Affirmative Global Bond Fund

Monthly report 30 June 2019

Key facts

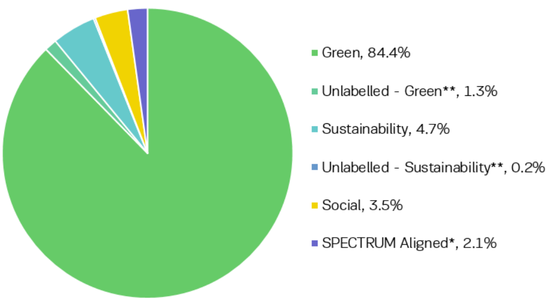
Fund inception date	6 April 2018
Liquidity	Daily
FUM	AUD 26.6m
Benchmark	Bloomberg Barclays Global Aggregate (hedged to AUD)

Characteristics

	Portfolio	Benchmark
Modified duration (years)*	5.35	7.08
Average maturity (years)	5.88	8.84
Yield to maturity (unhedged) (%)**	1.80	1.48
Yield to maturity (hedged) (%)†	1.73	1.38
Average coupon (%)	2.19	2.67
Average rating	AA-	AA-
Number of bonds	63	NA
Annualised tracking error (%)††	0.98	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.

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 (%)
European Investment Bank (EIB)	8.42
Kommunalbanken AS	8.96
Nederlandse Waterschapsbank N.V.	7.11
Asian Development Bank	4.88
Ontario, Government of	4.36

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) (%)	1.56	2.79	6.14	7.57	-	-	-	5.98
Fund (net of fees) (%)	1.52	2.65	5.85	6.98	-	-	-	5.40
Benchmark (%)	1.29	2.68	5.55	7.23	-	-	-	6.00
Excess return* (%)	0.23	(0.03)	0.30	(0.24)	-	-	-	(0.59)

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

Performance comment

As yields dropped and bond prices rose, the fund rose over 1.5% in absolute terms in June. Credit yield differentials versus government bonds contracted, notably in Europe, supporting returns in the month. On a relative basis the fund has performed well in 2019, outperforming the benchmark by 0.30%. As interest rate expectations went into reverse, the US bonds market performed well, but the currency underperformed almost all other currencies. Similarly, Japan lagged most other markets as the currency fared less well than in recent months and already low bond yields constrained local market returns.

Contributors

- Underweight position in Japanese bonds
- Overweight position in euro
- Overweight group of smaller hi-beta currencies (Canadian dollar, Norwegian krone, Swedish krona, Malaysian ringgit)

Detractors

- Security selection in Canadian bonds
- Underweight position in Japanese yen
- Security selection in European BBB bonds

Signatory of:

Market update

Bond yields continued lower as geopolitical tensions got worse and eroded confidence in the economic outlook worldwide. The US-China trade disagreement, tension in Europe and the Middle East were the main headwinds, and led to markets pricing in interest rate cuts rather than hikes.

The supply of new impact bonds coming to market - to fund green, social and sustainable investment - continues to grow. At mid-year they are rapidly approaching the annual totals of the prior two years. Several issuers returned with sizeable issues, including French rail operator SNCF Reseau and Spanish bank BBVA. These helped the euro remain the preeminent currency of issue, accounting for more than half of volumes in June as well as the year to date. Sovereign issuance continues with Chile becoming the first Latin American nation to borrow in the impact bond market, launching green issues in both US dollars and euros totalling in excess of \$2bn. The South Korean government also entered the markets with a sustainability bond.

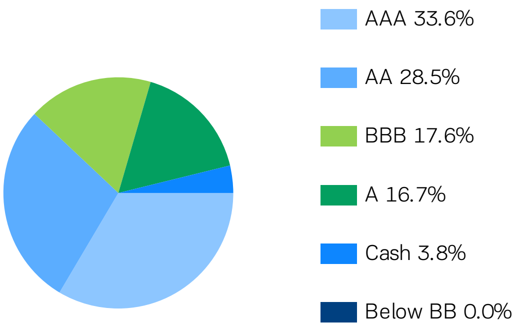
Portfolio positioning

We expect tensions to ease and markets to recover confidence in the outlook for growth, but we continue to believe it will be a halting, slow recovery, especially in Japan and to a lesser extent Europe. The portfolio has benefitted from broad credit spread tightening this year and remains tilted towards selected, attractively valued bonds that offer extra yield for the same credit risk. We continue to hold an underweight weighted duration position (1.78 years), predominantly in Japan. We also hold a small overweight and underweight weighted duration position in the Eurozone and the US respectively.

Outlook and strategy

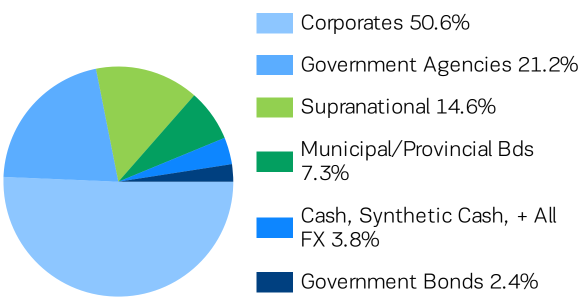
There has been a substantial turn around in the outlook for short term US interest rates during the course of 2019, which has driven global bond yields lower. We see limited scope for further price increases in bonds from hereon, especially if global economic data holds up in the USA. The decline in the Manufacturing Purchasing Managers' Index in June, combined with protectionism, has temporarily dented confidence that US recovery can support wider global improvements. Recovery from the deep 2008 economic crisis continues but is proving even slower and more difficult than expected. Markets are very nervous, but this may be overdone. Signals from the Presidents of the US and European central banks imply dangers are recognised and there is a determination to act decisively if necessary. Financial conditions currently remain supportive for the corporate sector. Yield differentials versus government bonds could widen further, but slowly allowing the higher corporate yields to be supportive of medium-term returns.

Credit rating allocation



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

Sector allocation



Weights are absolute
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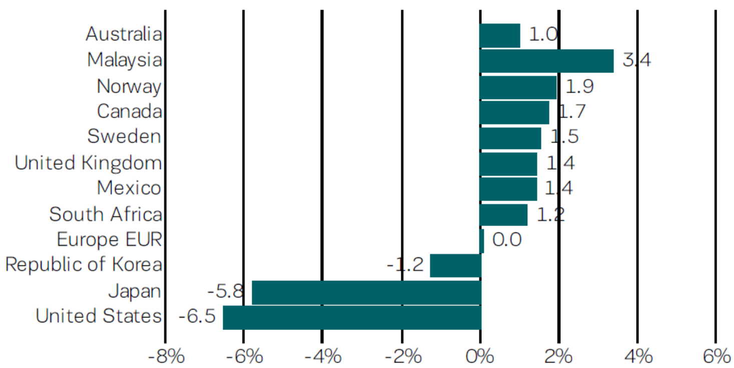
Currency allocation

Active FX Exposure (MV%)



The benchmark is 100% hedged to AUD

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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