ANZ Enhanced Yield Portfolio

Investment strategy and approach

The ANZ Enhanced Yield Portfolio ('the Portfolio') is a portfolio of liquid, high quality securities with an enhanced yield using all major fixed interest sectors with a bias towards corporate (including high yield), mortgage backed and asset backed securities. Value is added through issue selection, sector rotation, yield curve positioning and duration management with a focus on diversification and risk control. The portfolio also has a diversified credit allocation, employing a value oriented investment philosophy to invest in a diverse range of credit securities.

Western Asset Management (WAMCO) has been appointed as investment manager for the portfolio. WAMCO commenced as the portfolio investment manager in 2017. Performance attributable to WAMCO is from 8 August 2017.

The medium-term investment objective of the Portfolio is to outperform the Bloomberg AusBond Bank Bill Index (before fees, charges and taxes) by 1.5% over rolling three year periods.

Portfolio performance (before fees and taxes)

	1mth	3 mths	6 mths	1 yr	3 yrs (p.a.)	5 yrs (p.a.)	inception (p.a.)[2]
Portfolio total return	0.27%	0.71%	1.58%	3.84%	3.29%	2.75%	2.58%
Bloomberg AusBond Bank Bill Index	0.07%	0.23%	0.52%	1.50%	1.72%	1.91%	1.99%
Total return relative to benchmark[1]	0.20%	0.48%	1.06%	2.34%	1.56%	0.83%	0.59%

1. The benchmark is the Bloomberg AusBond Bank Bill Index
2. Inception date is 15 August 2014.

Figures may not add up due to rounding.

Running yield: 3.02%

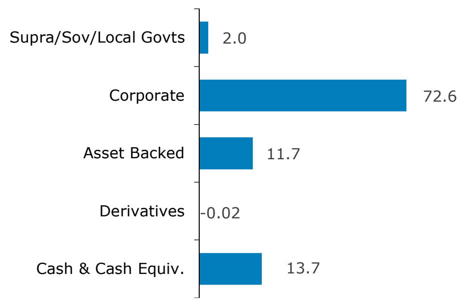
Duration: 0.31

Issuer exposure*

National Australia Bank Limited	2.88%
Quaker Partners LLC (Delaware)	1.79%
GPT Group	1.61%
Australia and New Zealand Banking Group Limited	1.61%
Bendigo & Adelaide Bank Ltd.	1.57%
Bank of Queensland Limited	1.55%
BNP Paribas SA Class A	1.51%
Government of South Korea	1.50%
Downer EDI Limited	1.48%
Volkswagen AG Pref	1.47%
Other	83.0%
Total	**100.0%**

*Excludes futures positions

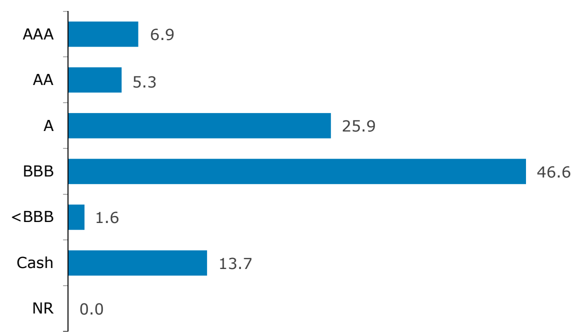
Sector exposure %



Top 10 Holdings

Bank Of Queensland Limited Frn 05-may-2020	0.9%
National Australia Bank Limited Frn 26-mar-2025	0.8%
Downer Group Finance Pty Ltd. 3.7% 29-apr-2026	0.8%
Ing Groep Nv Frn 05-dec-2022	0.8%
Bank Of China Ltd. (sydney) Frn 02-mar-2020	0.7%
Australia And New Zealand Banking Group Limited Frn 26-jul-2029	0.7%
Bendigo And Adelaide Bank Limited Frn 18-aug-2020	0.7%
Downer Group Finance Pty Ltd. 4.5% 11-mar-2022	0.7%
Incitec Pivot Limited 4.3% 18-mar-2026	0.7%
Liberty Financial Pty Ltd. 5.1% 01-jun-2020	0.6%
Other	92.6%
Total	**100.0%**

Credit rating exposure %*



*Excludes futures positions

The above performance is based upon the Model Portfolio. Individual Portfolios may differ from this due to factors that include timing of implementation, cash flows and corporate actions.

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Market and Portfolio Commentary

The ANZ Enhanced Yield Portfolio returned 0.27% for the month of December, outperforming the 90 day Bank Bill Index by 0.20%. The portfolio's corporate allocation outperformed strongly through a combination of spread compression and carry. The positive return was further supported by the asset backed allocation. However, duration positioning detracted slightly as the yields rose during the month. From a security perspective, names such as UBS, ING Groep NV and BNP Paribas contributed most to performance, whilst NextDC Ltd and Lonsdale Finance Pty Ltd (Port of Melbourne) detracted.

The tit-for-tat trade dispute between the US and China received a reprieve with the announcement they had reached a "phase one" trade deal in which the US will scale back tariffs on Chinese goods in exchange for a Chinese commitment to minimum purchases of US goods and intellectual property protections. Although not yet ratified, this removed some uncertainty for the market, as did the landslide victory for Boris Johnson in the UK parliamentary election, and drove global and domestic yields higher in December. The 1-year Australian government bond yield was 23 bps higher and the yield curve steepened from there with the 10-year 34 bps higher and the 30-year yield up 37 bps.

Domestic data released leading into year-end remained mixed and included the 3Q19 GDP which disappointed slightly at 0.4% quarter-over-quarter versus 0.5% expected. GDP for the year ended September 2019 was slightly higher at 1.7%. House prices continued to trend higher off two-year lows reached in the middle of the year and private sector credit picked up. There was a large increase in jobs following a poor report the month prior; however, the large majority of the pickup was in part-time positions. Skilled vacancies continued to drop as they did every month in 2019 while job advertisements also declined having been weak throughout the year as well.

Credit issuance rounded out the year on a low-key note as expected with A$325million issued in the non-bank corporate space which included an unrated deal from Seek while NAB and ANZ took the opportunity to issue subordinated debt. The lack of issuance created a technical bid for spread sectors in the secondary market as investors sought to reinvest coupons and maturities. Corporate sector spreads compressed around 4 bps while supranational, sovereign and agency (SSA) issues tightened around 3 bps; however, semi-government spreads widened marginally.

The Australian dollar gained more than 3% versus the US dollar and Japanese yen; it gained 2% versus the euro and more than 1% on the pound Sterling given a broad risk-on sentiment. A small rise in commodities and more patience suggested by the RBA on monetary policy also contributed.

Outlook and Strategy

The RBA has tempered market expectations a little when referring to the "long and variable lags" of monetary policy in presenting the case for patience in determining the need for further adjustments to policy. However, many pundits are still convinced a lack of improvement in the data will force the bank's hand and as such expect a cut in 1Q20 while also adding another cut midway through the year with QE to follow. The bushfires around the country caused significant disruption, primarily to agriculture and tourism, but also to other productive resources that were diverted to the cause such as labour foregone as volunteer firefighters were called to action. Assistance announced from state and federal governments, along with rebuilding efforts, is likely to provide some compensatory stimulus to the economy. One question is whether the RBA has a propensity to look through data pertaining to the bushfire period and perhaps wait a little longer before making a decision to cut. External portfolio manager Western Asset Management (WAMCO) do not consider two cuts in 2020 to be a foregone conclusion albeit that the weight of risks still remain to the downside in terms of disruption to global growth from trade and geopolitical disputes. Then there is still the issue of whether banks would be prepared to pass through any further cuts at these extremely low levels which would render the cuts largely ineffective from a consumer perspective. As the dominant contributor to domestic GDP, the consumer has in recent quarters been softening despite the solid labour market.

A recovery in the housing market appears well underway as the rise in house prices in each of the past six months, particularly in the major centres of Sydney and Melbourne, has recouped about two-thirds of the value lost over the prior two years. This upswing is yet to show through in the hitherto lacklustre consumer and business sentiment.

WAMCO take a tactical approach to interest rate strategies and neutralised their small duration underweight mid-month after yields moved higher. They also reduced their 3s/20s curve-flattening position. They retain a flattening position in the 30-year versus the 10-year tenor as a ballast to an overweight credit position. They also continue to take note of relative value among sectors and added some spread duration to semi-government bonds as relative value indicators favoured that sector, particularly in the longer tenors.

WAMCO believes monetary conditions globally remain extraordinarily accommodative. They believe such conditions will continue to favour spread sectors and in their opinion, these sectors should continue to be the best-performing fixed-income assets and remain their major theme. WAMCO maintain an overweight to corporate bonds with a concentration in large financials, property trusts and utilities, focussed at shorter maturities to manage spread risk. They will continue to add selectively where market volatility has forced spreads wider than credit fundamentals would justify or as new opportunities present.

The Australian dollar gained some ground in December to finish 2019 around half a percent lower than where it began on both its trade-weighted index and versus the US dollar, which WAMCO believe is a little surprising given the RBA cut three times during the year but the Fed did the same in the US which diminished the impact to the Australian dollar. With a dovish RBA, WAMCO expect the Australian dollar to slide a little lower but remain in the mid-to-high US$0.60 range.

Launch date 15 August 2014	**Distributions** The Fund generally distributes on a monthly basis. The amount (if any) distributed to each unitholder will be based on the number of units held and the distribution per unit at the end of each distribution period.
Fund currency Australian dollar	**Fees** Please refer to the relevant PDS and the Investment Menu/Managed Account Profile for more information.