mosaic Portfolio Advisers

FUND PROFILE
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Strategic Fixed Interest Fund

Fund features

OBJECTIVE

The fund aims to provide income and capital appreciation by investing in a broadly diversified portfolio of Australian and international fixed interest and money market securities.

ASSET ALLOCATION

Cash and liquid securities	0% – 5%
Fixed interest	95% – 100%
Property related securities	0% – 0%
Australian shares	0% – 0%
International shares	0% – 0%
Alternatives	0% – 0%

INVESTMENT TIMEFRAME

3+ years

LEVEL OF RISK

Medium

APIR CODE

DFA0015AU

ARSN

151 280 723

APPLICATIONS AND WITHDRAWALS

Daily

UNIT PRICES

Daily

DISTRIBUTIONS

Half Yearly

MINIMUM INVESTMENT

Subject to investment platform

MANAGEMENT COSTS

0.29% p.a[1]

BUY–SELL SPREAD

Nil

[1] Management Costs include net GST.

Benefit summary

- Aims to provide ease of access to cash in all markets
- Targets a solid value-add over cash
- A benchmark unaware strategy
- Designed to reduce chances of a negative total return in any given year
- Seeks to add value through flexible exposure to credit and term risk
- Broadly diversified fixed interest solution

About The Investment Manager

DFA Australia Limited (Dimensional) has been appointed as the Investment Manager of the Strategic Fixed Interest Fund to manage day-to-day investment decisions.

Why invest in the Strategic Fixed Interest Fund?

The Strategic Fixed Interest Fund is a diversified strategy, which targets a solid value-add over cash. It provides quick and easy access to investors money, because it invests in vanilla bonds and avoids the complex products which became illiquid during the global financial crisis. It also includes protections against large and unexpected increases in interest rates, which can reduce the returns of a fixed interest strategy. It is a transparent strategy that is designed to fit well into an overall portfolio.

Dimensional has managed fixed interest for over 30 years and their strategies are based on research which says there is information in prices about expected returns, so forecasting is not needed. This approach allows Dimensional to tailor risk for its clients without being tied to matching a commercial benchmark.

What's the thinking behind it?

Adding fixed interest to a portfolio can improve overall diversification. This is because bonds behave differently to equities. Further diversification is achieved by adding international bonds to an Australian fixed interest portfolio. This is because our interest rate cycle is often out of synch with those of other countries.

The Strategic Fixed Interest Fund varies its allocation to the two main risk factors in fixed interest – term risk and credit risk, only taking risk when the market shows there is a reward for doing so. To meet it's objective, whilst not taking on unnecessary volatility, the strategy sets a maximum maturity of five years. The strategy is limited to investing in bonds of investment grade, making use of Dimensional's advances in research and the additional pricing transparency generated by advances in credit markets.

Portfolio construction and implementation

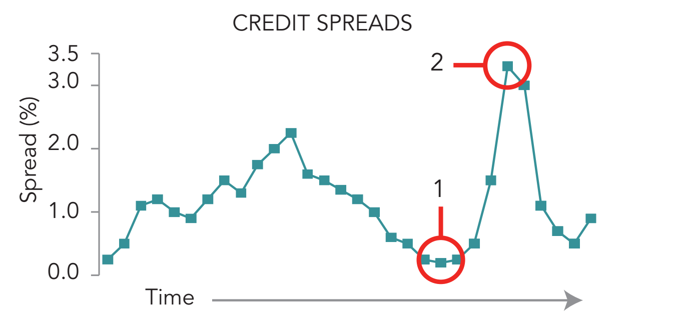
The Strategic Fixed Interest Fund uses a "variable maturity" and "variable credit" approach to investing in a broadly diversified universe of short-to-medium-term domestic and international government and corporate debt securities. The strategy does not purchase securities lower than investment grade or beyond five years in maturity. It invests in a broad range of highly liquid securities denominated in currencies from various countries – including Australia, Canada, Denmark, Europe (Euro), Japan, New Zealand, Singapore, Sweden, Switzerland, Norway, the UK and the US. To protect investors from 'concentration risk' the Strategic Fixed Interest Fund is subject to strict rules about diversification. These involve limits on the proportion of the fund to be allocated at time of purchase to the paper of any single corporate issuer.

Dimensional's variable maturity approach

One of the two key drivers of risk and return in fixed interest is maturity. This term spread – or the spread between longer-dated and short-dated securities – varies over time. Research shows a reliable relationship between today's term spreads and future term premiums. Wider term spreads predict larger term premiums. Likewise, narrower term spreads predict smaller term premiums. It follows that the best approach is to vary exposure to this risk, extending maturities only when there is a sufficient reward for doing so. This means that when the yield curve is flat or inverted, the strategy is exposed to shorter duration securities and moves out longer when the curve is upwardly sloped.

Dimensional's variable credit approach

Just as Dimensional varies maturity according to the opportunities on offer, so does it vary its exposure to credit as measured by the changing spread between higher and lower rated investment grade bonds. Research shows the market has offered a credit premium to investors over time. It also shows a relationship between current credit spreads and future return differences or credit premiums. So the changing spreads are not just reflective of changing probability of default; they are also due to increasing and decreasing levels of risk aversion. Dimensional responds to this by employing flexibility in the exposure of the Strategic Fixed Interest Fund to government versus corporate bonds on the one hand, and higher versus lower rated investment grade corporate bonds on the other.
This approach can offer greater returns to investors.



1. When spreads are narrow, reduce allocation to credit
2. When spreads are wide, increase allocation to credit

Hypothetical spreads presented for illustrative purposes only.

A global approach

The Strategic Fixed Interest Fund invests in both domestic and global fixed interest securities. To eliminate volatility caused by currency fluctuations, foreign currency exposure is hedged back to the Australian dollar. The addition of global bonds has the benefit of increasing diversification within the portfolio, which reduces overall volatility. It also provides exposure to the expected returns of multiple yield curves, rather than a single domestic curve. Investing in hedged global bonds, along with domestic bonds, allows the flexibility to create a more diversified and less risky fixed interest portfolio.

Further information

If you require further information, please contact us on 1800 002 217 or email us at admin@mosaicpa.com.au or visit our website.

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