Altius 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.

Performance as at 30 April 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	0.56	(1.12)	0.57	1.71	1.94	2.47	3.62
Benchmark	0.29	(1.11)	(0.49)	2.57	2.33	2.85	3.47
Excess to benchmark	0.27	(0.01)	1.06	(0.86)	(0.39)	(0.38)	0.15

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

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 systems 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.

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	6.13	28.02
Supranationals	8.89	4.82
Industrials	17.94	2.18
Financials	22.12	1.57
Asset Backed	9.26	0.00
Agencies	10.46	0.13
11am	0.75	0.00
Cash at Bank	0.90	0.00
RBA Cash	0.00	50.00
Semi Government	23.54	13.28

Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	36.88	32.77
AA+ to AA-	31.97	14.65
A+ to A-	15.43	1.39
BBB+ to BBB-	15.71	1.19
RBA Cash	0.00	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 year	5.96	54.95
1 - 3 years	33.00	9.75
3 - 5 years	19.99	9.87
5 - 7 years	13.11	8.80
7+ years	27.95	16.63

Top 10 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Crp	13.20	3.01
National Housing Finance & Investment Corp	10.05	0.04
Australian Government	6.19	27.16
Treasury Corp Victoria	4.75	2.75
Queensland Treasury Corp	4.28	3.30
Asian Development Bank	3.86	0.38
UBS AG Australia	2.68	0.04
Bank Of Queensland Ltd	2.09	0.01
Royal Bank Of Canada (Syd)	2.09	0.01
Intl Bk Recon & Develop	2.06	0.30

Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	1.14	0.60
Modified duration (years)	4.06	2.93

Fund snapshot

APIR code	WFS0486AU
Inception date	14 Jun 2011
Distribution frequency	Quarterly
Minimum initial investment	$5,000
Fund size (net asset value)	$145.51m
Management fee*	0.46% 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.

Ratings / Awards

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