

# Fund Update

31 July 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 July 2017

|                            | 1 mth<br>% | 3 mths<br>% | 1yr<br>% | 3yr<br>% | 5yr<br>% | Since inception*<br>%pa |
|----------------------------|------------|-------------|----------|----------|----------|-------------------------|
| Total return <sup>1</sup>  | 0.45       | 0.76        | 1.47     | 3.14     | 3.75     | 4.78                    |
| Benchmark <sup>2</sup>     | 0.19       | 0.44        | 0.64     | 3.09     | 3.29     | 4.11                    |
| Active return <sup>3</sup> | 0.26       | 0.31        | 0.83     | 0.05     | 0.46     | 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<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

The Portfolio produced a total return of 0.45% for the month which was a strong return compared to both cash and our blended benchmark.

Yields were largely unchanged over the month meaning there was a muted contribution to returns from holding any level of duration. Active interest rate management added value as the fund added bonds in the early month sell-off driven by the discussion by the RBA that the "neutral" cash rate was around 3.50%. The sell-off was short lived as Deputy Governor Debelle of the Reserve Bank Board cast the discussion of "neutral" as more of an academic/thematic thought and not indicative of any near term rise in rates.

Yield curve positioning was positive for performance as the curve steepened. In addition, credit spreads were well supported, meaning that sector and credit selection also added to performance.

### Portfolio activity

Portfolio duration began the month at 0.75 years; with the mid-month sell-off in bonds providing an opportunity to boost duration to 1.7 years.

Credit spreads traded tighter over July on a strong technical bid and a benign corporate outlook.

Australian Catholic University delivered the local market's first sustainability bond which follows both Social and Green Bond Principles. The Social Bond principles seek to achieve positive economic outcomes for targeted populations with proceeds to be applied to research and development for education and healthcare research programs and Green buildings. The portfolio took the opportunity to diversify holdings by investing in the 2027 bond. To manage total credit risk, we sold Sydney University 2021 bonds.

Other activity over the month included the sale of Vicinity 2027 bonds following the announcement of a buyback of up to 5% of share capital.

The fund also continues to reinvest principle receipts from asset backed securities with an investment in the new SMART 2017 class A note (AAA rated) commercial leasing bond originated by Macquarie Leasing.

### Market commentary and outlook

Asset purchase programs are now past their use by date. With the exception of the US, we do not expect global cash rates to rise, but we do expect longer dated bond yields to rise, as these policies are gradually unwound.

The question is whether Central Banks can unwind their QE programs if inflation doesn't continue to rise. We think they can, but they need inflation to at least stop falling. Further cyclical inflation needs to outweigh the structural disinflation headwinds of globalisation.

At the Fed, Yellen has articulated that the shrinkage of the balance sheet is not a monetary policy tool; accordingly we believe the Fed will taper reinvestment in US treasuries this year. Nonetheless, long dated bond rates cannot lift appreciably unless the ECB also unwinds QE.

A supporting inflation narrative will be needed. The disinflationary impact of the stronger Euro is therefore unhelpful and may delay the commencement of a taper. By way of an offset, oil prices have recovered 17% since early June and this may bolster cyclical inflation enough to outweigh structural influences.

The fund retains an underweight position relative to our blended benchmark in long dated Commonwealth bonds, where we continue to believe the risk to capital is greatest.

### Contact Details

Address  
Australian Unity  
114 Albert Road  
South Melbourne VIC 3205

Website  
australianunity.com.au/wealth  
Email  
investments@australianunity.com.au

Investor Services  
T 13 29 39 F 03 8682 5057  
Adviser Services  
T 1800 649 033 F 03 8682 5057

STRENGTHENED BY



## Altius Bond Fund

## Sector Profile as at 31 July 2017

| Asset Class             | Portfolio % | Benchmark % |
|-------------------------|-------------|-------------|
| Commonwealth Government | 17.84       | 25.38       |
| Semi Government         | 21.07       | 12.22       |
| Supra Nationals         | 12.88       | 7.43        |
| Financials              | 19.78       | 2.33        |
| Industrials             | 13.09       | 2.58        |
| Asset Backed            | 8.95        | 0.06        |
| Money Market            | 1.35        | 0.00        |
| 11am                    | 0.23        | 0.00        |
| Cash at Bank            | 4.81        | 0.00        |
| RBA Cash                | 0.00        | 50.00       |

## Portfolio summary statistics

| Asset Class               | Portfolio % | Benchmark % |
|---------------------------|-------------|-------------|
| Running yield             | 2.47        | 1.97        |
| Modified duration (years) | 1.70        | 2.48        |

## Top 10 Holdings

| Issuer                             | Portfolio % | Benchmark % |
|------------------------------------|-------------|-------------|
| Commonwealth of Australia          | 18.38       | 25.52       |
| State of Victoria Australia        | 6.94        | 1.89        |
| State of New South Wales Australia | 6.53        | 2.38        |
| State of Queensland Australia      | 5.82        | 4.58        |
| ANZ Bank                           | 3.16        | 0.21        |
| CBA                                | 2.55        | 0.26        |
| The World Bank                     | 2.32        | 1.15        |
| Federal Republic of Germany        | 2.30        | 1.51        |
| Royal Bank of Canada               | 2.26        | 0.04        |
| Kingdom of the Netherlands         | 2.10        | 0.28        |

## Ratings exposure

|              | Portfolio % | Benchmark % |
|--------------|-------------|-------------|
| AAA          | 55.13       | 37.19       |
| AA+ to AA-   | 18.07       | 9.57        |
| A+ to A-     | 15.62       | 2.18        |
| BBB+ to BBB- | 11.18       | 1.06        |
| RBA Cash     | 0.00        | 50.00       |

## Maturity Profile

| Term        | Portfolio % | Benchmark % |
|-------------|-------------|-------------|
| 0 – 1 year  | 14.96       | 53.72       |
| 1 – 3 years | 32.49       | 12.00       |
| 3 – 5 years | 23.74       | 10.50       |
| 5 – 7 years | 15.82       | 6.96        |
| 7+ years    | 12.99       | 16.82       |

## Fund Asset Allocation

|                           | Fund % |
|---------------------------|--------|
| Australian Fixed Interest | 95.51  |
| Cash and cash equivalents | 4.49   |
| 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)    | \$221.16 m   |
| Minimum initial investment     | \$5,000  |
| Management Fees                | 0.5531% p.a.   |
| Estimated Recoverable Expenses | 0.1045% of net asset value of the Fund for each financial year ending 30 June. |
| Buy/Sell spread                | Nil  |
| Distributions                  | Quarterly  |
| Advice fee                     | Available  |

## Important Information

Units in the Altius Bond Fund are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. Altius Asset Management Pty Ltd ABN 62 148 000 355 AFSL 401820 is the investment manager. The information in this document is general information only and is not based on the objectives, financial situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the Product Disclosure Statement (PDS) and consider whether the product is appropriate for you. A copy of the PDS is available at [www.australianunity.com.au/wealth](http://www.australianunity.com.au/wealth) or by calling our Investor Services team on 13 29 39. Past performance is not a reliable indicator of future performance. This document is updated monthly and is current at the time of publishing. We may change the investment characteristics of The Fund at any time. © Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.