

# Altius Sustainable Bond Fund

Fund Update  
**30 April 2021**

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 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 30 April 2021

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since inception % p.a.
Total return	0.54	(1.13)	0.40	1.58	1.81	2.34
Benchmark	0.29	(1.11)	(0.49)	2.57	2.33	2.64
Excess to benchmark	0.25	(0.02)	0.89	(0.99)	(0.52)	(0.30)

Inception date for performance calculations is 21 November 2014.

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

After a volatile first quarter for global interest rate markets, yields spent April range bound. Domestic 10-year bonds started April at 1.80% before finishing the month at 1.70% while US 10-year rates ended the month at 1.63%, falling 0.11%. The small rally in yields globally largely reflected a level of fatigue following the strong rise in yields since late 2020 and a market that is well priced for the current strong rebound in US data. The Fund's duration was largely unchanged over the month after starting at 4.19 years before finishing the month at 4.06 years.

Domestically economic data was mixed with business and consumer confidence rebounding strongly as the economy continued to open. The unemployment rate fell to 5.6% from 5.8% with a solid jobs improvement of 70,000 new jobs created. However, inflation printed well below expectations at 0.6% for the first quarter of 2021, leading to just 1.1% over the year, well below the RBA's 2-3% target. The US data prints reflected the strong rebound currently occurring. The high levels of fiscal spending, solid vaccine uptake and the reopening of the economy has seen consumer confidence grow strongly which has supported retail spending and housing. Like Australia, job growth in the US was strong, with the creation of 915,000 new jobs in March.

In general, central bank commentary remained dovish over April. The RBA and US Federal Reserve downplayed any changes to interest rate and QE policies, remaining committed to existing policy support. The RBA board "will not increase the cash rate until actual inflation is sustainably within the 2%-3% target range" and for this to occur "wages growth will have to be materially higher than it is currently". This will require "significant gains in employment."

A busy month for credit markets with \$6.9bn of corporate issuance, well exceeding the monthly average of \$2.1bn of 2021. Issuance was focused on the 7-10-year tenors with the majority of issuers in the BBB space. Despite heavy primary issuance non-

financial spreads managed to tighten further in April. Over the month, spreads in the non-financial sector tightened on average 4 basis points with the BBB category contracting 10 basis points. REIT's were the best performing sector with names most effected by COVID-19, such as Vicinity Centres and QIC Shopping Centre Fund, leading the move lower. Utilities underperformed all sectors as the market digested significant issuance. Four utilities, VPN, Aust Gas Networks, Transgrid and Ausgrid, issued a total of \$1.4bn across the 5-8-year spectrum. Utility issuance has already exceeded the full year of maturities, which means the sector should continue to struggle over the remainder of 2021. Bank issuance remained low given the system's high deposit growth and the RBA term funding facility. The most notable deals were Bank of Queensland's senior fixed and floating 5-year at a spread of 0.63%, 0.05% tighter than initial price talk and a \$250m subordinated debt at a spread of 1.60%. The Fund participated in a number of primary deals over April. Investments were made in the Bank of Queensland subordinated deal and the VPN transactions.

A number of social bonds were issued over April. The Asian Infrastructure Investment Bank issued an inaugural 5-year sustainable development format bond. The Asian Development Bank issued a gender bond which finances projects that promote gender equality and employment of women in developing countries.

## Socially Responsible Investments in Focus

Just days before Australia participated in US President Joe Biden's virtual greenhouse gas summit, Prime Minister Scott Morrison signalled a target of achieving net zero (greenhouse gas emissions) by 2050, however the focus will be on technology rather than reducing emissions, further isolating Australia from the world stage with America and China agreeing to cooperate to curb climate change.

The CDP (formerly known as the Carbon Disclosure Project Climate Disclosure Project) released it's 2020 report that details financial institutions readiness for climate disclosure and reporting. Half of

financial institutions indicated they did not conduct any analysis of how their portfolios impact climate change, according to a report. The report noted that while most financial institutions are focused on providing sustainable finance, they are less focused on ensuring the entirety of their business is aligned with net zero with huge sums of capital still being committed to financing fossil fuels without a focus on transition.

### Outlook

Australia is well advanced in its recovery. Successful virus containment has allowed the economy to open more quickly than anticipated.

The RBA has significantly revised up expected growth rates for 2021 to 4.75%. Unemployment is expected to fall to 5% by year end.

Underlying inflation, however, is only expected to reach the low end of the RBA target by mid-2023, as wage growth is likely to remain weak while excess capacity is present.

Our view is the current scenario is unique to Australia, but similar to the experience in the US for much of the last decade, where cash rates were near zero for extended periods of time while longer dated securities traded at a higher yields, generating superior returns.

Interest rate markets will continue to be shaped by the RBA's determination to achieve full employment. In Philip Lowe's own words "The (RBA) Board is not considering a change to the target of 10 basis points".

Cash rates are expected to be anchored at 0.1% for the foreseeable future. The global sell-off, during February, in longer dated bonds has created an unusually steep Australian yield curve. Over the last 25 years, there have been only four other very brief occasions where the curve was close to the current level.

Given our view that yields have appropriately recalibrated, the higher interest rate accrual and rolldown (from such steep curves) is attractive. semi-government and corporate yield curves are steeper again. Moreover, global capital flows, particularly from Japanese investors facing ultra-low domestic yields, are supportive of Australia's high-grade government and selective corporate markets.

### Sector Profile

Asset Class	Portfolio %	Benchmark %
Australian Commonwealth Government	7.69	28.02
Semi-Government	22.02	13.28
Supranationals	8.01	4.82
Industrials	14.50	2.18
Financials	26.01	1.57
Asset Backed	10.08	0.00
Money Market	0.00	0.00
Agencies	9.26	0.13
11am	0.53	0.00
Cash at Bank	1.90	0.00
RBA Cash	0.00	50.00

### Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	36.75	32.77
AA+ to AA-	38.02	14.65
A+ to A-	14.46	1.39
BBB+ to BBB-	10.77	1.19
RBA Cash	0.00	50.00

### Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Crp	11.96	3.01
National Housing Finance & Investment Corp	9.06	0.04
Australian Government	7.72	27.16
Treasury Corp Victoria	4.98	2.75
Queensland Treasury Corp	3.58	3.30
Commonwealth Bank Aust	3.41	0.14
ANZ Banking Group	2.95	0.17
UBS AG Australia	2.16	0.04
National Australia Bank	2.14	0.18
Bank Of Montreal	2.01	0.04
Royal Bank Of Canada (Syd)	1.78	0.01
Woolworths Group Ltd	1.62	0.05
Kommunalbanken As	1.53	0.26
Intl Bk Recon & Develop	1.52	0.30
Asian Development Bank	1.46	0.38
Bank Of Queensland Ltd	1.43	0.01
Mirvac Group Finance Ltd	1.23	0.02
European Investment Bank	1.22	0.47
Kfw Bankengruppe	1.19	0.57
SMHL Securitisation Trust 2020-1 A	1.16	0.00

### Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	1.14	0.60
Modified duration (years)	4.13	2.93

**Fund snapshot**

APIR code	AUS0071AU
Inception date	21 Nov 2014
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$227.46m
Management fee*	0.57% p.a.
Buy/Sell spread	0.00%/0.10%
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**

The Altius Sustainable Bond Fund has been certified by RIAA. According to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See [www.responsibleinvestment.org](http://www.responsibleinvestment.org) for details.



**Ratings / Awards**



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The Altius Sustainable Bond 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.

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