Fund Update

31 December 2017

ALTIUS ASSET MANAGEMENT

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 December 2017

	1 mth %	3 mths %	1 yr %	2 yrs %	3 yrs %	Since inception %pa
Total return[1]	**-0.11**	**0.51**	**2.61**	**2.84**	**2.66**	**3.07**
Benchmark[2]	-0.20	0.91	2.58	2.46	2.43	2.83
Active return[3]	0.09	-0.40	0.03	0.38	0.23	0.24

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 which lagged cash but outperformed the return from our blended benchmark. Other highlights were:

- The dominant theme over the month was the solid sell-off in rates coupled with a continuation of the flattening of the yield curve with 10 year bond yields rising 0.13% while 3 year bonds rose 0.23%.
- Our strategic interest rate positioning was a strong contributor over the month tempted by our positioning for a steepening yield curve
- Portfolio duration began the month at 0.51 years. The markets traded with an optimistic tone as US Congress worked through the President's tax cuts. Once again the RBA left the cash rate at 1.50%. Strengthening local economic data enabled the market to pull forward rate hike expectation to December 2018, relative to mid-2019 at the end of November. With yields pushing towards our forecast level we took the opportunity to add duration to the portfolio. At the end of the month portfolio duration was 1.48 years.
- Credit spreads were flat to marginally wider over December with liquidity muted going into the holidays. While credit spreads were marginally weaker the additional return still resulted in credit outperforming the other sectors of the market over December.

We maintained our cautious overweight position in credit. Issuance was low over December with only $3.1bn of primary deals as the market wound down for the holiday period. This was markedly lower than the $9.2bn in November. Despite the markets ongoing appetite for credit product there appeared to be some cautiousness to push spreads too far below GFC lows.

We selectively added to our credit holdings over the month with investments made through the primary markets. We purchased the inaugural University of Wollongong 10 year deals with Universities remaining a preferred sector due to their defensive characteristics.

We continued to add to our Mortgage Backed exposure with the purchase of the Progress Trust (AMP bank) class A (AAA rated) notes at swap plus 95 basis point.

Outlook

Global growth enters 2018 with the most synchronised growth in a decade. At the heart of this is the improvement in the middle class income levels of many developed economies.

US tax cuts are expected to add 0.5% to growth over the next year, to an economy that is currently tracking at around 3% per annum. The European economy is transitioning from being overly reliant on increased activity in the US and China, to one where rising employment is generating more income and thus business investment; a more virtuous growth cycle.

Although we expect further increases in cash rates in the US over 2018, we do not expect any lifts in Europe, Japan or Australia as core measures of inflation are expected to remain contained.

Many of the forces that had held down long dated yields over the second half of 2017 are likely to give way over 2018. The reduction in the US Fed Balance sheet ought to increasingly outweigh the FX reserve related purchases of Government Bonds by the PBoC. The new US financial year reduces US pension fund demand for US Treasuries, related to the new corporate tax rate, and rebalancing out of profitable equity. The reduced asset purchase program by the ECB allows longer dated European bond yields to lift and reduce the magnetic effect on all yields, including Australia and the US.

Despite the extraordinary population growth over recent years, Australian unemployment has fallen to 5.4%. The flipside of the impressive absorption of a larger labour force has been that wage growth is non-existent. Middle class incomes, particularly in real terms, are yet to lift. Related to this, non-mining capex growth, a key element in kicking the Australian economy into a higher gear, has been subdued. When these elements are combined with a persistently strong Australian dollar, the RBA is not expected to lift cash rates until 2019.

Sector Profile as at 31 December 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	18.88	25.42
Semi Government	19.32	12.13
Supra Nationals	13.59	7.44
Financials	15.99	2.3
Industrials	10.82	2.66
Asset Backed	8.6	0.05
Money Market	2.22	0
11am	2.23	0
Cash at Bank	8.35	0
RBA Cash	0	50

Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.44	2.02
Modified duration (years)	1.48	2.54

Top 20 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	19.26	25.33
Cash at Bank	8.35	0.00
State of New South Wales	7.18	2.37
State of Victoria	6.11	1.76
State of Queensland	5.29	4.52
National Australia Bank Ltd	3.90	0.26
Federal Republic of Germany	3.70	1.47
Royal Bank of Canada	2.97	0.04
World Bank Group/The	2.89	1.16
Asian Development Bank	1.93	0.52
Westpac Banking Corp	1.85	0.28
ANZ	1.66	0.20
Superannuation Members Home Loans	1.53	0
AMP Ltd	1.49	0.02
Nissan Motor Co Ltd	1.49	0.04
Citigroup Inc	1.40	0.01
Telstra Corp Ltd	1.27	0.13
Kingdom of Norway	1.23	0.32
Kingdom of the Netherlands	1.14	0.30
Australian Catholic University	1.12	0.01

Ratings exposure

	Portfolio %	Benchmark %
AAA	54.74	36.86
AA+ to AA-	19.49	9.69
A+ to A-	18.58	2.29
BBB+ to BBB-	7.19	1.16
RBA Cash	0.00	50.00

Fund snapshot

APIR Code	AUS0071AU
Inception date	21 Nov 2014
Fund size (net asset value)	$135.29 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.

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.

CERTIFIED BY RIAA

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