

# Fund Update

31 October 2017

## 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 31 October 2017

	1 mth %	3 mths %	1 yr %	3 yr %	5 yr %	Since inception %pa
Total return <sup>1</sup>	0.59	0.67	1.89	3.11	3.37	4.69
Benchmark <sup>2</sup>	0.61	0.58	1.58	2.90	3.15	4.04
Active return <sup>3</sup>	-0.02	0.09	0.31	0.21	0.22	0.65

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<sup>®</sup> 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 0.59% for the month which bettered the return from cash and was slightly below our blended benchmark. The highlights for the month were:

- Bond yields moved lower over the month, boosting return
- Our strategic interest rate positioning was largely neutral; while our positioning for a steepening yield curve was mildly positive
- Portfolio duration began the month at 2.25 years. With yields tending lower toward month-end we reduced duration to 1.8 years while maintaining our yield curve steepening bias
- Credit spreads continued to grind tighter meaning sector and credit selection were again positive for performance

Activity in October focussed upon relative value opportunities. Over the month we switched the majority of our shorter dated semi government holdings into longer dated securities which have been a marked underperformer in 2017. Much of the underperformance has been driven by concerns about deteriorating state finances and the expectation funding requirements would boost the supply of long dated bonds. 40% of funding is now complete for 2017/18, meaning concerns about long dated issuance have been largely addressed.

Further NSW announced an improved Oct 16-17 budget position which was supportive. Queensland also came to the market with a new 2030 bond with what we consider a good new issuance premium given the size of the transaction (\$1.750 billion). This helped in execution of our lengthening strategy.

Credit continued to perform well over October with spreads tightening around 0.05% and testing post-GFC lows. The very strong technical environment and supportive fundamentals continue to override all other issues such as geopolitical concerns, US politics and Central Bank

agendas. We retain our cautiously optimistic allocation to credit with the core focus on the mid part of the credit curve.

### Outlook

At our recent Investment Advisory Committee meeting, discussion centred on our long-held view that US and Chinese growth is adding to global growth. Significantly, we now see the European economy transitioning from being fragile and dependent upon an unsteady cyclical upswing. There is now a good chance that the European recovery is resilient and self-sustaining, providing the first meaningful contribution to world growth in many years. We don't see inflation lifting near term. Aside from cyclical lifts in the headline rate due to energy price rises, core inflation is now sufficiently positive to support the unwinding of asset purchase programs by the major central banks. Accordingly, we expect longer dated interest rates in major bond markets to drift higher. Australian and European cash rates are unlikely to lift over the next year.

Our current strategy involves looking for themes that exploit our outlook for higher long end interest rates but stable shorter dated interest rates. This includes holding shorter dated high grade corporate bonds. We are cautious in relation to credit quality and maturity. We are increasingly concerned with the build-up of passive corporate bond holdings in ETFs, in an environment where some unwinding of the global hunt for yield could emerge.

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## Altius Bond Fund

## Sector Profile as at 31 October 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	17.96	25.39
Semi Government	21.38	12.09
Supra Nationals	11.18	7.37
Financials	18.52	2.38
Industrials	13.67	2.72
Asset Backed	9.68	0.05
Money Market	0.92	0.00
11am	0.23	0.00
Cash at Bank	6.46	0.00
RBA Cash	0.00	50.00

## Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.74	1.97
Modified duration (years)	1.80	2.49

## Top 10 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	18.51	25.54
State of Victoria Australia	8.54	1.88
State of Queensland Australia	7.09	4.47
Cash at Bank	6.46	0.00
State of New South Wales Australia	3.93	2.36
The World Bank	2.38	1.21
Federal Republic of Germany	2.31	1.45
Royal Bank of Canada	2.30	0.04
Kingdom of the Netherlands	2.11	0.30
ANZ Bank	1.85	0.21

## Ratings exposure

	Portfolio %	Benchmark %
AAA	52.87	36.92
AA+ to AA-	17.00	9.65
A+ to A-	19.86	2.25
BBB+ to BBB-	10.27	1.18
RBA Cash	0.00	50.00

## Maturity Profile

Term	Portfolio %	Benchmark %
0 – 1 year	15.37	53.90
1 – 3 years	34.59	11.05
3 – 5 years	22.11	11.17
5 – 7 years	9.80	6.57
7+ years	18.12	17.32

## Fund Asset Allocation

	Fund %
Australian Fixed Interest	
Cash and cash equivalents	
Total	100.00

\*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 Fee*	0.46% p.a.
Buy/Sell spread	Nil
Distributions	Quarterly
Advice fee	Available

\*Refer to the Fund's Product Disclosure Statement for more details on the Fund's Management Costs which also include recoverable expenses and indirect costs. Total Management Costs may vary.

## Important Information

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