

## Altius Bond Fund

**Altius Asset Management 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 March 2018

|                                 | 1 mth<br>% | 3 mths<br>% | 1 yr<br>% | 3 yrs<br>% | 5yrs<br>% | Since inception*<br>%pa |
|---------------------------------|------------|-------------|-----------|------------|-----------|-------------------------|
| <b>Total return<sup>1</sup></b> | -0.21      | 0.52        | 2.23      | 2.27       | 3.41      | 4.47                    |
| Benchmark <sup>2</sup>          | 0.48       | 0.62        | 2.39      | 2.09       | 3.17      | 3.93                    |
| Active return <sup>3</sup>      | -0.69      | -0.10       | -0.16     | 0.18       | 0.24      | 0.54                    |

1. Total returns are calculated after fees and expenses and assumes the reinvestment of distributions. 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.

### Portfolio Performance and Activity

It was a poor month for performance, with the fund generating a negative gross return and underperforming the benchmark.

Over a rolling 12-month basis, the fund delivered a total return of 2.23 percent, outperforming cash but below the fund's benchmark.

The portfolio started the month with interest rate duration of 1.64 years and finished the month at one year. Risk was removed early in the month across the three and 10-year parts of the curve.

While our outright short duration position was one contributor to the fund's underperformance, the main driver was the fund's curve steepening positions. Over the month the 3-10 years futures spread flattened 19 basis points to end the month at a spread of 48 basis points. A combination of drivers was linked to the curve's move. This included the funding pressure experienced in the repurchase market, leading to higher front-end rates, particularly in the bank bill curve. Volatility in global equity markets was triggered by political headlines. President Trump's announcement of US tariff impositions and concerns about trade wars unsettled markets.

Credit markets also performed poorly over the month, with financial and corporate spreads widening on average seven and six basis points respectively. Domestically, credit markets were driven by offshore events. Large primary supply in the US placed pressure on spreads as investors started to take a more cautious approach. With equity volatility, heightened geopolitical concerns contributed to the sector underperformance.

Over the month we maintained our credit exposure, with activity extremely low. Of note was the purchase of the Heritage Building Society 2021 floating rate note at bank bills plus 1.23 percent.

### Outlook

A virtual 'perfect squall' in late March featured a rally in long-dated bonds and a sharp jump in short-term rates.

Short-term rates rose for reasons other than a lift in the US Fed fund rates, including US tax changes and an increased issuance of US Treasuries.

Markets reacted to fears over a global tariff war, privacy concerns in the technology sector and higher borrowing costs. The rally in the long-dated bonds reflected a buying-back of excessive short US Treasury positions taken during January and February, prior to the emergence of safe haven capital flows.

We believe, however, that these factors are temporary and will provide less long-term resistance as the major themes re-establish.

The increase in short-term rates in Australia is related to US factors and is likely to be short-lived. Official cash rates in Australia are unlikely to change over the next 12 months. If Australian banks raise lending rates of their own accord, it would likely defer any rise in the official cash rate.

Key forces driving long bond rates higher are the incrementally higher inflation in the US, an unwinding of quantitative easing in Europe, a reduction in US Federal Reserve bond holdings and expansion of US Treasury bond issuance to fund a larger budget deficit.

Quantitative easing in Europe has outlived its need, as European middle-class incomes rise and business investment propels higher economic growth.

Since the first quarter of 2012, German 10-year bunds have rallied about 180 basis points, while Australian 10-year bond rates have traded in step with key European bond rates, rallying a little over 160 basis points in the same time. In contrast, US Treasury yields have moved independently, selling off almost 50 basis points.

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Therefore, we believe rising European rates are pivotal for Australian bond markets.

In the meantime, inflation remains well contained outside the US.

Any moves by the US to introduce tariff barriers would affect world trade activity, while adding inflationary pressures through a higher cost of consumption. But we expect that the US tariff proposals would be rejected by the World Trade Organisation.

We are positioned for Australian bond yields to rise in line with other bond markets, with longer-dated bond yields rising further than shorter-dated bond yields, given that the RBA maintains official rates at 1.5 percent for the near future.

## Sector Profile as at 31 March 2018

| Asset Class             | Portfolio % | Benchmark % |
|-------------------------|-------------|-------------|
| Commonwealth Government | 19.09       | 25.74       |
| Semi Government         | 18.28       | 11.74       |
| Supra Nationals         | 12.32       | 7.38        |
| Financials              | 21.27       | 2.33        |
| Industrials             | 14.83       | 2.77        |
| Asset Backed            | 9.52        | 0.04        |
| Money Market            | 0.92        | 0.00        |
| 11am                    | 0.23        | 0.00        |
| Cash at Bank            | 3.54        | 0.00        |
| RBA Cash                | 0.00        | 50.00       |

## Top 10 Holdings

| Issuer                    | Portfolio % | Benchmark % |
|---------------------------|-------------|-------------|
| Commonwealth of Australia | 19.09       | 25.74       |
| State of Queensland       | 7.05        | 4.26        |
| State of Victoria         | 5.47        | 1.82        |
| State of NSW              | 3.97        | 2.20        |
| Cash at Bank              | 3.54        | 0.00        |
| ANZ Banking Corp          | 2.78        | 0.22        |
| KFW                       | 2.32        | 1.36        |
| World Bank Group          | 2.30        | 1.17        |
| Asian Development Bank    | 2.22        | 0.52        |
| Royal Bank of Canada      | 2.08        | 0.04        |

## Ratings Exposure

|              | Portfolio % | Benchmark % |
|--------------|-------------|-------------|
| AAA          | 51.92       | 37.05       |
| AA+ to AA-   | 18.72       | 9.41        |
| A+ to A-     | 17.59       | 2.32        |
| BBB+ to BBB- | 11.77       | 1.22        |
| RBA Cash     | 0.00        | 50.00       |

## Maturity Profile

| Term        | Portfolio % | Benchmark % |
|-------------|-------------|-------------|
| 0 – 1 year  | 17.70       | 53.52       |
| 1 – 3 years | 24.06       | 10.45       |
| 3 – 5 years | 27.03       | 10.03       |
| 5 – 7 years | 10.61       | 7.00        |
| 7+ years    | 20.60       | 19.00       |

## Fund Asset Allocation

|                           | Fund % |
|---------------------------|--------|
| Australian fixed interest | 95.31  |
| Cash                      | 4.69   |
| 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)

## Portfolio Summary Statistics

| Asset Class               | Portfolio % | Benchmark % |
|---------------------------|-------------|-------------|
| Running yield             | 2.58        | 2.03        |
| Modified duration (years) | 1.00        | 2.58        |

## Fund Snapshot

|                             |             |
|-----------------------------|-------------|
| APIR code                   | WSF0486AU   |
| Inception date              | 14 Jun 2011 |
| Fund size (net asset value) | \$219.18 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 Funds Management Costs which also include recoverable expenses and indirect costs. Total Management costs may vary

## Important Information

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