

# Altius Sustainable Bond Fund

## Fund Update 30 November 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 November 2021

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception % p.a.
Total return	0.94	(1.09)	(2.50)	0.90	1.40	1.96	2.02
Benchmark	1.04	(1.49)	(1.53)	1.97	2.13	2.33	2.40
Excess to benchmark	(0.10)	0.40	(0.97)	(1.07)	(0.73)	(0.37)	(0.38)

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

Another volatile month for bond markets as investors worked through changing central bank commentaries, economic data and the appearance of the new COVID-19 variant "Omicron". Locally, three-year bonds traded in a range of 0.99% to 1.33% before finishing at 1.01%, 0.39% lower over the month. 10-year bonds closed at 1.70%, 0.415% lower, after trading between 1.66% and 2.02%. Australian rates outperformed US markets with US 10-years only closing 0.10% lower at 1.45%. The Fund maintained a long duration position over November, however the large deterioration in the swap and credit spreads swamped the overall Fund performance. At the end of the month the Fund duration was 3.67 years.

After much speculation in the second half of October, the RBA confirmed the end of its Yield Curve Control (YCC) program at its November meeting. This was the next step in the normalization of monetary policy which began with the ending of the Term Fund Facility (TFF) on June 30. The RBA however remained resolute that interest rates would not be increased before late 2023, in stark contrast to market pricing which had close to four tightening's priced before the end of December 2022. This disconnect between the RBA view and the market is adding to the increased volatility experienced over the past six weeks.

Outside of Australia, central bank commentary and action dominated market thinking. The Bank of England surprised markets early by leaving cash rates unchanged after being considered a leading candidate to increase rates due to the sharp jump in inflation. The US Federal Reserve become more hawkish, suggesting a faster pace of tapering with Powell noting that it may be a good time for the Fed to retire the "transitory" word and in his view the taper should accelerate to finish a "few months sooner". Finally, the Bank of New Zealand delivered its second 0.25% tightening of the cash rate. While central bank commentary weighed heavily on market sentiment, it was again COVID-19 that had the last word. The headlines of the new strain on November

25th saw local yields rally 0.18% into the month end close.

One of the big stories of the month was the large underperformance of swap spreads. Multiple factors drove the moves. Significant payside pressure from corporates and bank mortgage books, the ceasing of the RBA's YCC program meant "carry" strategies began to be questioned and the improving fiscal position of the Government meant lower bond supply going forward. These factors saw the 3-year and 10-year spreads widen by 0.14% and 0.15%, respectively. This large move meant that all fixed rate sectors (Semis, Supranational and Credit) underperformed the Government market.

Credit spread volatility increased in November. Concerns about the new COVID-19 variant, rising inflation, faster global central bank tapering and heavy issuance in offshore markets weighed on spreads. This was particularly the case in the US market that saw senior financial spreads widen 0.23% to 0.91%, financial subordinated spreads widen 0.29% to 1.31% and US high yield widen 0.70% to 3.75%. Domestically, spreads performed extremely well relative to their US peers. Locally, BBB credit and senior financial spreads widened 0.07% to average 1.23% and 0.66%, respectively. While the November move was small, financial spreads have been widening since July with spreads now 0.22% higher year to date.

Issuance was light in November. The Bank of Queensland issued \$400m of 10NC5 subordinated debt at a margin of 1.75% and Melbourne Airport issued 10 years at a spread of 1.67% with the book 1.7 times oversubscribed. Goodman Australian Industrial priced \$400m for 6 years at 0.83%, 0.12% tighter than the announced levels. Two additional corporates issued under a sustainable framework in November. Optus issued \$300m of a seven-year sustainable linked bond (SLB), the fourth SLB in the local market. The key performance indicator of the bond related to absolute GHG emissions reduction for scope one and two with the performance target being a 25% reduction in absolute emission by 25% by 2025 from 2015 baseline. Optus uses a Science Based Targets initiative (SBTi) to guide their emissions reduction

pathway which we believe is essential for emissions targets in SLB structures. However, given emissions have continued to rise since 2017 due to ongoing expansion, no inclusion of scope three targets and a weak credit view we decided not to invest. We participated in the Mercury NZ 7-year green bond certified by the Climate Bond Initiative. Mercury is one of four integrated electricity companies in New Zealand with 100% of generation from renewables and 51% owned by the New Zealand Government. The bond refinances a mix of geothermal and wind assets. The certification seeks to filter out geothermal plants that are deemed high emitters. All five geothermal plants fall into the low emitting category generating less than 100gCO<sub>2</sub>/kWh.

### Socially Responsible Investments in Focus

November saw the long awaited COP26 climate summit in Glasgow. While important progress was made it was far from enough. Recognizing the urgency of the challenge, ministers from all over the world agreed to return next year with stronger targets for 2030 in order to limit global warming to 1.5 degrees Celsius. Beyond the Glasgow Climate Pact there were also commitments to curb methane emissions, to halt and reverse forest and biodiversity loss, align finance to net zero by 2050, and end international financing for fossil fuels. By the end of COP26, 151 countries had submitted new climate plans (NDC) but according to UN calculations these plans would put the world on track for 2.5 degrees by the end of the century. If you take into account countries' that committed to net zero, then the rise could be limited to 1.8 degrees, but many major emitters, including Australia, don't offer credible pathways to achieve their net-zero targets yet.

Some of the more significant developments outside the negotiations included 109 countries signing to the Global Methane Pledge to cut emissions 30% by 2030. 141 countries committed to halt and reverse forest loss and land degradation by 2030, 24 countries and a group of leading car manufacturers committed to end the era of fossil fuel powered vehicles by 2040, and 46 countries made a commitment to "accelerating effects toward the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies".

COP26 president Alok Sharma final remarks best summed up the conference "We can say with credibility that we have kept 1.5 degrees within reach but its pulse is weak. It will only survive if we keep our promises, if we translate commitments into rapid action and if we deliver on the expectations set out in this Glasgow Climate Pact to increase ambition to 2030 and beyond."

Closer to home, NSW Parliament passed the Plastic Reduction and Circular Economy Act 2021, which brings closer the end of single use plastics, including bags, straws, cotton buds, plates, bowls and cutlery with the phase out from June 2022. Treasurer and Minister for Energy and the Environment Matt Kean stated "NSW Government will spend \$356m over the next five years to deliver NSW Plastics Action Plan and the NSW Waste and Sustainable Materials Strategy 2041". "The legislation is expected to stop single use items ending up in our natural environment and waterways over the next 20 years"

### Outlook

The global economy continues to recover, albeit somewhat unevenly. High energy prices and tight product markets have lifted inflation. Tight labour markets and more persistent core inflationary pressures have built in North America, UK and New Zealand. US inflation lift has been persistent enough for the Federal Reserve Chair to abandon the inflation description as being

transitory. Australian, European and Chinese inflation pressures have largely been energy related.

Major central banks have commenced the path to removing the COVID-19 emergency monetary policy settings. The velocity of bond purchase programs has reduced. Expectations of interest rate rises has been brought forward. This has induced a liquidity vacuum that has contributed to higher yields, and a disruption to leveraged "carry trades" utilized by hedge funds and similar operators.

The emergence of the Omicron strain has introduced a new source of uncertainty. The associated fall in oil prices, and thus headline inflation pressures have led long dated bond yields to fall modestly to around 1.70%. Wholesale lockdowns are unlikely, given the political will has evaporated. With the recovery unlikely to be derailed and quantitative easing to cease in Australia and overseas in early 2022, the trend for slightly higher bond rates is likely to reassert. Indeed, there is a chance for a prolonging in pipeline pressures from more production delays given the recent increase in border restrictions.

We believe there may be a case for the first cash rate increase in mid-2023, should wages pick up quicker than expected. Considerably more has been factored in (the implied first-rate increase in February 2022). Accordingly, we find significant value in the current pricing short dated yields, remain overweight. The abandoning of YCC at the November RBA meeting has little long-term implications.

We have increased our exposure to inflation linked bonds, on the basis that realized headline inflation is likely to be above the 2% break even yield (at the time of writing). Importantly, we expect the rise in energy costs to further lift headline inflation. As discussed, other supply chain disruptions are lingering longer than had been anticipated with the lower Australian dollar adding to imported inflation pressures. We are monitoring is the lift in domestic industrial action. Any broad-based wage pressures are supportive of the inflation linked strategy.

### Sector Profile

Asset Class	Portfolio %	Benchmark %
Australian Commonwealth Government	9.31	28.62
Semi-Government	17.91	13.07
Supranationals	12.52	4.67
Industrials	14.10	2.17
Financials	20.07	1.31
Asset Backed	10.49	0.00
Money Market	0.00	0.00
Agencies	11.39	0.15
11 am	1.83	0.00
Cash at Bank	2.39	0.00
RBA Cash	0.00	50.00

### Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	46.45	33.28
AA+ to AA-	32.96	14.19
A+ to A-	10.99	1.38
BBB+ to BBB-	9.60	1.15
RBA Cash	0.00	50.00

### Top 20 Issuers

Issuer	Portfolio %	Benchmark %
Nationl Housing Fin Invnt	11.03	0.06
Australian Government	9.38	27.22
New South Wales Treasury Corp	7.75	3.34
Commonwealth Bank Aust	4.10	0.08
Treasury Corp Victoria	3.79	2.87
Queensland Treasury Corp	3.69	3.12
Inter-American Devel Bk	2.90	0.31
ANZ Banking Group	2.64	0.13
European Investment Bank	1.81	0.44
Asian Development Bank	1.79	0.39
Woolworths Group Ltd	1.68	0.06
Landwirtsch. Rentenbank	1.62	0.40
Wesfarmers Ltd	1.50	0.02
Intl Bank Recon & Develop	1.46	0.35
Aust Capital Territory	1.42	0.25
Royal Bank Of Canada/Syd	1.33	0.01
Bank Of Queenslandtd	1.25	0.01
National Australia Bank	1.24	0.15
OCBC Sydney	1.23	0.00
Mirvac Group Finance Ltd	1.21	0.02

### Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	1.50	0.76
Modified duration (years)	3.67	2.92

### Fund snapshot

APIR code	AUS0071AU
Inception date	21 Nov 2014
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$228.81m
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.



### Ratings / Awards



---

## Contact us

[australianunity.com.au/wealth](https://australianunity.com.au/wealth)

[australianunitywealth@unitregistry.com.au](mailto:australianunitywealth@unitregistry.com.au)

### Investor Services

T 1300 997 774 F 1300 856 685

### Adviser Services

T 1300 997 774 F 1300 856 685

### Important Information

Units in the Altius Sustainable Bond Fund are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. Information provided here is general information only and current at the time of publication and does not take into account your objectives, financial situation or needs. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the Product Disclosure Statement (PDS) and seek professional financial and taxation advice. The PDS is available at [australianunity.com.au/wealth](https://australianunity.com.au/wealth) or by calling our Investor Services team on 1300 997 774. Past performance is not a reliable indicator of future performance. This information is intended for recipients in Australia only. Not to be reproduced without permission.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

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. The Responsible Investment Certification program does not constitute financial product advice. Neither the Certification symbol nor RIAA recommends to any person any financial product is a suitable investment or that returns are guaranteed. RIAA does not hold an Australian Financial Service License.

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.

The Zenith Investment Partners ("Zenith") Australian Financial Services License No. 226872 rating (assigned June 2021) referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at: <http://www.zenithpartners.com.au/RegulatoryGuidelines>

The rating issued 08/2021 is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445 (Lonsec). Ratings are general advice only, and have been prepared without taking account of your objectives, financial situation or needs. Consider your personal circumstances, read the product disclosure statement and seek independent financial advice before investing. The rating is not a recommendation to purchase, sell or hold any product. Past performance information is not indicative of future performance. Ratings are subject to change without notice and Lonsec assumes no obligation to update. Lonsec uses objective criteria and receives a fee from the Fund Manager. Visit [lonsec.com.au](http://lonsec.com.au) for ratings information and to access the full report. © 2021 Lonsec. All rights reserved.