

# River Capital Credit Fund

Quarterly Report - 31 March 2011

## Performance as at 31 March 2011

	Month (%)	Quarter (%)	Financial YTD (%)	1 year (%)	Inception (p.a. %)
River Capital Credit Fund <sup>1</sup>	1.23	5.25	15.34	13.00	14.51
Performance Benchmark	0.52	1.58	4.76	6.42	6.41
RBA Cash Rate	0.39	1.17	3.46	4.58	4.52
UBS Composite (All Maturities) Bond Index	0.68	2.04	3.14	6.86	6.20

Note 1: Fund returns are after management fees but before performance fees.

## OVERVIEW & OBJECTIVES

The River Capital Credit Fund's objective is to provide a reliable, consistent income stream with a high degree of capital security over the medium term. We provide this by targeting the best risk-adjusted returns with a focus on subordinated securities issued by strong investment grade rated banks, insurers & corporates around the world. The Fund is absolute return focused, investing in wholesale institutional markets globally. All investments are fully hedged back to AUD.

We are pleased with the strong 1<sup>st</sup> quarter returns. These returns are partly attributable to the tender offer made by SNS for their AUD notes which were held in the Fund. Looking forward, the opportunities we see ahead give us confidence of continuing to achieve returns over 9% p.a. in the medium term.

## COMMENTS

The first quarter of 2011 retained the positive sentiment which began during the 4<sup>th</sup> quarter of 2010, with the majority of asset classes performing strongly. Global economic data continued to improve at a gradual pace, providing additional confidence to investors, although the pace of improvement suggests the recovery is likely to remain sluggish.

Even the increasing political unrest in the Middle East, and subsequent sharp increase in the oil price, did little to undermine investors' risk appetite. The political uprising first saw the Tunisian government fall, followed by Egypt, and now Libya, with significant protests also seen in Syria, Jordan, Bahrain, and even Saudi Arabia. The associated rise in the oil price seems likely to dent the global growth outlook in the near term, despite the current lack of focus on the issue.

Also of note in the 1<sup>st</sup> quarter was the European Central Bank (ECB) started speaking about the need to move interest rates back toward some semblance of normality, even in the face of Greece's, Ireland's, and Portugal's well documented financial issues. The ECB eventually followed through with a 25bp rate hike in early April, but the small size of the move and the fact it was expected, meant it had little impact on risk appetite.

Portugal's problems reached a climax in early April with a European funded bailout being agreed to. Even this was seen as confirmation that all virtually risk is underwritten by a Government somewhere and fuelled the bullish sentiment.

It wasn't until March's devastating earthquake and tsunami in Japan that global asset prices took a pause. The associated pullback was relatively sharp, but short lived, with almost all asset prices regaining their losses within 3 weeks of the earthquake. Our thoughts are with everyone in Japan.

There has been recent speculation that we are nearing the end of the current cyclical upturn as well. Several indicators in credit markets such as the low corporate default rates, and the recent appearance of Covenant Lite and Payment-In-Kind notes (PIK notes) from high yield issuers in Europe (not seen since 2007), are all indications that we are closer to the end of this cyclical upturn than we are to the beginning. This presents a series of interesting opportunities for us, and some risks for the financial markets, which we remain keenly focused on.

### Portfolio Profile

Average S&P credit rating	A+
Modified duration to first call	2.6 years
Current cash holdings	12.5%
Current number of securities	10
Suggested investment timeframe	At least 3 years

### Maturity/First Call Schedule

Maturity/First Call Schedule	Weight (%)
Cash & Equivalents	12.5
0 to 2 years	18.4
2 to 5 years	49.6
5+ years	19.5

### Country of Issuer

Country of Issuer	Weight (%)
Cash & Equivalents	12.5
Australia	72.1
United Kingdom	10.2
France	5.2

## Overview

<b>Trustee</b>	River Capital Pty Limited
<b>Auditor</b>	Deloitte

## Fund Information

<b>Management Fee</b>	0.85% pa
<b>Performance Fee</b>	15% of excess over Benchmark

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