

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 31 July 2017

	1 mth %	3 mths %	1yr %	2 yr %	Since inception* %pa
Total return¹	0.38	0.76	1.27	2.78	3.32
Benchmark ²	0.19	0.44	0.64	2.39	2.95
Active return ³	0.20	0.32	0.63	0.39	0.37

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

The Portfolio produced a total return of 0.38% 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 outcome 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

Altius Sustainable Bond Fund

Sector Profile as at 31 July 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	19.89	25.39
Semi Government	22.21	12.22
Supra Nationals	14.43	7.42
Financials	15.33	2.33
Industrials	10.18	2.58
Asset Backed	9.24	0.06
Money Market	2.81	0.00
11am	2.81	0.00
Cash at Bank	3.10	0.00
RBA Cash	0.00	50

Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.37	1.97
Modified duration (years)	1.69	2.48

Top 20 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	20.83	25.52
State of New South Wales Australia	11.17	2.38
State of Victoria Australia	6.26	1.89
National Australia Bank Ltd	4.95	0.25
State of Queensland Australia	3.81	4.58
Asian Development Bank	2.49	0.50
World Bank Group/The	2.22	1.15
Suncorp Group Ltd	2.09	0.09
Canada	1.89	0.22
Nissan Motor Co Ltd	1.88	0.04
Federal Republic of Germany	1.87	1.51
Westpac Banking Corp	1.69	0.29
Kingdom of Norway	1.57	0.30
Kingdom of the Netherlands	1.45	0.28
Medallion Trust	1.43	0.05
Crusade ABS Trust	1.41	0.00
Citigroup Inc	1.16	0.01
Nordic Investment Bank	1.05	0.22
New Zealand	1.03	0.03
GPT Group/The	0.99	0.04

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 (Cth)) 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	64.06	37.19
AA+ to AA-	17.55	9.57
A+ to A-	11.09	2.18
BBB+ to BBB-	7.30	1.06
RBA Cash	0.00	50.00

Fund snapshot

APIR Code	WFS0486AU
Inception date	14 Jun 2011
Fund size (net asset value)	\$106.81 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.