

COVID-19 Market Update

24 March 2020



Australian Fixed Interest Funds

Funds managed by Altius Asset Management and Australian Unity

Altius Bond Fund

Altius Sustainable Bond Fund

Altius Asset Management is Australian Unity's fixed interest manager. Its fixed interest portfolio comprises government bonds, high quality investment-grade corporate bonds and cash and short-term securities.

Fixed interest markets, including even the safest sovereign bonds, have experienced unprecedented levels of volatility during the past week with investors liquidating their bond holdings for the perceived safety of cash to meet liquidity requirements and/or fund redemptions.

As a result of the disorderly behaviour in government debt markets, the Reserve Bank of Australia (RBA) on Thursday of last week intervened to address the liquidity stresses facing commonwealth government securities by explicitly nominating their preferred yield for the three-year bond (a target of 0.25%).

The RBA also announced its intention to intervene in the commonwealth bond market to buy from the market (via reverse tender) longer dated commonwealth and semi-government bonds. There is no volume or time limit on this measure with the overriding objective to improve market functionality.

Concurrently, the RBA is working closely with Australian banks to support their corporate bond issuance which make up a significant portion of Australia's overall bond market index and therefore, investors fixed interest holdings.

Despite some early signs of order returning to government bonds, not all areas of the fixed interest market are functioning effectively and trading costs for impatient investors wanting to liquidate are high.

Some funds, (such as index funds and ETFs) appear to be selling "safer" government bonds to generate enough liquidity to meet investor withdrawals. In line with this, we are also seeing fixed interest managers increase their buy/sell spreads in response to the current volatility and to put in place a system to make sure there is a fair sharing of costs between trading and existing investors.

Given the volatility in the current market and trading liquidity constraints in some products, we have introduced a sell spread of 1% for the Altius Bond Fund and Altius Sustainable Bond to provide fairness for all investors.

Outlook and Altius approach for managing market volatility

Commonwealth Government Bonds

Altius continues to use duration in its portfolio management and at this time our portfolio is long Commonwealth Government Bonds in anticipation that long-dated bonds will re-gather liquidity post the RBA's intervention last week.

This allocation is a proactive strategy to preserve investors capital, as central banks globally take unprecedented steps to restore liquidity to bond markets.

Corporate Bonds

Altius has a high-quality portfolio of investment-grade corporate bonds, which includes major Australian and international banks, regional banks, technology companies and listed property trusts.

We believe the banking sector's continued resilience will be critical for supporting Australia, and Australians through this crisis and we are seeing the Government take proactive steps to support the banking system to assist individuals and communities at this time. Likewise, technology companies will continue to play a critical role in keeping communities, businesses and individuals connected during this crisis.

One area we are watching closely is the listed property trust market which has seen significant market declines during the previous fortnight. The reason for the sell-off particularly in the retail sector, is uncertainty about the impact of the crisis on some tenants, associated rent reductions and lease agreements. Due to our diversified approach to portfolio management, the fund exposure to this sector is small.

The other market we are watching closely is the Government's earmarked legislative changes on the treatment of bankruptcies and insolvencies. Should such legislation provide businesses with relief from needing to declare bankruptcy and alleviate the need for fire sales and liquidation, this may support the performance of Australian corporate bond and equity markets until businesses can resume trading when the Coronavirus crisis ends.

With bonds experiencing levels of volatility more commonly associated with equity markets, if you don't need access to your investment in the near future, holding or deferring withdrawals until markets re-gain more normal levels of liquidity for these high-quality defensive assets, will avoid unnecessary trading costs.

Further information

If you have any questions, please contact one of our Business Development Managers below. Alternatively, you can speak with our Adviser Services team on **1800 649 033** or email investments@australianunity.com.au.

James Torrens | NSW/ACT/QLD/SA | 0422 424 614 | JTorrens@australianunity.com.au
Aaron Hallifax | VIC/TAS/WA | 0431 615 809 | AHallifax@australianunity.com.au

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