Fund Update

30 September 2017

ALTIUS ASSET MANAGEMENT

Altius Bond Fund

Altius Asset Management (Altius) employs a diversified strategy to fixed interest funds management that aims to take advantage of the mispricing of bonds in all market conditions

Performance as at 30 September 2017

	1 mth %	3 mths %	1 yr %	3 yr %	5 yr %	Since inception* %pa
Total return[1]	**0.09**	**0.52**	**1.20**	**2.98**	**3.34**	**4.66**
Benchmark[2]	-0.09	0.15	0.38	2.89	3.06	3.99
Active return[3]	0.18	0.37	0.59	0.09	0.28	0.66

1. Total returns are calculated after fees and expenses and assumes the reinvestment of dividends. Past performance is not a reliable indicator of future performance. Inception date for the Portfolio is 1 October 2011
2. Effective 1 July 2016, Benchmark is 50% Reserve Bank of Australia Cash Rate and 50% Bloomberg∞ AusBond Composite 0+Yr Index and applied retrospectively for all periods.
3. Active return is calculated on Total return

How the Altius Bond Fund performed and activity

The Portfolio produced a total return of 0.09% for the month which bettered the return from our blended benchmark. The highlights for the month were:

- Bond yields moved decisively higher over the month
- Our strategic interest rate positioning was positive; as was to a lesser degree, our positioning for a steepening yield curve
- Portfolio duration began the month at 1.2 years. With weaker payrolls and escalating North Korea tensions driving an early-month rally in bonds, we used this opportunity to further trim duration to less than one year. The second half of the month saw positive economic data returning and markets discounting geo-political concerns. With yields pushing higher we increased duration to 2.25 years while maintaining our yield curve steepening bias
- Credit spreads continued to grind tighter over September with the Industrial sector outperforming the Financial sector, allowing sector and credit selection to be a small positive for performance

We maintained our cautious overweight position in credit although unlike last month there with little activity in the portfolio. The two key sales were Ford 2020 and Coca Cola 2020. The sale of Ford occurred following the announcement of production cuts reflecting their challenging operating environment, which we regarded as a credit negative. While credit fundamentals remained solid for Coke, the price of the bond was considered expensive at just 0.30% above the swap curve.

One sector we continued to favor is the Mortgage Backed Market, where spread contraction has lagged the tightening seen in the corporate market over 2017. We believe there is value in this sector of the market and the fund participated in the SMHL 2017-1A (ME Bank) note at swap + 0.98%.

Total and per capita income is rising rapidly within emerging economies. By 2030, the majority of the world's population is likely to be made up of the middle class. The middle class typically drive consumption; underpin business capital expenditure and government services. Total world growth should continue to lift with Asia leading the way, but little from developed economies.

While real income is growing rapidly in developing countries, it has either fallen or stagnated in the developed world. With real incomes stymied, capital expenditure across many developed economies has failed to lift. This has been the missing ingredient of economic growth in most developed countries. Pleasingly, US census data released in September shows real median income has lifted for the third year in four and has just eclipsed year 2000 levels. Europe's' strong employment growth has also begun to modestly lift real median incomes, which is key to sustaining economic growth.

In the current environment, the key risk for the developed world is central banks thinking that despite enviable growth and employment outcomes, inflation needs to be higher.

All three of the major developed world central banks – the US Federal Reserve (Fed), the European Central Bank (ECB) and the Bank of Japan (BOJ) – have been buying substantial volumes of long-dated government bonds to help spur business investment. But these asset purchase programs are now past their use by date, with central banks recognising their shortcomings. Central bank net asset purchases in advanced economies are set to decline sharply in the coming 12 to 18 months. There is concern in some quarters around the impact of sharply tightening financial conditions. In our view, the expected moderate pace of monetary tightening will have minimal impact on global growth and inflation. We do not expect global cash rates to increase other than in the US, but we do expect longer-dated bond yields to rise as the quantitative easing (QE) policies of these central banks are gradually unwound.

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Sector Profile as at 30 September 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	17.96	25.63
Semi Government	22.72	12.00
Supra Nationals	11.14	7.29
Financials	17.97	2.36
Industrials	14.31	2.62
Asset Backed	9.98	0.10
Money Market	0.91	0.00
11am	0.23	0.00
Cash at Bank	4.78	0.00
RBA Cash	0.00	50.00

Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.75	2.05
Modified duration (years)	2.24	2.47

Top 10 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	18.50	25.78
State of Victoria Australia	8.47	1.89
State of New South Wales Australia	6.56	2.37
Cash at Bank	4.78	0.00
State of Queensland Australia	4.42	1.46
The World Bank	2.36	1.17
Federal Republic of Germany	2.31	1.42
Royal Bank of Canada	2.30	0.04
Kingdom of the Netherlands	2.10	0.30
ANZ Bank	1.84	0.21

Ratings exposure

	Portfolio %	Benchmark %
AAA	55.68	37.16
AA+ to AA-	16.00	9.57
A+ to A-	17.85	2.14
BBB+ to BBB-	10.47	1.13
RBA Cash	0.00	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 – 1 year	13.25	53.08
1 – 3 years	35.01	12.35
3 – 5 years	24.07	10.57
5 – 7 years	13.26	7.09
7+ years	14.40	16.92

Fund Asset Allocation

	Fund %
Australian Fixed Interest	94.72
Cash and cash equivalents	5.28
Total	100.00

[1]Cash and cash equivalents may include cash at bank, 11am cash (i.e. overnight bank deposits) and discounted securities (e.g. bank bills).

Fund snapshot

APIR Code	WFS0486AU
Inception date	14 Jun 2011
Fund size (net asset value)	$218.46 m
Minimum initial investment	$5,000
Management Fees*	0.46% p.a.
Estimated Recoverable Expenses	0.12% of net asset value of the Fund for each financial year ending 30 June.
Buy/Sell spread	Nil
Distributions	Quarterly
Advice fee	Available

*Effective 30 Sept 17, the management fee reduces from 0.55% to 0.46% of the gross asset value of the fund. Refer PDS for more information about fees and costs for this Fund