

# Altius Sustainable Bond Fund

## Fund Update 31 August 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 31 August 2021

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since inception % p.a.
Total return	(0.25)	0.29	(0.57)	1.47	1.48	2.26
Benchmark	0.05	1.29	0.61	2.60	2.18	2.72
Excess to benchmark	(0.30)	(1.00)	(1.18)	(1.13)	(0.70)	(0.46)

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

Locally, interest rate markets were largely unchanged over August with the lockdowns of NSW and VIC having a dampening effect on market sentiment and rendering most economic data obsolete. The Australian 10-year bond traded in a range of 1.05% to 1.24%, finishing the month at 1.14%, 3 basis points below the opening yield. While 3-year bonds ended the month 3 basis points lower at 0.26%. Portfolio duration was reduced to 1.83 years during the last week of August as we became more convinced interest rates would drift higher into year end.

The RBA surprised many at its August meeting by leaving its planned September QE plans unchanged. As COVID-19 numbers grew and it became more evident lockdowns would be extended, many expected the RBA to delay the announced bond purchase reduction, instead the RBA remained upbeat about the domestic outlook, expecting it to grow strongly again in 2022.

As expected, US Federal Reserve minutes from July showed there was a lengthy debate around the parameters of tapering its bond purchase program, in particular timing, pace, and composition. Most members noted that provided the economy evolved broadly as they anticipated, they judged it would be appropriate to start reducing purchases by year end. Many in the market think November fits best with this narrative. The Federal Reserve Chairman's speech at Jackson Hole rounded out the month. While the speech was used to progress the taper conversation, it was apparent that the Chairman was in no hurry and that he was more comfortable with the transitory inflation narrative which provides the Fed policy flexibility. US 10-year rates finished the month 9 basis points higher at 1.31%.

The Australian corporate reporting season came to an end with results having no impact on spread performance. On the whole corporates reported solid growth but many failed to provide future guidance given the uncertainty of lockdowns and how that will impact earnings. REIT's hold a high level of COVID-19 uncertainty,

in particular the office and retail sectors, while liquidity remains strong, credit metrics are expected to deteriorate. Challenges for the utilities sector were highlighted in the reporting season as increased cost of transitioning to renewable, lower regulated revenues, impact of climate change on assets and operations, and continued uptake of solar rooftop and batteries continue to impact on the sector. Of particulate note out of the reporting season was the increased level of buyback announcements and M&A activity, both credit negatives. Telstra, Woolworths, Wesfarmers and the major banks announced buybacks, while M&A was announced for Sydney Airports and Spark Infrastructure (utilities).

August saw the first senior unsecured major bank deal since the beginning of the pandemic. NAB raised \$2.75bn for 5 years at a spread of 0.40%, after receiving \$3.8bn of market interest. Other notable corporate issues in August included \$1.5bn of 5-year subordinated debt from CBA and \$825m from NBN of a 3-year split between fixed and floating at a margin of 0.40%. Pacific National, a rail freight company with a large exposure to the thermal coal sector, issued for 10 years at a risk margin of 2.55%. No investment was made due to sustainability concerns related to the thermal coal exposure. Involvement in the primary market was low in August with an investment made in the NBN deal only. Sustainability issuance was very low in August with OCBC (Singaporean Bank) issuing a 3-year green bond. Under the structure the funds are invested in renewable energy projects and green buildings. We would like more granularity in reporting by OCBC to understand the impact from the bond and have initiated a conversation with the bank, so they understand our needs for better disclosure.

Credit spread volatility in secondary market remained low in August. Generally, spreads drifted tighter following offshore direction. Over the month, major bank 3 and 5-year spreads were unchanged at 0.19% and 0.39%, respectively, while offshore financials contracted on average 3 basis points. Non-financials spreads (measured across Bloomberg Industrial Index) moved 3 basis points lower to finish August 0.79%. Semi government

spreads significantly underperformed in August. With a greater proportion of COVID-19 costs being shouldered by the States, investors grew more concerned about the increased fund task. This led to NSW and VIC spreads to government widening up to 10 basis points. The semi underperformance was a large detractor of funds' performance in August.

### Socially Responsible Investments in Focus

The long-awaited report [<https://www.ipcc.ch/assessment-report/ar6/>] by the Intergovernmental Panel on Climate Change (IPCC) released last month states that earth has warmed 1.09° C since pre-industrial times and many changes, such as sea-levels and glacier melting, are now virtually irreversible. Climate change is now affecting every continent, region and ocean on Earth, and every aspect of the weather. The IPCC report is unequivocal, humans are responsible for the observing warming of the atmosphere, lands and oceans. Global concentrations of atmospheric carbon dioxide (CO<sub>2</sub>) are higher and rising faster than at any time in at least the past two million years. About 85% of CO<sub>2</sub> are from burning fossil fuels, the remaining 15% are generated from land use change, such as deforestation and degradation. Earth's surface temperature will continue to increase until at least 2050 under all emissions scenarios considered in the report and could well exceed the 1.5° C warming limit by early 2030s. If we reduce emissions sufficiently, there is only a 50% chance the rise in global temperature will stay around 1.5° C. To get Earth back to below 1.5° C warming, CO<sub>2</sub> would need to be removed from the atmosphere using negative emissions technologies or nature-based solutions. The IPCC latest findings are alarming, but scientists have said there is no physical or environmental obstacles to hold warming to well below 2° C and limit it to around 1.5° C, it is a choice humankind have to make.

### Outlook

Central Banks will continue to focus on ensuring an economic recovery lifts inflation to target levels not seen over the last decade. This biases cash rates to remain low until inflation actually appears. With cash rates likely to remain at 0.1% for a number of years, we find little reward for ultra-short dated securities including bank bills and term deposits but with a preference with higher yielding floating rate corporates.

Markets will be more forward-looking, meaning longer dated interest rates can drift higher, albeit dampened by the ongoing central bank bond buying programs.

Despite the lift in underlying inflation expected to be temporary, the US has seen a larger lift than was expected. The narrative of the Federal Reserve has evolved to suggest the lift may be a little more persistent. The US economy continues to reopen. The high vaccination rate and political landscape means lockdowns are unlikely. Employment conditions are improving, and the Fed likely to reduce the volume and rate of government bond purchases.

Increasing vaccination rates, internationally, has seen the US, UK and European economies emerge for lockdown, definitionally leading to better growth. Australia is lagging, while NSW and VIC are in hard lockdown, but the lift in vaccination will allow restrictions to be eased, and markets to factor in the RBA tapering government bond purchases.

We expect some upward recalibration to interest rates, with 10-year yields moving higher to around 1.9% by year end. Accordingly, we have moved to an underweight in longer-dated bond.

Intermediate maturity semi government and corporate bonds

continue to have attraction given the "roll down" of their very steep yield curves. The global "hunt for yield" born of ultra-low cash rates continues to support the high grade corporate and semi sectors.

### Sector Profile

Asset Class	Portfolio %	Benchmark %
Australian Commonwealth Government	5.07	28.84
Semi-Government	17.34	12.90
Supranationals	13.72	4.65
Industrials	15.46	2.09
Financials	22.45	1.38
Asset Backed	11.42	0.00
Money Market	0.00	0.00
Agencies	11.59	0.14
11am	1.01	0.00
Cash at Bank	1.94	0.00
RBA Cash	0.00	50.00

### Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	44.62	33.38
AA+ to AA-	33.93	14.09
A+ to A-	12.00	1.38
BBB+ to BBB-	9.45	1.15
RBA Cash	0.00	50.00

## Top 20 Issuers

Issuer	Portfolio %	Benchmark %
Nationl Housing Fin Invt	11.14	0.05
New S Wales Treasury Crp	9.02	3.25
Australian Government	5.08	27.36
Commonwealth Bank Aust	4.43	0.11
Queensland Treasury Corp	3.31	3.00
Inter-American Devel Bk	3.06	0.32
Aust & Nz Banking Group	2.74	0.13
Treasury Corp Victoria	2.68	2.81
European Investment Bank	2.57	0.45
National Australia Bank	2.15	0.16
Asian Development Bank	1.95	0.40
Woolworths Group Ltd	1.83	0.05
Wesfarmers Ltd	1.61	0.02
Bank Of Montreal	1.57	0.04
Kfw	1.51	0.54
Aust Capital Territory	1.51	0.26
Intl Bk Recon & Develop	1.38	0.34
Royal Bank Of Canada/Syd	1.34	0.01
Kommunalbanken As	1.32	0.25
Ocbc/Sydney	1.31	0.00



## Ratings / Awards



## Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	1.08	0.47
Modified duration (years)	1.83	3.01

## Fund snapshot

APIR code	AUS0071AU
Inception date	21 Nov 2014
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$227.91m
Management fee*	0.57% p.a. Note: from 1 July 2021 this will reduce to 0.37% 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.

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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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