

# Altius Green Bond Fund (Retail Units)

Fund Update  
**30 April 2024**

The Green Bond Fund's purpose is to invest in green, sustainable and social bonds, with the primary aim of targeting investments that contribute to lowering carbon emissions. It is aligned with Australian Unity's values to create positive impact.

## Performance as at 30 April 2024

	1 mth %	3 mths %	1 yr %	Since inception % p.a.
Gross total return	(2.17)	(1.21)	(0.54)	(2.51)
Net total return	(2.20)	(1.31)	(0.94)	(2.89)
Benchmark	(1.98)	(1.18)	(0.73)	(2.49)
Excess to benchmark	(0.22)	(0.13)	(0.21)	(0.40)

Inception date for performance calculations is 28 June 2021.

Gross total returns are calculated before fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Net total returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Benchmark is the Bloomberg AusBond Composite 0+Yr Index.

Excess to benchmark is calculated on Net total return.

## Portfolio Performance and Activity

April was a tough month for markets with bonds globally having their worst month in 2024. This was partly due to the growing evidence of the stickiness of inflation and the resilience of the US economy. There were also fears about Geopolitical tensions in the Middle East which spooked oil markets, adding to inflationary concerns. Over the month domestic yield increased 0.45% on three-year bonds to finish at 4.04% while 10 years rose 0.46% to close at 4.42%. This was a similar story in the US where 10-year Treasuries rose 0.47% to 4.68%. One of the biggest changes over the month was the market's pricing of central bank policy. In Australia, the market removed all expected easing of policy for 2024, with the first fully priced easing not expected until November 2025. Again, this was a similar story in the US markets with only one easing priced for 2024, a far cry from the six easings priced in the early part of the year. The fund's duration was largely unchanged over the month finishing at 5.18 years.

Locally, the RBA didn't meet in April which placed increased emphasis on local economic data and global events. Data was lacklustre in the first half of the month but was followed by a mixed employment release, with the unemployment rate falling to 3.8%, better than expected but driven by a fall in the participation rate rather than an increase in actual employment, which fell - 6.6k. The game changing piece of data was the higher-than-expected inflation print late in the month. All measures exceeded markets expectations with the RBA's preferred measure, trim mean inflation, coming in at 4% annually, down from 4.2% but the quarterly number reaccelerated, rising by 1%. The slow fall in the annual rate and the quarterly re-acceleration confirmed the market's fear about the stickiness of inflation. Equally concerning was the breadth of the rise with the largest contributors being education, childcare, medical and new dwelling and rent prices. Interest rates rapidly rose following the inflation release with three- and 10-year bonds increasing 0.20% and 0.14%

respectively. This was followed by many economists pushing out their easing forecasts into 2025.

Inflation and a changing Federal Reserve commentary on monetary policy were the dominant themes for the US and in-turn the global markets. April began strong with the S&P closing at an all-time high on the last day of March, however, this strength was short-lived. Early in the month Fed Chair Powell noted that recent data did not "material change the overall picture" however this view slowly changed as the data started to present a stronger-than-expected outlook. As an example, US payroll data released on April 5th was up 303k, well above expectations, leading to a fall in the unemployment rate to 3.8%. This was followed by a stronger-than-expected monthly inflation print of 0.4%, leading to an unchanged annual core inflation of 3.8%. The concern about inflation was clear as markets pushed out the timing of any policy easing. Fed Chair Powell provided markets confirmation of their thinking as he noted on April 16th that "The recent data have clearly not given us greater confidence and instead indicate that is likely to take longer than expected to achieve that confidence" about inflation. By the end of April, the US two-year note had reached 5%, a level not seen since November 2023.

Markets also contended with increased Geopolitical risk in April. With Iran launching a drone and missile attack on Israel on April 13th, marking the first direct attack on Israel soil by Iran. This saw both oil and the VIX (volatility index) spike higher with concerns of a wider escalation. Oil reached \$92bbl and the VIX closed at 19.33, the high of 2024. However, as tensions eased, oil prices began to fall, closing at \$87.86.

A mixed month for credit markets with soft equity markets and Geopolitical concerns weighing on spreads for the first half of the month before recovering all the lost ground to finish largely unchanged. Financial spreads of the Australian Big 4 closed unchanged with three and five years at 0.70% and 0.88% while

their subordinated debt performed well to close at 1.75%, 0.09% tighter. Corporate spreads saw limited tightening with the single A and BBB sectors finishing at 1.20% and 1.45% respectively.

Limited primary issuance over April overset widening pressures that were experienced in the first half of the month. A total of just \$2.45bn of Financial and Corporate issuance occurred in April, well down on 2024 monthly averages. Sydney Airport returned to the domestic market after being absent for a few years, issuing \$850m to April 2024. The deal saw a total order book of \$2.1bn but fell away to a final order book of \$1.8bn after the price was revised down from a spread of 1.60% to 1.47%, leaving the deal pricing inside comparable offshore levels. With the deal offering little value at primary we withdraw our order. This was followed by Vicinity Centres issuing \$500m to April 2024. Again, the deal was well supported with \$1.5bn of interest with the initial spread being lowered to 1.50% from 1.60%. Finally, the Bank of Queensland issued \$900m of a dual-tranche five-year transaction at a margin of 1.28%, which offered value versus its secondary trading lines.

A major development for the domestic market was the announcement that S&P had completed its review on BICRA (Banking Industry Country Risk Assessment) for Australia and now assessed the institutional framework at its lowest risk level globally. This resulted in Major Bank Tier 2 debt being upgraded to single-A from BBB+ and moved it in line with Moody's. This saw spreads narrow by around 0.10% to 1.75% following the announcement. The improved rating also opened a wider investor base with several banks noting that Korean insurers started buying Major Bank USD Tier 2 paper for the first time.

April was another busy month for the securitization markets with a total of \$5.8bn of issuance. In the residential mortgage space, Suncorp Bank's Apollo transactions were notable. It was the group's first securitised transaction post the Tribunal's overrule of the ACCC decision to block the ANZ merger. The transaction saw the three-year AAA piece price at 1.05%, 0.05% inside peers Bendigo Bank and Bank Of Queensland, which was the tightest print of the past two years. The Asset-Backed market continued to see strong issuance volume from Non-Bank originators, including \$1.035bn at 1.30% from Allied Credit, 500m at 1.25% from Latitude and \$701m from Volkswagen's Driver program. All transactions saw a solid level of oversubscription highlighting positive investor sentiment. We continue to see value in the prime AAA mortgage market and participated in the Apollo transaction.

## **Socially Responsible Investments in Focus**

### **Sustainable debt market activity:**

Year to date global Green, Social, Sustainability, and Sustainability-Linked Bond (GSSB) issuance has reached \$418 billion, about 10% higher than in 2023, with the move away from more subjective Sustainability-Linked Bonds toward "use of proceeds" bonds continuing in 2024.

### **Australia Mandates Climate Reporting for Large Companies:**

Australian companies will be required to file mandatory climate reports starting from 2025. This aligns with growing global pressure on businesses to disclose their exposure to climate risks and their plans for transitioning to a net-zero economy. Of most relevance to debt investors are disclosures of material climate-related financial risks or material climate-related financial opportunities.

### **SEC Clarifies Scope 3 Emissions Disclosure for US Companies:**

The US Securities and Exchange Commission (SEC) has confirmed that its new climate disclosure rules won't mandate quantitative

reporting of Scope 3 emissions (those generated throughout a company's value chain). Although the SEC may require qualitative information about these emissions, this is potentially a missed opportunity for comprehensive climate transparency.

### **Science-Based Targets Initiative Embraces Offsets:**

The Science Based Targets initiative (SBTi) has expanded its framework to include carbon offsetting as a strategy for companies to achieve net-zero emissions. This is a significant shift for the SBTi, which previously focused on emissions reduction within a company's own operations. This change could boost the voluntary carbon market although the vexed issue of verifying the quality of carbon offset projects remains.

### **Standardization Efforts Advance for Nature-Related Disclosures:**

The Taskforce on Nature-related Financial Disclosures (TNFD) and the Global Reporting Initiative (GRI) are collaborating to improve the interoperability of their respective reporting frameworks. This collaboration aims to streamline the process for companies to disclose their environmental impact, potentially making it easier for sustainable debt investors to compare different issuers.

### **Australia Considers Green Tech Tax Breaks:**

The Australian government is exploring tax changes to incentivize domestic production of clean energy technologies. This policy shift could accelerate the development and deployment of renewable energy and energy efficiency solutions, potentially creating new investment opportunities in sustainable infrastructure projects.

### **Weak Enforcement Hinders Progress on Australian Environmental Laws:**

The Federal government has delayed indefinitely the pass-through of reforms to the Environment Protection and Biodiversity Conservation Act (EPBC Act), stalling momentum for climate action. The government had committed to an ambitious Nature Positive Plan, which included the creation of an independent regulator, the Environment Protection Australia (EPA), to administer Australia's national environment laws, make significant changes to biodiversity offsetting, threatened species protections, and planning and approval processes. A data authority known as the Environment Information Australia (EIA) would also be established to be the source of trusted national environmental data and information. Reforms to the EPBC Act would importantly introduce new national environmental standards and protections, critical to the implementation of the Nature Positive Plan. Nevertheless, Environment Minister Tanya Plibersek outlined only the establishment of the EPA and the EIA, whilst reforms to the EPBC were pushed out with no time frame specified.

## **Outlook**

Inflation is expected to ease over time but the nonlinear path to continue. It is important to look through the market extrapolation of short term inflation outcomes.

Outside of infrastructure spending, fiscal policy is broadly consolidative. Australian household consumption growth has been particularly weak as high inflation and the earlier rises in interest rates have affected real disposable income. Discretionary spending has virtually stopped while some level of savings maintenance has occurred. This is consistent with falling discretionary spending inflation.

Australian inflation is being driven by non-discretionary items. Rising insurance costs, domestic flood inspired damage to crops and infrastructure are persistent contributors to the inflation

outcome.

Australian "asking rents" are tracking at 8.4 per cent – higher than measured rents currently in the CPI. The significant population growth and shortage of housing supply mean rents will still have an upward bias to the CPI going forward.

Annual resets that come into effect at the start of the year contributed significantly to the higher-than-expected lift in inflation. Tertiary and secondary education fees, medical and other health cost caps, (many indexed to the previous year's inflation increase), were key drivers.

The cumulative negative 7.5% real wage growth of the last three years likely sees wage negotiations attempt to claw back the loss of disposable income. Wage increase pressures should remain elevated – though not acute – over a longer time horizon.

The higher inflation outcome effectively leaves the Reserve Bank with a bias to lift cash rates. Although largely factored into markets, we don't believe this will be delivered on.

Many of the "key swing factors" behind the inflation lift were a result of annual resets. Definitionally these are unlikely to be repeated. Moreover, global oil prices, having lifted 25% during the early part of 2024 have retraced 9% this quarter. With a lag, this should elicit a disinflationary pulse in some key sectors, that wages also react to at the margin.

The Reserve Bank do not wish to tip the Australian economy into recession or cause long-term damage to the labour market, but inflation remains the primary focus while above target. It is therefore inflation expectations and outcomes that are expected to be the main driver of interest rate markets, though this will weaken the domestic economy. We expect bond yields to trade in a relatively wide range with current yields somewhat elevated.

US exceptionalism is adding complexity. The US economy is benefitting from the fiscal expansion and onshoring associated with the Inflation Reduction Act. Ultra-low mortgage rates that have been locked in previously and so most consumers have been barely squeezed (relatively) by the lift in borrowing rates. US real wages were only briefly negative, during COVID, and are once again positive, thus underpinning growth without a wage response needed to (lift) purchasing power.

Inflation has actually increased in the US over the last 10 months. This has led the market to remove six times twenty-five basis points of rate cuts over 2024. It was largely the expectation of US rate cuts, that had led many other markets to factor in easing cycles. This correction and the consequent lift in many sovereign yield curves toward more appropriate levels.

The range on Australian long-dated bonds is expected to oscillate around a midpoint in 10-year Australian sovereign bonds of 4.0%. The portfolio strategy is to actively manage duration settings; incrementally increasing duration above 4.0% or decreasing duration accordingly.

With cash rates above 4% over the immediate investment horizon, there is significant benefit of attractive accrual across the yield curve and capital gains from roll down on fixed-rate corporate bonds.

The extension of a low volatility environment correlates bullishly (via reduced risk premia) with higher-yielding corporate bonds converging with – and outperforming – sovereign bonds with a preference is for short-dated financials.

A further measure of value that we find in the high-grade corporate market is related to the yield on the Australian Corporate

Index is higher than the dividend yield of Australian stocks as defined by the ASX 200. To illustrate at the time of writing, the CBA dividend yield is around 3.8%. By comparison, the higher-ranking CBA (10NC5) subordinated bond yields above 5.75%.

### Sector Profile

Asset Class	Portfolio %	Benchmark %
Supranationals	20.35	8.16
Industrials	12.14	4.64
Financials	14.58	4.76
Asset Backed	2.68	0.00
Agencies	10.46	1.40
11AM	5.93	0.00
Cash at Bank	1.33	0.00
Sovereigns	0.00	50.01
Semi Government	32.54	31.03

### Ratings Exposure

Rating	Portfolio %	Benchmark %
A	11.99	3.08
AA	49.06	31.85
AAA	32.64	62.12
BBB	6.31	2.95

### Portfolio Summary Statistics

	Portfolio	Benchmark
Yield to maturity (%)	4.62	4.56
Running yield (%)	3.13	
Modified duration (years)	5.18	4.94

### Fund snapshot

APIR code	AUS9041AU
Inception date	28 Jun 2021
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$195.77m
Management fee*	0.40% p.a. expressed as a percentage of the net asset value of the Fund
Buy/Sell spread	0.05%/0.05%

\*Refer to the Fund's Information Memorandum 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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