

Fund Update

31 March 2018

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 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 31 March 2018¹

	1 mth %	3 mths %	1 yr %	2 yrs %	3yrs %	Since inception ⁴ %pa
Total return ¹	-0.24	0.44	2.18	2.21	2.17	2.98
Benchmark ²	0.48	0.62	2.39	2.13	2.09	2.80
Active return ³	-0.72	-0.18	-0.21	0.08	0.08	0.18

1. Total returns are calculated after fees and expenses and assume the reinvestment of distributions. 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% BloombergSM AusBond Composite 0+Yr Index and applied retrospectively for all periods.

3. Active return is calculated on Total return.

Portfolio Performance and Activity

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

Over a rolling 12-month basis the fund delivered a total return of 2.18 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 0.97 years. 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 year futures spread flattened 19 basis points, ending 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 Heritage Building Society 2021 floating rate note at bank bills plus 1.23 percent.

Over the month we continued to build our exposure to the sustainable bond sector of the market. IFC, a member of the World Bank Group,

issued its first local Social Bond, which is aligned with the Social Bond Principles. IFC's social bond program brings together its 'Banking of Women' program, focusing on creating opportunities for women entrepreneurs in emerging markets, while the 'Inclusive Business' program exclusively supports businesses in low-income communities.

At the end of March the portfolio held just under 30 percent of its assets in a combination of green, sustainable or social bonds.

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 QE in Europe, a reduction in US Federal Reserve bond holdings and expansion of US Treasury bond issuance to fund a larger budget deficit.

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STRENGTHENED BY



Altius Sustainable Bond Fund

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.

Portfolio Summary Statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.49	2.025
Modified duration (years)	0.97	2.58

Sector Profile as at 31 March 2018

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	21.52	25.74
Semi Government	18.54	11.74
Supra Nationals	16.07	7.38
Financials	16.87	2.33
Industrials	11.49	2.77
Asset Backed	9.06	0.04
Money Market	0.00	0.00
11am	2.22	0.00
Cash at Bank	4.24	0.00
RBA Cash	0.00	50.00

Ratings Exposure

	Portfolio %	Benchmark %
AAA	59.59	37.05
AA+ to AA-	18.23	9.41
A+ to A-	14.77	2.32
BBB+ to BBB-	7.41	1.22
RBA Cash	0.00	50.00

Fund Snapshot

APIR Code	AUS0071AU
Inception date	21 Nov 2014
Fund size (net asset value)	\$136.15 m
Minimum initial investment	\$5,000
Management Fee*	0.57% 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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Top 20 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	21.52	25.74
State of Victoria	7.19	1.82
State of Queensland	5.37	2.20
National Australia Bank	4.63	0.22
World Bank Group	4.34	1.17
Cash at Bank	4.24	0.00
KFW	3.70	1.36
ANZ Banking Corp	2.41	0.22
Westpac Banking Corp	1.86	0.29
AMP Ltd	1.48	0.02
Newcastle Permanent Building Society	1.48	0.00
ME Bank	1.38	0.00
Asian Development Bank	1.35	0.52
Export Development Bank Canada	1.27	0.21
Telstra Corp	1.27	0.12
Kingdom of Norway	1.22	0.34
Royal Bank Of Canada	1.11	0.04
Crusade ABS Trust	1.11	0.00
Australian Catholic University	1.11	0.01
European Investment Bank	1.11	0.83

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Award Winning Fund – Lonsec

The Fund 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.