



# How we manage diversified bonds

Diversified bonds investments are also known as bonds and debt securities. They allow governments and companies (both Australian and overseas) to borrow money from investors at a pre-determined interest rate for a specified period.

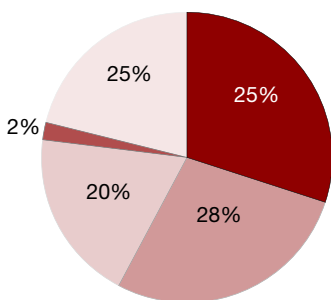
## Our objectives

**Vision Super manages a diversified bonds portfolio that invests money with a variety of specialist diversified bonds managers. Its objectives are to:**

- Outperform inflation over the longer term by 2% p.a. (as measured by the Consumer Price Index (CPI)) and over at least two thirds of all rolling three-year periods.
- Limit the chance of a negative return in any one year to less than one in 25 years.
- Outperform the benchmark (42.8%UBSA Composite All Maturities Bond Index, 28.6% Lehman Brothers Global Aggregate Index (Hedged in \$A), and 28.6% Barclays Capital Global Inflation-Lined Bond Index (Hedged in \$A) over the medium to longer term.

### Vision Super aims to do this by:

- Diversifying the portfolio across a range of bond sectors, such as government, corporate, inflation linked and alternative diversified bonds.
- Diversifying the portfolio across Australian and global bond markets.
- Diversifying the portfolio across a number of managers with different investment styles.



## Investment approach

As Australia makes up less than 1% of the world diversified bonds market, Vision Super's diversified bonds portfolio combines both Australian and international investments. An allocation is also made to global inflation-linked bonds, to provide the portfolio with protection in rising inflation environments.

To ensure the portfolio is protected against movements in the underlying currencies relative to the \$A, Vision requires its managers to manage their portfolios against a currency hedged benchmark. Hedging is undertaken to protect the value of investments against movements in international currencies relative to the Australian dollar.

The core of the portfolio is managed by one enhanced passive manager and a number of active managers. While passive managers aim to provide returns that are in line with the index, enhanced passive managers aim to provide returns that slightly exceed the index. By using enhanced passive managers,

Vision Super aims to control the fees paid and the risk taken relative to the benchmark. Active managers take on more risk than enhanced passive managers, and in return target a higher level of outperformance relative to the benchmark. Vision Super uses a number of active managers (each with different and complementary approaches to investment) in the expectation that the portfolio will provide superior risk adjusted returns relative to its benchmark.

In addition to this, Vision seeks to increase returns on Australian bonds by investing in alternative debt, which pays a higher interest rate to investors.

## Investment managers used

Vision Super closely monitors the compliance, management, style, complementarity and performance of the managers in its portfolios. While the number and mix of managers will alter over time, the following is a snapshot of the current managers.

%	Managers	Investment approach
20	Alliance Bernstein Australia Ltd – Domestic Fixed Income	Enhanced passive, Australian bonds
28	Bridgewater Associates Inc – Pure Alpha Fund	Fundamental analysis, global bonds
25	Western Asset Management Co. – Diversified Fixed Interest	Relative value, international & inflation-linked bonds
25	Hastings Asset Management – High Yield Fund	Alternative debt
2	ME Portfolio Management P/L – Super Loans Trust	Business/home loans

Vision Super's strategic holding in the Super Loans Trust allows members to access discounted home loans (and other banking products) via Members Equity.