

# Fund Update

31 October 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 31 October 2017

	1 mth %	3 mths %	1 yr %	2 yr %	Since inception* %pa
<b>Total return<sup>1</sup></b>	<b>0.57</b>	<b>0.68</b>	<b>1.73</b>	<b>2.95</b>	<b>3.28</b>
Benchmark <sup>2</sup>	0.61	0.58	1.58	2.25	2.88
Active return <sup>3</sup>	-0.04	0.10	0.15	0.70	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<sup>∞</sup> 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 0.57% for the month which bettered the return from cash but was slightly below our blended benchmark. The highlights for the month were:

- Bond yields moved lower over the month, boosting return
- Our strategic interest rate positioning was largely neutral; while our positioning for a steepening yield curve was mildly positive
- Portfolio duration began the month at 2.25 years. With yields tending lower toward month-end we reduced duration to 1.8 years while maintaining our yield curve steepening bias
- Credit spreads continued to grind tighter meaning sector and credit selection were again positive for performance

Activity in October focussed upon relative value opportunities. Over the month we switched the majority of our shorter dated semi government holdings into longer dated securities which have been a marked underperformer in 2017. Much of the underperformance has been driven by concerns about deteriorating state finances and the expectation funding requirements would boost the supply of long dated bonds. 40% of funding is now complete for 2017/18, meaning concerns about long dated issuance have been largely addressed. Further to this NSW announced an improved Oct 16-17 budget position which was supportive. Queensland also came to the market with a new 2030 bond with what we consider a good new issuance premium given the size of the transaction (\$1.750 billion). This helped in execution of our lengthening strategy.

Credit continued to perform well over October with spreads tightening around 0.05% and testing post-GFC lows. The very strong technical environment and supportive fundamentals continue to override all other issues, such as, geopolitical concerns, US politics and Central Bank agendas.

Optus communications was the only credit sold due to a lowering in their sustainable score. To maintain our telecom exposure we moved into the new Spark Ltd 2027 at a yield of 4.14% (New Zealand mobile carrier). We also took the opportunity to add to our University holdings with the purchase of the Australian Catholic University Sustainability bond. Universities remain a favoured sector as they are well placed to provide a positive contribution to the profile of sustainability.

We retain our cautiously optimistic allocation to credit with the core focus on the mid part of the credit curve.

At our recent Investment Advisory Committee meeting, discussion centred on our long-held view that US and Chinese growth is adding to global growth. Significantly, we now see the European economy transitioning from being fragile and dependent upon an unsteady cyclical upswing. There is now a good chance that European recovery is resilient and self-sustaining, providing the first meaningful contribution to world growth in many years.

Although we don't see inflation lifting near term, aside from cyclical lifts in the headline rate due to energy price rises, core inflation is now sufficiently positive to support the unwinding of asset purchase programs by the major central banks. Accordingly, we expect longer dated interest rates in major bond markets to drift higher. Australian and European cash rates are unlikely to lift over the next year.

Our current strategy involves looking for themes that exploit our outlook for higher long end interest rates but stable shorter dated interest rates. This includes holding shorter dated high grade corporate bonds. We are cautious in relation to credit quality and maturity. We are increasingly concerned with the build-up of passive corporate bond holdings in ETFs, in an environment where some unwinding of the global hunt for yield could emerge.

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## Altius Sustainable Bond Fund

## Sector Profile as at 31 October 2017

Asset Class	Portfolio %	Benchmark %
Commonwealth Government	19.46	25.40
Semi Government	19.78	12.09
Supra Nationals	14.37	7.37
Financials	15.58	2.38
Industrials	11.59	2.71
Asset Backed	8.86	0.05
Money Market	0.76	0.00
11am	2.29	0.00
Cash at Bank	7.31	0.00
RBA Cash	0.00	50.00

## Portfolio summary statistics

Asset Class	Portfolio %	Benchmark %
Running yield	2.56	1.97
Modified duration (years)	1.79	2.49

## Top 20 Holdings

Issuer	Portfolio %	Benchmark %
Commonwealth of Australia	20.21	25.54
Cash at Bank	7.38	0.00
State of NSW Australia	7.33	2.36
State of Victoria Australia	6.25	1.88
State of Queensland Australia	5.39	4.47
National Australia Bank Ltd	4.02	0.27
The World Bank	2.96	1.21
Suncorp Group Ltd	2.06	0.09
Asian Development Bank	1.98	0.51
Westpac Banking Corp	1.92	0.28
ANZ Bank	1.72	0.21
Superannuation Members Home Loans	1.66	0.00
AMP Ltd	1.53	0.02
Nissan Motor Co Ltd	1.52	0.04
Citigroup Inc	1.43	0.01
Telstra Corp Ltd	1.32	0.17
Kingdom of Norway	1.26	0.31
Kingdom of the Netherlands	1.17	0.30
Australian Catholic University	1.15	0.01
Crusade ABS Trust	1.14	0.00

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## Ratings exposure

	Portfolio %	Benchmark %
AAA	58.37	36.92
AA+ to AA-	17.37	9.65
A+ to A-	17.46	2.25
BBB+ to BBB-	6.80	1.18
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 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.

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## Award Winning Fund - Lonssec

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

The Lonssec 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.