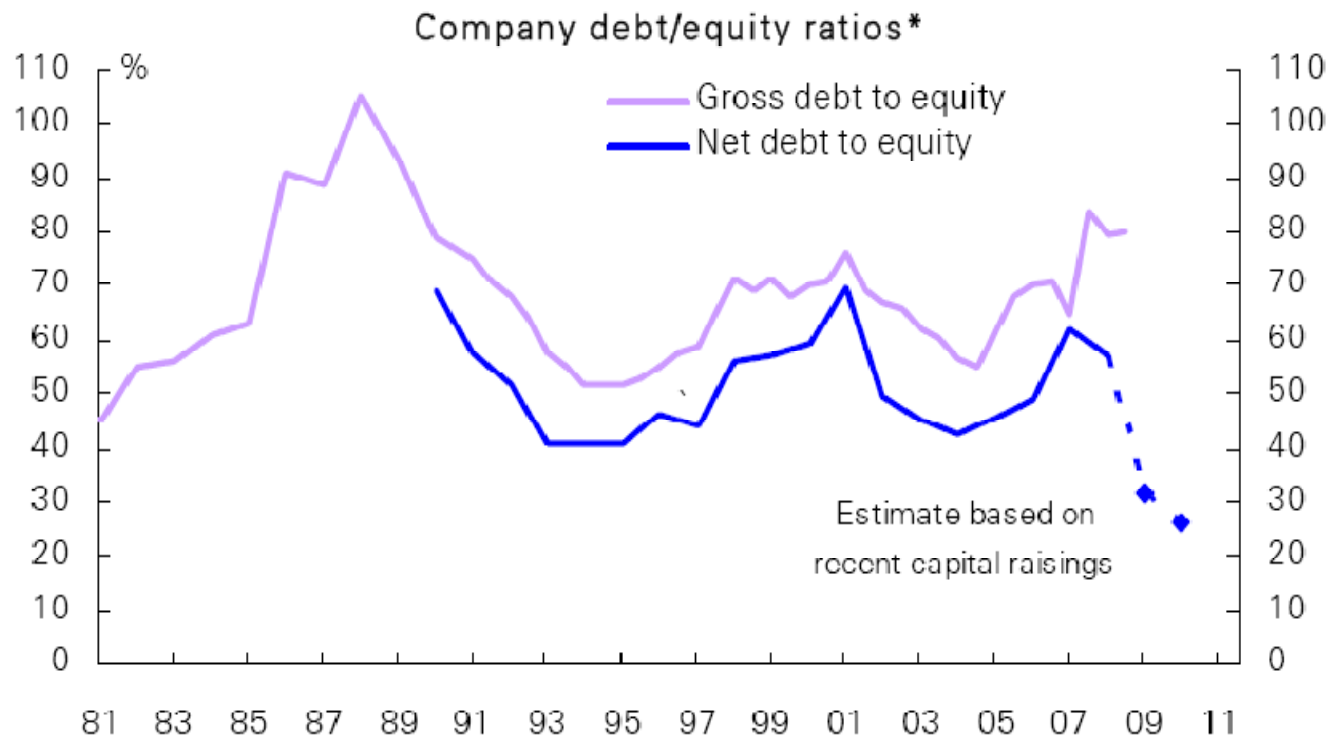
- Governments focused on reducing debt – sold off assets
- Governments outsourced infrastructure funding
- Period of ‘Great Moderation’ – lower volatility in GDP and inflation created greater certainty about the future
- Record low interest rates – created chase for higher returns and increased leverage
- Emergence of structured products

# The period of 'Great Moderation'



Source: Bloomberg

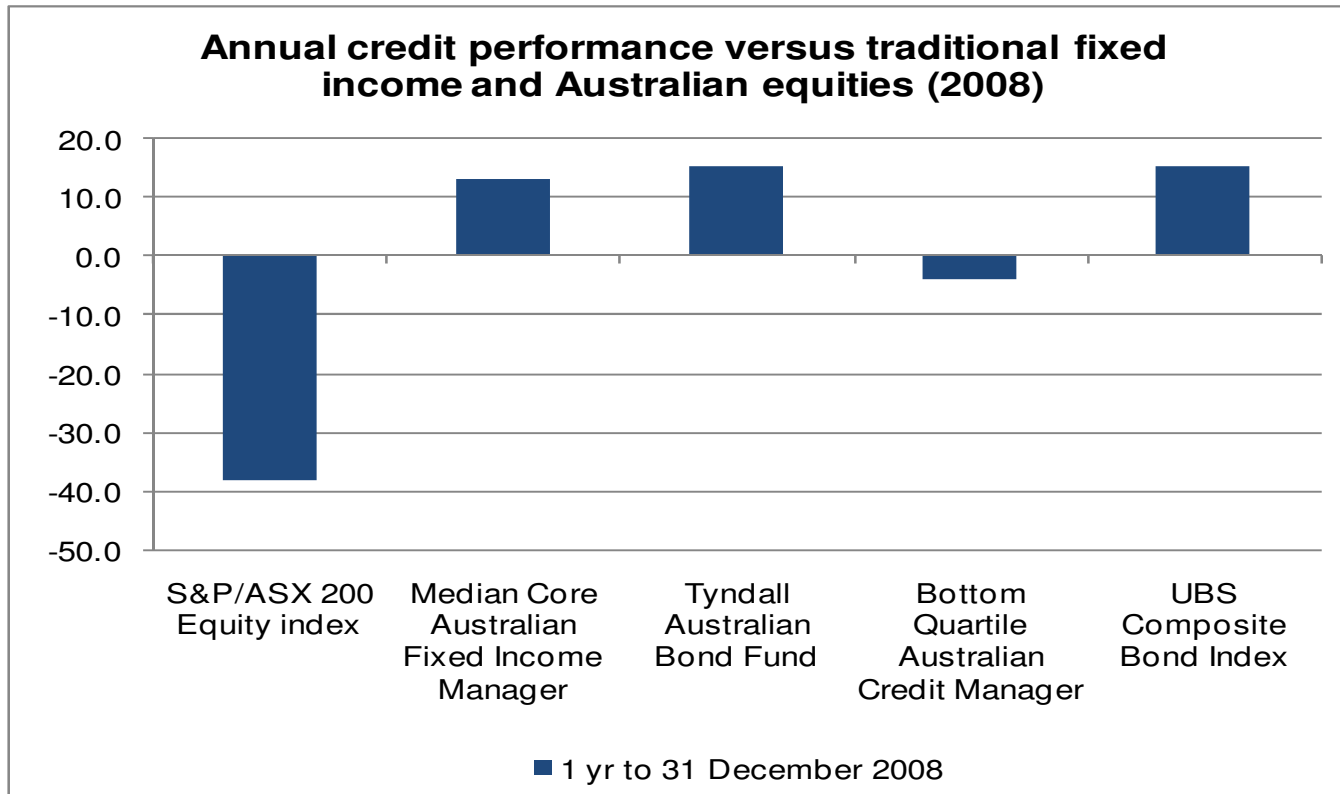
# Encouraged corporate issuance



Source: Company data, RBA, Deutsche Bank

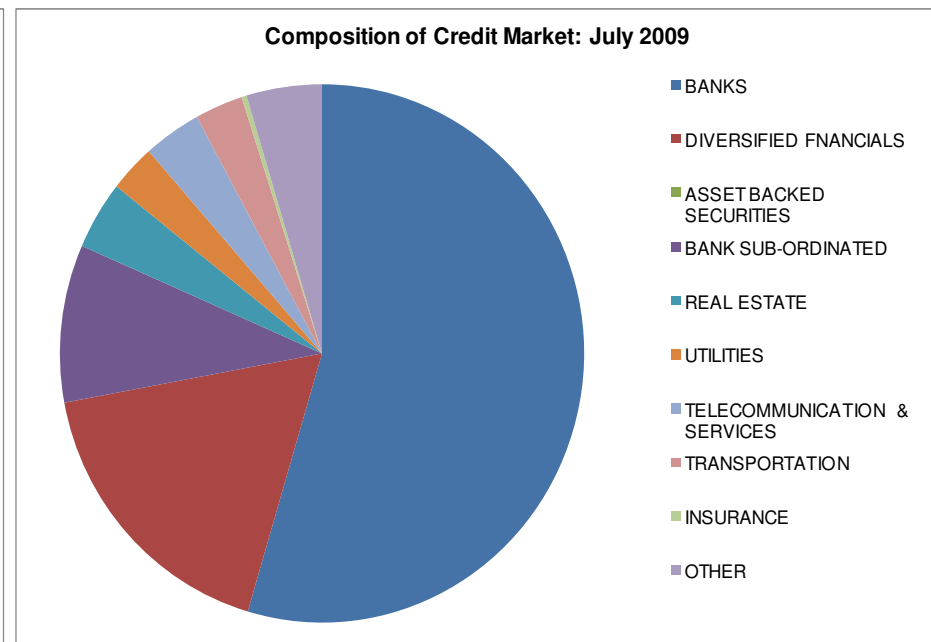
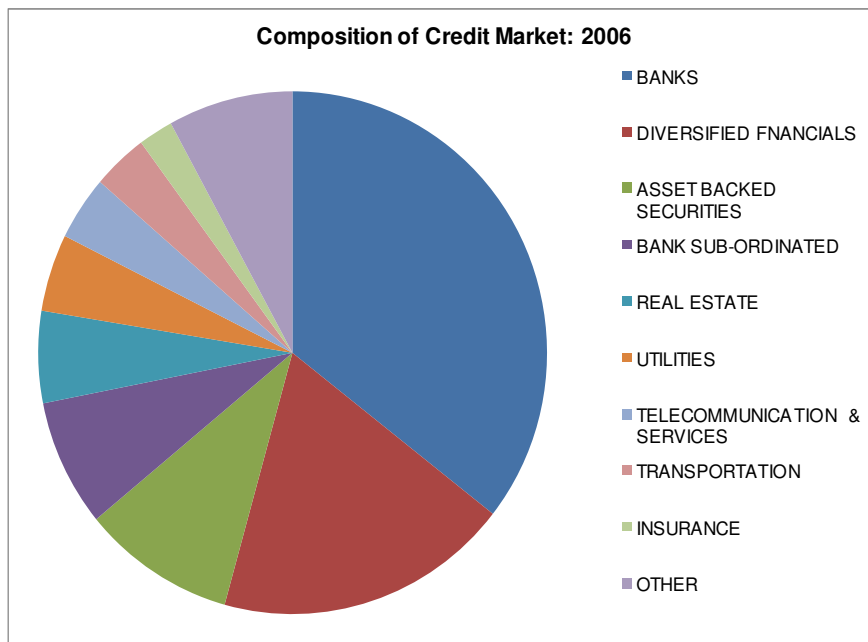


# Ballooning credit saw credit-focused 'fixed income' funds look more like equities



Source: Mercer

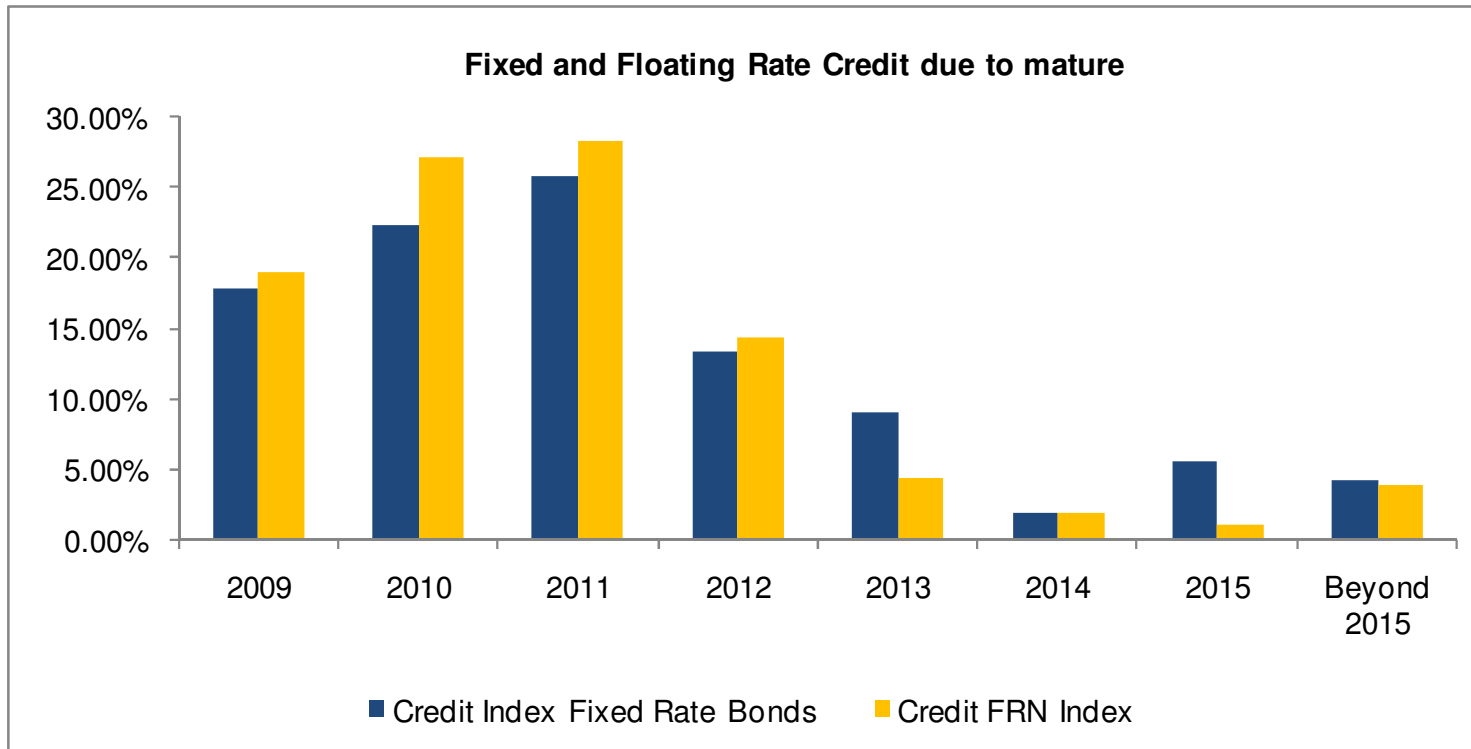
# GFC is changing credit market's appearance



# Decline in debt issuance

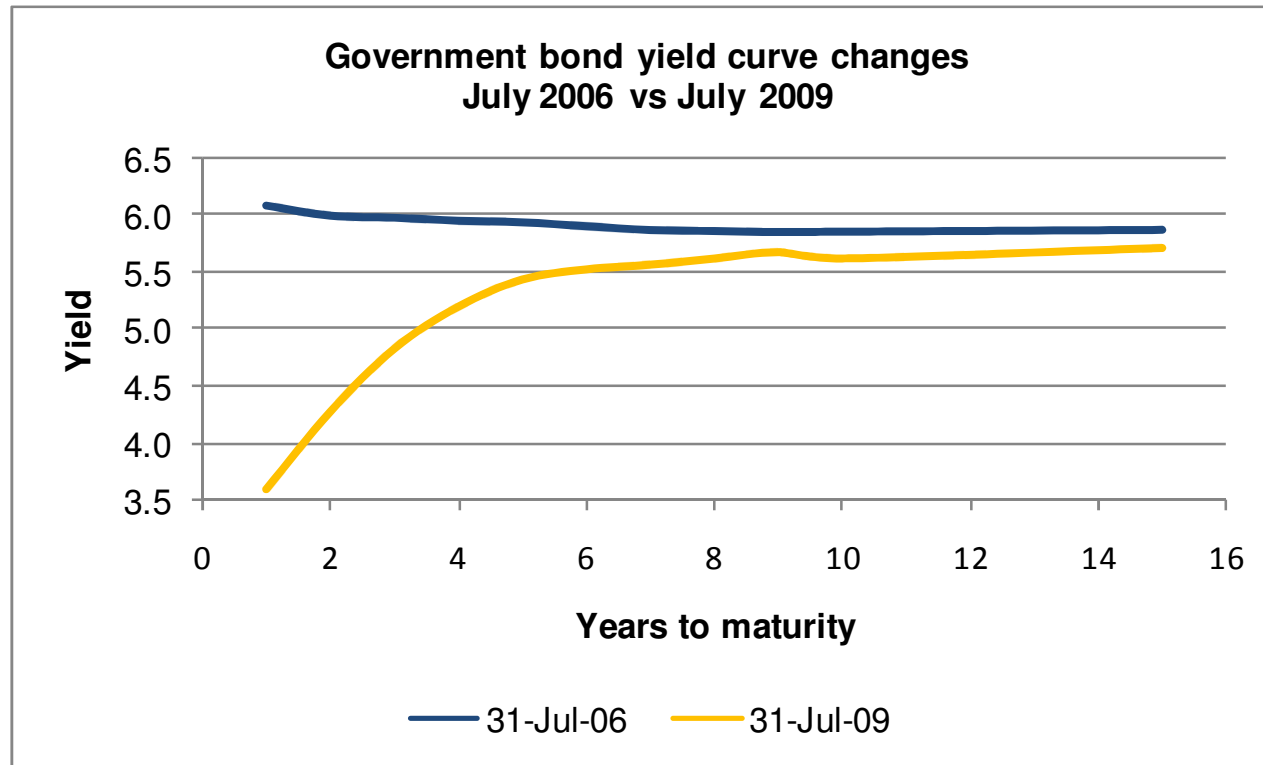
- 80% of Australian credit matures by 2012

Tyndall



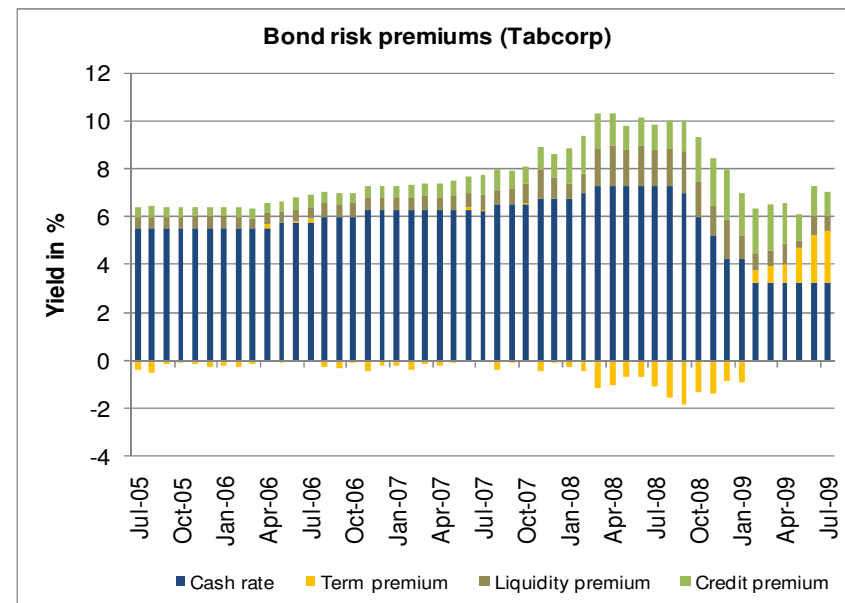
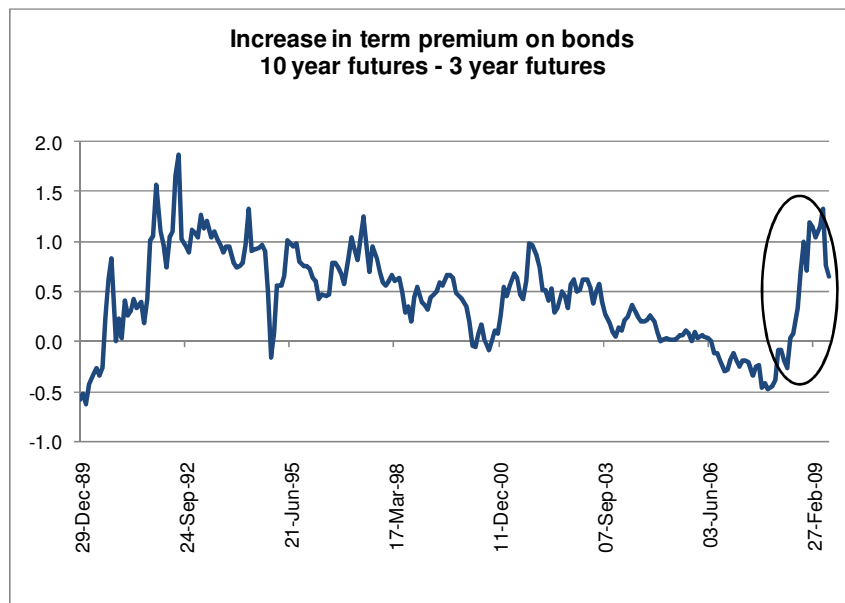
Source: UBS

# Changed landscape – steepening yield curve

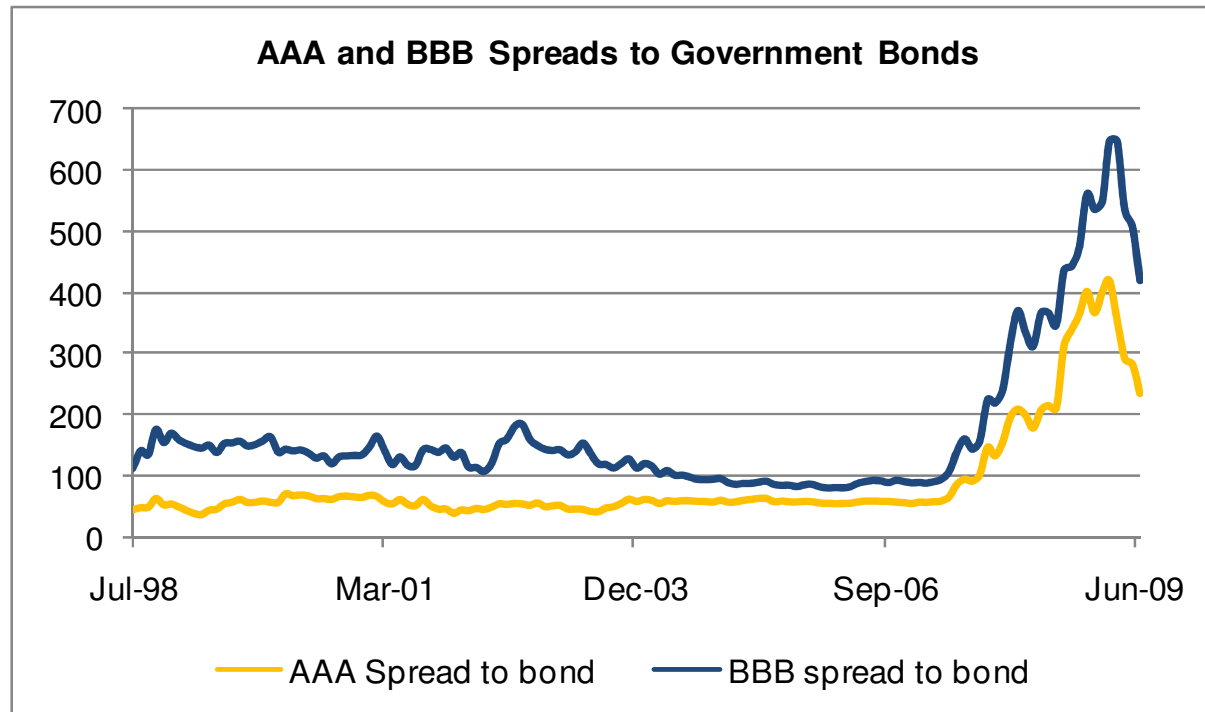


Source: Bloomberg

# Term risk now being rewarded



# Understanding the true risk in fixed income



# Summary

- Future returns will be more about term risk than credit risk – due to increased government bond supply
- When government eventually reduces its deficit, new issuance is likely to predominantly come from banks
- Non-financial issuance has to be encouraged – but it will be with a lower credit rating than previously
- Structured debt will resurface to fill the void – but more robust
- Supranational issuance will likely remain strong
- Market will want governments to maintain a presence – and not completely withdraw as they have done in the past
- Diversified portfolios provide a natural defence against falling equities

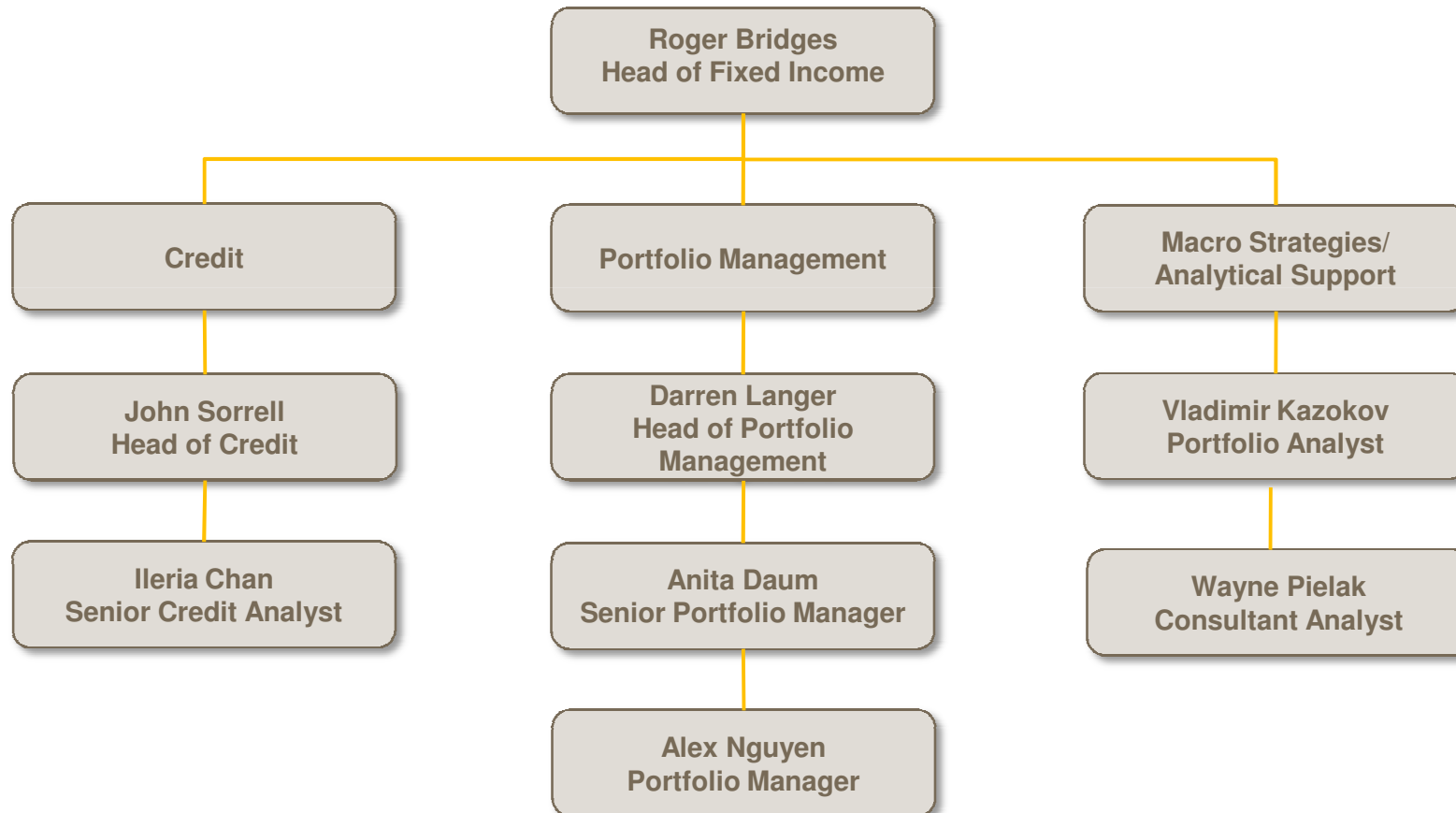
# Our fixed income capability

Tyndall

- Manage \$15bn in fixed income
- 8-member team
- Average of 15 years' experience in fixed income
- Full range of fixed income capabilities
- Highly awarded
- Superior risk adjusted performance
- 4-star S&P rating



# Fixed interest team



# Consistent & strong investment performance

**Tyndall**

**We are the leading fixed income manager over the past decade**

| <b>Intech Category<br/>@ 30 June 2009<br/>(before tax &amp; fees)</b> | <b>1<br/>Year<br/>%</b> | <b>3<br/>Years<br/>% pa</b> | <b>5<br/>Years<br/>% pa</b> | <b>7<br/>Years<br/>% pa</b> | <b>10<br/>Years<br/>% pa</b> | <b>12<br/>Years<br/>% pa</b> |
|---|-------------------------|-----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| <b>Tyndall Intech Survey Rating</b>                                   | 4/21                    | 2/19                        | 1/18                        | 1/18                        | 1/17                         | 1/12                         |
| <b>Tyndall Australian Bond Fund</b>                                   | 11.9                    | 6.9                         | 6.6                         | 6.7                         | 7.0                          | 7.1                          |
| <b>Composite Index Return</b>   | 10.8                    | 6.4                         | 6.1                         | 6.0                         | 6.2                          | 6.3                          |
| <b>Tyndall Annualised Excess Returns</b>                              | <b>1.1</b>              | <b>0.5</b>                  | <b>0.5</b>                  | <b>0.7</b>                  | <b>0.8</b>                   | <b>0.8</b>                   |

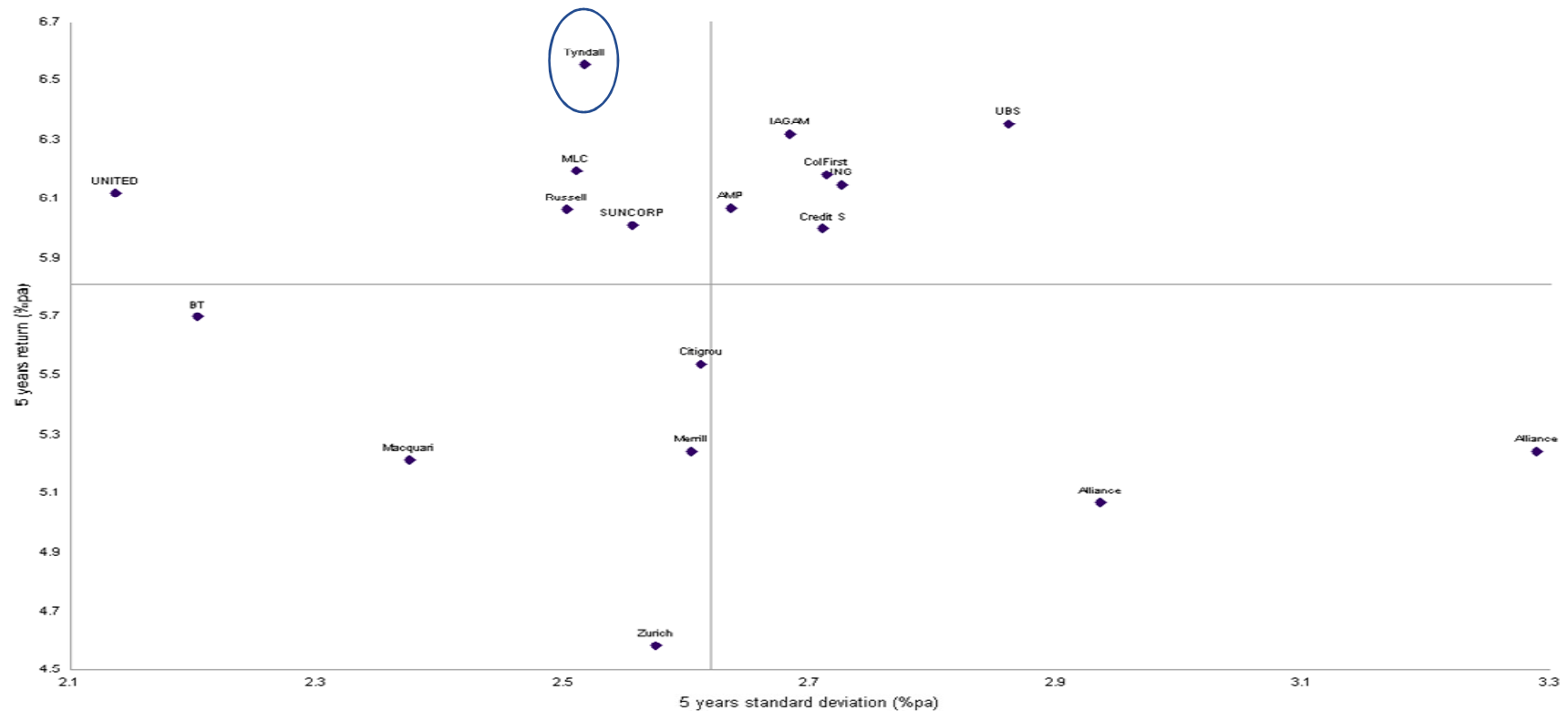
**Also No.1 over 4, 6, 8, 9 & 11 years**

Source: Intech.  
Past performance is not a guarantee of future performance.

# Strong performance with lower risk - 5 years

Tyndall

Standard deviation vs return - Australian Bonds (Specialist)  
30 June 2009



**intech**  
investment consultants

# Highly awarded

Tyndall

- Finalist, Morningstar Fund Manager of the Year Fixed Interest 2008
- Gold award in *Money* magazine's 'Best Australian Fixed Interest Fund' category in the Best of the Best Awards 2009
- Bronze award in *Money* magazine's 'Best Australian Fixed Interest Fund' category in the Best of the Best Awards 2008
- Winner AFR *Smart Investor* Blue Ribbon Awards 2007 - Australian Bonds Sector (Unit Trusts)
- Gold winner in *Money* magazine's 'Best Australian Fixed Interest Funds 2007' in the Best of the Best Awards
- Winner, 2006 Australian Fund Manager Awards, Australian Fixed Interest Category
- Winner S&P 2006 Fund Awards Global Fixed Income
- Finalist S&P 2006 Australian Fixed Income
- Winner AFR *Smart Investor* Blue Ribbon Awards 2006 - Australian Bonds Sector (Unit Trusts)
- Winner 2005 Morningstar Fixed Interest Fund Manager of the Year - Australia
- Silver winner *Money* magazine 'Best Australian Fixed Interest Funds 2006' in the Best of the Best Awards
- Winner of the *Personal Investor* Magazine Awards for Excellence in Financial Services 2005 for Income Fund of the Year – Fixed Interest & International fixed-Interest Fund of the Year.
- First runner up in the 2005 S&P Fund Manager awards in the Australian Fixed Income and Global Fixed Income categories.
- A finalist in the 2005 *Money Management* Fund Manager of the Year Award – International Fixed Interest.
- Winner of the Morningstar Fund Manager of the Year 2004 award - Australian Fixed Interest.
- Winner of the 2004 S&P fund manager award in the 'Fixed Income local' category
- Winner of the 2004 InvestorWeb Six Star Award for its capability in the Australian Fixed Interest category.