

Fund Update

31 August 2020

ALTIUS
ASSET MANAGEMENT

Altius 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.

Performance as at 31 August 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	(0.12)	1.01	0.30	2.46	2.61	3.11	3.96
Benchmark	(0.20)	0.16	1.08	3.29	2.85	3.31	3.80
Excess to benchmark	0.08	0.85	(0.78)	(0.83)	(0.24)	(0.20)	0.16

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. Inception date for performance calculations is 14 June 2011.

Portfolio Performance and Activity

As expected the Reserve Bank of Australia (RBA) maintained its current policy setting at the August meeting, with cash rates and the 3-year bonds targeting 0.25%. Long dated government yields rose sharply over August with 10-year bonds pushing above 1% in the final week before finishing at 0.98%. The US market was the catalyst for this move. While inflation will remain mooted over the coming years the announcement by the Federal Reserve that it would relax its inflation target and be more tolerant of inflation going forward gave the market reason to pause. The spike in yields resulted in a steepening of the 3-10 year curve of 0.15%. Semi-governments had a good month with spreads tightening across all tenors. This was against a backdrop of Victoria being placed on negative watch by S&P and significant amounts of issuance over the month. Credit markets continued their strong run over August with spread compressing on average 3-5 basis points. Very mixed earning season with many withholding forward guidance was outweighed by the strong technical bid for corporate debt. Looking below the surface the picture was more mixed with sectors more directly impacted by COVID-19 such as property trusts, airports and airlines experiencing limited compression compared to Telco, Supermarkets and Utilities.

We continued to maintain a long interest rate duration position over August finishing the month at 4.33 years. The economic fallout of COVID-19, core inflation sitting well under the RBA's 2%-3% band and unemployment staying high for the medium term, points to continued support for lower rate positioning. Primary credit markets were strong with first time issuer Goodman Australia Partnerships issuing a 2027 and the return of Coles with a dual 5 and 10-year deal. The fund participated in the Goldman's and Coles 5 years. Both fit our strategy of investing in issuers that should perform while through the Pandemic. We also added to our Woolworths holding given the defense elements of their business.

Outlook

Global fiscal expansion of around 8% is being deployed to help support economies. The surge in the issuance of government securities is at record pace. Typically, this would place upward pressure on sovereign

yields. However, having already slashed official cash rates to near or below 0%, most major central banks have deployed sovereign bond buying programs; absorbing a great deal of the Government bond supply. "Global quantitative easing" is placing a cap on longer dated Australian government bonds, as international investors buy relatively high yielding Australian bonds, in preference to negative yielding German or Japanese bonds.

We find value in longer dated Australian Federal and State Government Bonds as well as high grade corporate securities from an income perspective. By contrast, given limited scope for further cuts to official cash rates in Australia, there is little income and limited prospect of a rally in short dated bonds to generate any capital gains, leading Altius to retain a very underweight position.

The key risk scenario is for even more monetary policy accommodation. If there is to be any further adjustment to monetary policy, it will be from major central banks increasing the frequency or size of asset purchases. Under this scenario, it is reasonable to expect longer dated bonds to rally further; thus generating capital gains.

Sector Profile as at 31 August 2020

Asset Class	Portfolio %	Benchmark %
Australian Commonwealth Government	8.30	27.78
Semi-Government	23.36	12.52
Supranationals	9.49	5.46
Industrials	16.57	2.33
Financials	22.49	1.76
Asset Backed	9.13	0.00
Agencies	9.70	0.16
11am	0.20	0.00
Cash at Bank	0.77	0.00
RBA Cash	0.00	50.00

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Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	55.13	38.56
AA+ to AA-	19.99	8.74
A+ to A-	8.80	1.66
BBB+ to BBB-	16.08	1.03
RBA Cash	0.00	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 year	9.27	54.74
1 - 3 years	32.07	9.31
3 - 5 years	17.91	8.97
5 - 7 years	11.83	8.81
7+ years	28.92	18.17

Top 10 Holdings

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	12.61	2.91
National Housing Finance & Investment Corp.	9.27	0.05
Government of Australia	8.38	27.92
National Australia Bank Limited	6.07	0.22
Queensland Treasury Corp.	5.29	3.84
Treasury Corporation of Victoria	4.83	2.24
Asian Development Bank	3.62	0.40
Royal Bank of Canada (Sydney Branch)	1.95	0.02
Westpac Banking Corporation	1.84	0.19
International Finance Corporation	1.71	0.41

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Running yield (%)	1.00	0.42
Modified duration (years)	4.26	2.98

Ratings / Awards



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