Affirmative Global Bond Fund

Monthly report 31 March 2019

Key facts

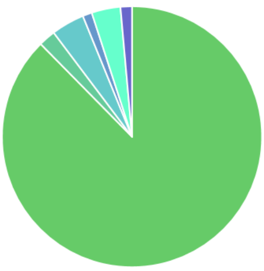
Fund inception date	6 April 2018
Liquidity	Daily
FUM	AUD 25.9m
Benchmark	Bloomberg Barclays Global Aggregate (hedged to AUD)

Characteristics

	Portfolio	Benchmark
Modified duration (years)*	5.33	7.03
Average maturity (years)	5.87	8.85
Yield to maturity (unhedged) (%)**	2.21	1.77
Yield to maturity (hedged) (%)†	2.20	2.50
Average coupon (%)	2.24	2.69
Average rating	AA-	AA-
Number of bonds	59	NA
Annualised tracking error (%)††	-	NA

* Modified duration is the weighted average duration of the portfolio, taking into account potential future interest rate changes.
**Yield to maturity is the estimated annual rate of return that would be received if the Fund's current securities were all held to their maturity and all coupons and principal were made as contracted. Excludes cash and FX.
†Hedged yield is an estimate calculated using: normal yield (bond market weightings x yield in each bond market) + hedged yield (interpolated yield of the forwards as of the hedged date x weight of currency hedged).
††Tracking error is ex-post and will not be populated until a year has passed since inception of the fund.

Impact bond allocation



*When held SPECTRUM Aligned bonds relate to issuers that deliver products or services in a range of sectors, where at least 50% of revenues are generated from sectors aligned with eligible sectors (green, social, and sustainable) and there is a clear commitment in the issuers' strategy or mission to achieving UN SDGs. All other bonds are in our core SPECTRUM universe, where SPECTRUM is a label for our proprietary in-house analysis which we use to verify impact bonds.
**These are bonds that we have independently verified as having a positive environmental or social impact, despite not being self-labelled as a green/social/sustainable bond by the issuer.

Top 5 issuers

Fund	Weight (%)
Kommunalbanken AS	8.80
European Investment Bank (EIB)	8.31
Nederlandse Waterschapsbank N.V.	7.51
Ontario, Government of	4.35
Westpac Banking Corporation	3.97

Investment objective

The Affirmative Global Bond Fund seeks to simultaneously create a positive and verifiable environmental and social impact, whilst targeting a total return in excess of the benchmark after fees over rolling three year periods, in support of the UN Sustainable Development Goals and the global COP 21 Climate Change Accord.

Performance

	1mth	3mth	6mth	1yr	2yrs	3yrs	5yrs	ITD
Fund (gross) (%)	1.59	3.26	4.46	-	-	-	-	4.51
Fund (net of fees) (%)	1.55	3.12	4.18	-	-	-	-	3.95
Benchmark (%)	1.74	2.79	4.50	-	-	-	-	4.64
Excess return* (%)	(0.19)	0.33	(0.32)	-	-	-	-	(0.69)

Past performance is not a reliable indicator of future results.
*Calculated using the net of fees return.

Performance comment

The fund produced a net return of 1.55% versus a benchmark return of 1.74% during the month. Interest rate guidance impacted major currencies at the expense of the yen and led the US and euro market yield curves to flatten, hampering returns for the month of March. In absolute terms, the decline in bond yields supported returns. This is due to the fund's underweight in the Japanese bond market, as returns lagged other major markets, given the already low Japanese yields. Improved sentiment towards non-government bonds continued benefiting the funds exposure to euro denominated bonds. In addition, although the average credit quality is higher in the US, the portfolio holds no government or US agency bonds which lagged. The fund has produced a net return of 3.12% against a benchmark return of 2.79% in the first quarter of 2019, giving an excess net return of 0.33% over this period. Since inception the fund has produced a net return of 3.95% with the benchmark returning 4.64% with risk aversion in May and August and December's credit market volatility impacting.

Contributors

- Underweight position in Japanese bonds
- Security selection in euro denominated bonds
- Security selection in US dollar denominated bonds

Detractors

- Yield curve positioning in the US
- Underweight position in Japanese yen
- Yield curve positioning in the euro area

Signatory of:

Green bond fund of the year managed by AIM

Environmental Finance Green Bond Awards 2018 Winner

cfi.co 2016 BEST GREEN BOND TEAM WINNER UK

US SIF MEMBER 2018

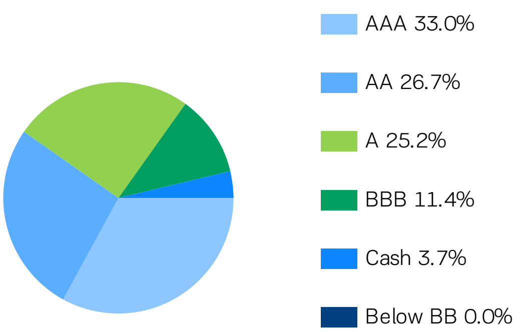
CERTIFIED BY RIAA

CARBON YIELD

Market update

Bond yields fell as concerns linger about global economic health and attendant monetary policy impacts. Although the decline of business surveys witnessed in 2018 has been arrested in the most recent months, central banks are implying caution. The European Central Bank (ECB) indicated an interest rate rise is unlikely this year and the US central bank revealed a median expectation of one interest rate increase this year compared to three forecast in December. The ECB also announced a new targeted long-term lending facility for banks, for later this year, replacing existing soon to expire measures. Central bank policy encouraged investors to purchase non-government bonds, benefiting yield spreads of credit product after late 2018's volatility. Issuance volumes continue to be firm in 2019, bolstered by the first tap of the Belgian government issue. German state NRW issued a sustainability bond in excess of €2bn as it extends its yield curve of impact bonds. The month predominantly featured repeat issuers including Société du Grand Paris, which is the first issuer with an entirely green borrowing programme. The recent trend of US companies borrowing continued with issues from utility and real estate companies. The Swedish krona market continues to be well populated, a notable issue being the first green bond by Electrolux, which also reflects the growth of sectoral diversity. Impact bond issuance has reached US$54bn in the first quarter of 2019, exceeding the first quarter issuance of 2018 by US$28bn.

Credit rating allocation



Weights are absolute
Values may not sum exactly to 100% due to rounding

Portfolio positioning

Although issuance volumes have increased in the first quarter of 2019, there was little change to the portfolio during March. The number of bonds issued is higher than at the same time last year but strong demand for credit product as yield differentials tighten has seen new issue concessions minimise, leaving a number of the issues less attractive versus outstanding bonds. The portfolio retains a strong credit quality and is positioned to benefit from continued global expansion.

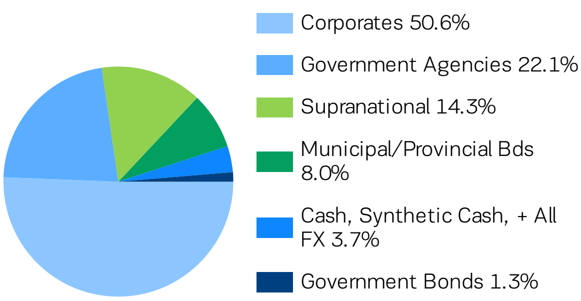
Overall, the fund is underweight weighted duration by 1.8 years, predominantly due to our underweight position in Japan.

The moderation of business surveys witnessed in 2018 appears to have abated in the early part of the year. The monetary environment in major economies having become more supportive and growing hopes the US and China are nearer to resolution of trade disputes should act as further support for economic outlooks. Business surveys show the Japanese economy to have slowed and thus nominal growth continuing to be weak as inflation remains very low. This has left interest rates very low across the yield curve undermining the currency valuation and leaving a preference for other major bond markets with higher yield levels and steeper yield curves. A reacceleration of global activity through a reduction of risks and the supportive monetary environment should be beneficial for emerging economies. Currency valuations have become more attractive on a medium term basis and prudent policy making in many countries should allow the economies to benefit in an upswing which had previously been led by developing economies. Whilst the fund is fully hedged back to the Australian Dollar, it holds small active overweight positions in some emerging market economies currencies, including the Mexican Peso, the South African Rand and the Malaysian Ringgit (1.4%, 1.1%, and 3.9% respectively).

Outlook and strategy

First quarter global activity remained significantly slower than the 4% pace of mid-2018. The US central bank has paused its rate rises, in line with adjusted market rate expectations. Europe has slowed more sharply, with Germany's factory sector a focus for concern. European Central Bank President Draghi commented on the persistence of uncertainties in Europe and stressed substantial monetary policy stimulus remains essential. China's activity has also slowed, though it may soon stabilise. The Chinese debt burden and global trade tensions remain a worry for global markets. With the headwind from tariffs and weaker global trade, US growth is not as supportive to other economies as traditionally in recoveries. With real yields having again fallen, even a muted global expansion implies risk to higher yields from current levels. Yield increases could be slow and uneven as investor confidence weakens at each attempt from central banks to normalise monetary policy. The increase of corporate bond yields versus government rates in the last quarter of 2018 has now been largely reversed. We still expect them to revert to the earlier pattern of slow widening, but the higher yields of corporates should be supportive of medium-term returns.

Sector allocation



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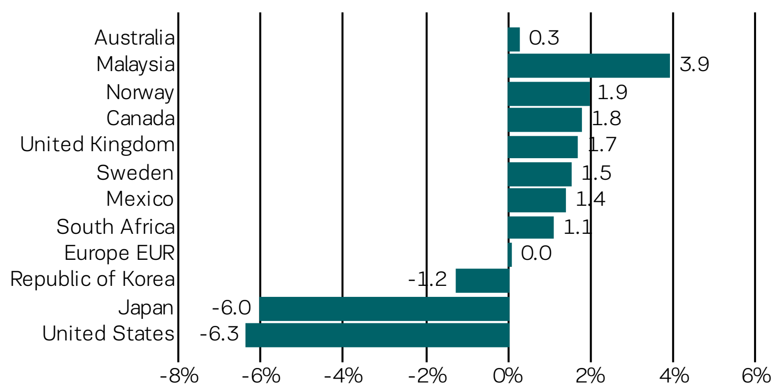
Currency allocation



The benchmark is 100% hedged to AUD

Affirmative Global Bond Fund

Quarterly portfolio impact update Q1 2019

Affirmative Investment Management

Impact reporting

At AIM, in accordance with issuers annual reporting cycles, we produce a comprehensive annual impact report detailing the environmental and social impacts of our portfolios based on data collected throughout the year via engagement with issuers. The following quarterly update is a forward-looking snapshot showing expected impacts of the portfolio.

Engagement

Over the first quarter, we have started our impact reporting data collection, in addition to the roadshow meetings which are used to answer our individual general information requests.

An example of our engagement resulting in issuer improvement would be the SMFG green bond. Previously we had advised that SMFG could improve their green bond impact reporting by disclosing proceeds allocation by geography across technologies (e.g. a breakdown of wind investments geographically) and green bond investment adjusted impact key performance indicators (KPI), such as pro-rated CO_2e emissions avoided based on SMFG lending share.

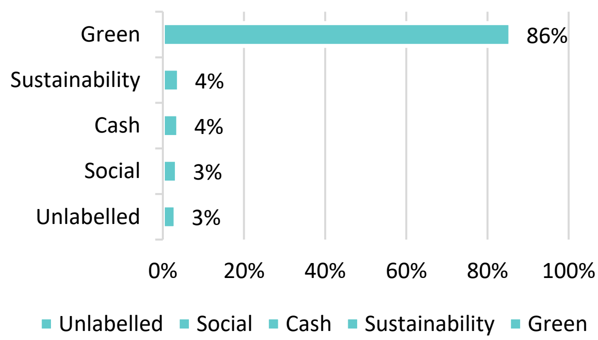
We strongly seek to limit impact double counting, including presenting pro-rated KPIs where possible. This is not currently a norm in the market however we continue to advocate.

Portfolio information
Top 5 impact bond frameworks

Name	Average weight during Q1 2019
KBN Green Bond	8.8
EIB Climate Awareness Bond	8.3
NWB Green Bond	7.5
Bank of China Green Bond	4.7
Ontario Province Green Bond	4.4

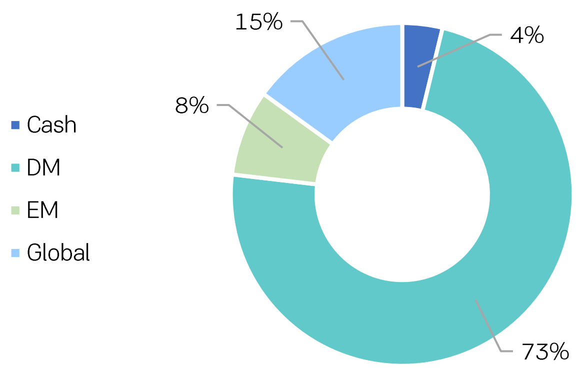
Distribution by bond type

(% of portfolio holdings since inception to 1Q19)



Expected projects
Geographic distribution

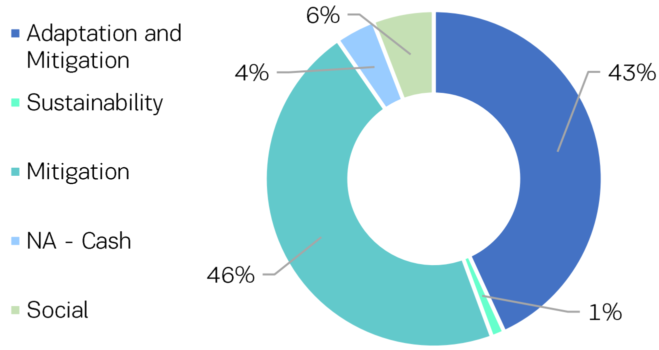
(% of portfolio holdings since inception to 1Q19)



Since inception, the portfolio has been invested in impact bonds with a developed market focus, such as Kommunalbanken (KBN) Green Bond, a Norwegian local authority funding body supporting Norway's transition to a climate-resilient, low-carbon society. European Investment Bank funds renewable energy and energy efficiency projects globally, and NWB green bond framework promotes water-themed projects in the Netherlands, such as flood protection and water management. Another major holding, Ontario Province green bond framework funds infrastructure projects in Canada, whereas Bank of China's green bond framework aims to fund renewable energy, infrastructure, clean transportation and water management projects.

Expected projects
Impact goal distribution

(% of portfolio holdings since inception to Q1 2019)



Reflecting the heavy concentration of the portfolio in green bonds, the majority of the portfolio supports climate change mitigation and adaptation (89%), most closely related to SDG 7 - affordable and clean energy, and SDG 13 - climate action. The portfolio primarily supports climate mitigation focussed activities, those that help reduce greenhouse gas emissions (for example, renewable energy generation and energy efficiency improvements in buildings).

Impact bond highlight
ADIF Alta Velocidad Green Bond

As with all impact bonds included in our investment universe, ADIF Alta Velocidad was internally verified and met our in-house proprietary SPECTRUM criteria, covering expected positive social and/or environmental impacts, sufficient transparency and reporting and issuer responsibility, amongst other factors. ADIF issued its first green bond in 2017 and has since issued another green bond. ADIF is a Spanish state-owned public corporate entity, which operates under the supervision of the Ministry of Development, responsible for the construction and management of the High-speed rail network of Spain.

ADIF's green bond proceeds are earmarked for constructing infrastructure for mass rail transport. Reducing environmental impact by increasing railway infrastructure is impactful, considering the tremendous role transport emissions have with global greenhouse gas emissions.

Rail infrastructure (classified as "infrastructure" in the AIM sector taxonomy) is a key component of the SPECTRUM universe investable sectors.

ADIF Alta Velocidad Green Bond
Sector distribution

The eligible sectors are 100% in Mass Rail Transport

(2017 Impact Report, categorised by AIM)

ADIF Alta Velocidad holdings

Issue date	Size	Maturity date	ISIN
April 2018	EUR 600m	May 2026	ES0200002030

Example Project
Madrid-Levante High Speed Line

ADIF Alta Velocidad has drawn up a Strategic Plan for the coming years, which is strongly linked to the UN Sustainable Development Goals (SDGs). The plan has three pillars: security, service, and sustainability. To achieve this strategic framework, ADIF has pursued initiatives to fight climate change, incorporated circular economy projects, applied ecological purchasing criteria, and strengthened the environmental monitoring system. Their green bond project portfolio is another tangible manifestation of their pursuit.

One of the projects being funded through their green bond is the Madrid-Levante high speed railway line. The current high-speed line from Valencia and Alicante is in operation, and the next steps of the Madrid-Levante project relate to continuing on the sections of Monforte del Cid-Murcia and La Encina-Xativa-Valencia. Particularly the signalling systems and electrification have been focussed on.

The project requires external investment of 16.25 million EUR over 30 years and is expected to deliver significant time savings for passengers. The time savings over 30 years (for all passengers) equal 283,178 hours, which implies annual 9,439 hours savings. In addition, the Madrid-Levante project will be able to deliver 95.51 million passenger-kilometres over 30 years (1 passenger-kilometre implies transporting one passenger over one kilometre). This in turn implies 3.18 million passenger-kilometres annually.

The greenhouse gas emission savings of the project are substantial. Over a 30-year period, the Madrid-Levante high speed line is expected to reduce 3.90 million tons of CO2e. This equals 129,944 tons of CO2 reductions every year over a 30-year period.

The project delivers benefits in improving connectivity and transport links in Spain, as well as climate mitigation impacts.

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

13 CLIMATE ACTION

89% of the portfolio supports climate change mitigation and adaptation

Further Information

To find out more about this Fund, please contact your local Business Development Manager, Adviser Services on 13 18 36 (8am to 7pm Sydney time) or visit colonialfirststate.com.au/investments

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