

Fund Update

30 September 2017

Altius Sustainable 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. The Altius Sustainable Bond Fund (Fund) is an Australian fixed interest fund that invests in companies which conduct their business and apply capital responsibly, giving full consideration to a range of environmental, social and governance (ESG) issues.

Performance as at 30 September 2017

	1 mth %	3 mths %	1 yr %	2 yr %	Since inception* %pa
Total return¹	0.11	0.49	1.22	2.81	3.17
Benchmark ²	-0.09	0.15	0.38	2.06	2.76
Active return ³	0.20	0.34	0.37	0.75	0.40

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 21 November 2014

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 Sustainable Bond Fund performed and activity

The Portfolio produced a total return of 0.11% for the month. This bettered the return from our blended benchmark 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 and purchases were made across most sectors in order to maintain portfolio credit risk following solid inflows over the past few months. The majority of the focus was on the Green bond space with increased allocations made to KFW 2020, World Bank 2019, Westpac 2021 and Investa Property 2027 bonds. In primary issuance, the fund purchased the new AMP Bank 2020 and the inaugural Bank of Montreal 2022 at swap plus 0.75% and 0.92%, respectively.

One sector we continued to favour 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%.

A key sale over the month was the Wells Fargo 2019. The sale followed the disclosure that Wells had uncovered far more fraudulent accounts than previously announced. Despite changes to the board to address these issues, the Altius sustainable committee is concerned that there was a systemic issue with governance which will take an extended period of time to address. As a result Wells Fargo was placed on our excluded list.

Following the response to our second engagement letter with CBA and discussion by the Altius sustainability committee, we now await APRA's investigation into CBA's framework and practices on governance, culture and accountability (a final report to be published six months after commencement). Until the APRA's determination, CBA shall remain on our excluded list for the fund.

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.

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

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.

Altius Sustainable Bond Fund

Sector Profile as at 30 September 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	19.75	25.63
Semi Government	21.77	12.00
Supra Nationals	14.55	7.29
Financials	15.75	2.36
Industrials	10.90	2.62
Asset Backed	9.26	0.10
Money Market	0.77	0.00
11am	2.31	0.00
Cash at Bank	4.94	0.00
RBA Cash	0.00	50.00

Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.64	2.05
Modified duration (years)	2.24	2.47

Top 20 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	20.52	25.78
State of NSW Australia	10.40	2.37
State of Victoria Australia	6.31	1.89
Cash at Bank	4.75	0.00
State of Queensland	4.26	4.42
NAB	4.05	0.27
Federal Republic of Germany	3.86	1.42
World Bank Group/The	3.03	1.17
Suncorp Group Ltd	2.11	0.09
Asian Development Bank	2.00	0.51
Westpac Banking Corp	1.94	0.28
Superannuation Members Home L	1.81	0.00
National Australia Bank Ltd	1.74	0.27
Australia & New Zealand Bank	1.74	0.21
AMP Ltd	1.54	0.02
Nissan Motor Co Ltd	1.54	0.04
Citigroup Inc	1.44	0.01
Telstra Corp Ltd	1.33	0.17
Kingdom of Norway	1.29	0.31
Kingdom of the Netherlands	1.18	0.30

Important Information

Units in the Altius Sustainable 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 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 australianunity.com.au/wealth or by calling our Investor Services team on 13 29 39. Investment decisions should not be made upon the basis of its past performance or distribution rate, or any rating given by a ratings agency, since each of these can vary. The information provided in the document is current at the time of publication.

*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.

+ The Responsible Investment Certification program does not constitute financial product advice. Neither the Certification symbol nor RIAA recommends to any person any financial product is a suitable investment or that returns are guaranteed. RIAA does not hold an Australian Financial Services License.

The Lonsec Rating (assigned October 2016) presented in this document is published by Lonsec Research Pty Ltd ABN 11151658561 AFSL 421445. The Rating is limited to "General Advice" (as defined in the Corporations Act 2001 (Ch)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Altius Fund Management product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec's Ratings methodology, please refer to our website at: <http://www.lonsecresearch.com.au/research-solutions/our-ratings>

Ratings exposure

	Portfolio %	Benchmark %
AAA	62.40	37.16
AA+ to AA-	13.43	9.57
A+ to A-	17.69	2.14
BBB+ to BBB-	6.48	1.13
RBA Cash	0.00	50.00

Fund snapshot

APIR Code	AUS0071AU
Inception date	21 Nov 2014
Fund size (net asset value)	\$129.56 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

RIAA-certified responsible investment product provider

Altius Asset Management Pty Ltd ABN 62 148 000 355, AFS Licence No. 401820 has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.



Award Winning Fund - Lonsec

The Fund recently won the Lonsec Innovation Award 2016, which recognises the major innovators and industry leaders who are shaping the future of Australia's wealth creation sector.

The Lonsec Awards go beyond the pure quantitative, looking at the people behind the investment decisions, the rigour of the investment process and philosophy, and the new thought and innovations that create real value for investors.