Altius Bond Fund

Fund Update
31 October 2020

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.

Performance as at 31 October 2020

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception % p.a.
Total return	0.25	0.72	1.84	2.52	2.75	3.12	3.99
Benchmark	0.15	0.50	2.22	3.36	2.91	3.36	3.82
Excess to benchmark	0.10	0.22	(0.38)	(0.84)	(0.16)	(0.24)	0.17

Inception date for performance calculations is 14 June 2011.
Total returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
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.
Excess to benchmark is calculated on Total return.

Portfolio Performance and Activity

Front end yields fell over the course of the month with 3-year bonds touching a low of 0.09%. The increased talk of the Reserve Bank of Australia (RBA) introducing a quantitative easing (QE) program was the key driver of this move. 10-year yields initially followed the move lower with the yield curve flattening to 56.5bpts, its lowest level in months. 10-year yields were unable to hold onto their gains, finishing 0.04bpts higher at 0.83%. While Australian 10-year yields rose over the month they outperformed those in the US with the spread differential going negative during the month before closing out the month at zero. Over the month we progressively added around 1.25 years of duration to our fund to finish the month at 5.24 years

A speech by RBA Governor Dr Philip Lowe presented at the Citi Australian/NZ investment conference in mid-October gave a very clear signal that the RBA would deliver additional policy response at their November meeting. In particular the Governor provided a strong indication that a traditional bond buying (QE) program could be introduced. This was subsequently delivered upon, including additional policy changes at their November meeting.

US yields moved higher over the month as risk sentiment improved supported by expectation of a US Fiscal stimulus agreement and a Biden Presidential win. Lack of progress on the fiscal front resulted in bond volatility through the month. Markets ignored equity weakness and rising Northern Hemisphere COVID-19 cases which heightened concerns that lockdowns would delay the global recovery with US 10-year treasury yields finishing 0.19% higher over the month at 0.875%, a level not seen since March.

Australian credit markets continued to perform well in October with spreads compressing between 10-15bpts depending on the sector. The RBA's Term Funding Facility (TFF) has meant local banks issuance has largely stopped resulting in a supply/demand imbalance which has seen a strong compression of spreads. This lack of bank supply has created slipover effects into the broader credit markets as investors look for alternative investment grade options. A few sectors, including REIT's, airports, universities, auto and airline continue to trade wide relative to pre-COVID-19 levels, but should see continued improvement with the opening of Victoria. To date the market has seen $40bn of issuance, down 30% on last year, driven by the large decline in major bank issuance. The fund continued to hold a large weighting in Green and Social linked bonds, with Corporate holdings largely unchanged over the month. Small investments were made in the Mizuho 3 year and the Lendlease 7-year green bond at a spread of 3% over the month.

Outlook

The risk of wider economic "lockdown" due to the surge in northern hemisphere COVID-19 infections, is significant and growing. More fiscal and monetary policy measures are needed. With cash rates at or near their lower bound, most major economies continue to increase or adjust their bond purchase programs.

The RBA has commenced its weekly purchases of $5 billion worth of five to 10-year Government and Semi Government bonds. This is added to the bonds its was already purchasing to target the 3-year government bonds at 0.1%.

Australia's relative success in COVID-19 constraint will likely lift economic activity more quickly than other nations. This, combined with China's demand for Australia's iron ore, places upward pressure on the Australian dollar. Tighter financial conditions from a higher currency will increase pressure on the RBA to ease policy to maintain their goal of low bond yields.

There are three key strategies being employed currently to take advantage of the current backdrop.

First, the spillover effect of many major markets with negative bond yields drives investor demand to seek income in higher yielding bond markets, such as Australia and the US. Additionally, the RBA's announced long dated bond purchases are designed to add to demand and drive yields lower. Our overweight in these securities is designed to achieve the consequent capital gains.

Second, Commonwealth Government bond curves are attractively steep, but state government and corporate curves are even more attractive. Gains are also achieved through being overweight bonds with maturities that fall in yield most swiftly toward the 0.1% 3-year rate, which the RBA has anchored at the same yield as cash.

Government bond issuance is large and lumpy. Central Bank buying is rather more persistent. The timing mismatch provide opportunities to take advantage of the relatively confined range in long dated securities; selling when bond prices have been driven higher, due to the spillover effects of "Global QE", and buying when bond prices have weakened due to large issuance lumps.

Sector Profile

Asset Class	Portfolio %	Benchmark %
Australian Commonwealth Government	7.48	28.32
Semi-Government	23.36	12.63
Supranationals	9.50	5.02
Industrials	16.91	2.22
Financials	22.18	1.64
Asset Backed	9.14	0.00
Agencies	9.76	0.17
11am	0.89	0.00
Cash at Bank	0.78	0.00
RBA Cash	0.00	50.00

Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	54.89	38.90
AA+ to AA-	14.58	8.53
A+ to A-	13.98	1.58
BBB+ to BBB-	16.56	1.00
RBA Cash	0.00	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 year	8.92	54.50
1 - 3 years	31.16	8.53
3 - 5 years	19.16	8.66
5 - 7 years	14.34	11.06
7+ years	26.43	17.25

Top 10 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	12.68	2.97
National Housing Finance & Investment Corp.	9.32	0.05
Government of Australia	7.50	28.63
Queensland Treasury Corp.	5.30	3.86
Treasury Corporation of Victoria	4.67	2.35
Asian Development Bank	3.63	0.37
Royal Bank of Canada (Sydney Branch)	1.94	0.01
International Finance Corporation	1.69	0.38
Bank of Queensland Limited	1.62	0.01
McDonald's Corporation	1.61	0.04

Portfolio Summary Statistics

	Portfolio	Benchmark
Running yield (%)	0.90	0.36
Modified duration (years)	5.24	3.03

Fund snapshot

APIR code	WFS0486AU
Inception date	14 Jun 2011
Distribution frequency	Quarterly
Minimum initial investment	$5,000
Fund size (net asset value)	$156.70m
Management fee*	0.46% p.a.
Buy/Sell spread	0.00%/0.15%
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.

Ratings / Awards

Recommended Lonsec Research

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Diversified Property Fund

Capital raise – Investment opportunity

Features of the Diversified Property Fund capital raise

Key features of this capital raise	Limited Base Management Fee Discount Offer We are offering investors a discount to the Base Management Fee* for a limited time, subject to satisfying certain conditions. The discount to the Base Management Fee* is 30% and will take into account the net asset value of your eligible investment amount and the fund's gearing ratio as outlined in the Product Disclosure Statement. The discount to the Base Management Fee is to be paid as a cash rebate annually and will be paid as two cash payments on or around the below dates: (a) for the calendar year ending 31 December 2021, one payment during January 2022; and (b) for the calendar year ending 31 December 2022, one payment during January 2023 Please note, the offer and the Base Management Fee* discount applies for a limited time and is subject to satisfying all the offer conditions set out in the Product Disclosure Statement.
Fund strategy	• Deliver on the existing $100 million development pipeline; • Acquire new direct property assets; • Further diversify geographic and sector allocation; • Further enhancement of the capital management strategy; and • Continue to deliver stable consistent returns to investors.

*Base Management Fee refers to the Base Management Fee as defined in the Product Disclosure Statement.

Why invest in the Diversified Property Fund?

An unlisted property fund that owns properties across Australia, diversified across convenience retail shopping centres, office and industrial sectors. The fund's tenant base is diverse and includes many of Australia's most successful companies and brands. The fund's diversification strategy aims to provide investors with stable and consistent income through periods of economic change.

Capital growth over time from value-add initiatives

Existing development pipeline in convenience retail centres provides an opportunity for further enhanced income and capital growth over time.

Actively managed and diversified

Diversified property portfolio with balanced sector and geographic allocations.

Further enhanced income returns

Delivering stable distribution income, potentially tax advantaged income, backed by an attractive Weighted Average Lease Expiry (WALE), high occupancy and quality tenants.

Base Management Fee Discount Offer

Limited offer for a 30% discount to the Base Management Fee for eligible investments.

Access to defensive income streams in an uncertain economic environment

72% of retail rental income derived from 'essential services and supermarket retail'. Minimal disruption to the fund's FY20 rental income due to COVID-19, with less than 1% of rent waived.

Apply now

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