

# Altius 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.

### Performance as at 31 August 2021

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Total return	(0.26)	0.27	(0.51)	1.58	1.62	2.27	3.32	3.53
Benchmark	0.05	1.29	0.61	2.60	2.18	2.74	3.32	3.50
Excess to benchmark	(0.31)	(1.02)	(1.12)	(1.02)	(0.56)	(0.47)	0.00	0.03

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

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 1.84 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.

### 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	2.76	28.84
Supranationals	15.62	4.65
Industrials	14.76	2.09
Financials	16.23	1.38
Asset Backed	12.57	0.00
Agencies	12.52	0.14
11am	0.90	0.00
Cash at Bank	1.02	0.00
RBA Cash	0.00	50.00
Semi Government	23.62	12.90

### Ratings Exposure

Rating	Portfolio %	Benchmark %
AAA	46.65	33.38
AA+ to AA-	30.55	14.09
A+ to A-	9.55	1.38
BBB+ to BBB-	13.25	1.15
RBA Cash	0.00	50.00

### Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 year	6.09	53.94
1 - 3 years	26.60	8.71
3 - 5 years	21.38	9.41
5 - 7 years	20.13	11.49
7+ years	25.80	16.44

### Top 10 Issuers

Issuer	Portfolio %	Benchmark %
New S Wales Treasury Crp	12.78	3.25
Nationl Housing Fin Invnt	12.04	0.05
Treasury Corp Victoria	4.86	2.81
Asian Development Bank	4.53	0.40
Queensland Treasury Corp	3.68	3.00
Inter-American Devel Bk	3.58	0.32
Australian Government	2.78	27.36
Intl Bk Recon & Develop	2.44	0.34
Aust & Nz Banking Group	1.93	0.13
Mcdonalds Corp	1.66	0.00

### Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	1.12	0.47
Modified duration (years)	1.84	3.01

### Fund snapshot

APIR code	WFS0486AU
Inception date	14 Jun 2011
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$122.32m
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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