



ETHICAL INVESTMENT FIXED INCOME PORTFOLIO

A diversified portfolio of fixed income assets, obtained through investments in Lonsec approved funds which include environmental and socially responsible investments in Australian and international fixed income assets and cash.

Quarterly Performance Update – 30 June 2021

The Fixed Income portfolio returned **0.52%** over the past quarter. Australian and Global Fixed Income have begun to bounce back following the negative performance witnessed in the first quarter of 2021. The negative returns were due to the fast and large rise in government bond interest rates, which at one stage had more than doubled in the space of a couple of months. Since then, global yields have generally traded sideways because of ongoing inflationary uncertainty and central bank's monetary response.

During the previous quarter we saw global and Australian fixed income indices, including the Bloomberg Global Aggregate and AusBond Composite Bond Index, fall 2.52% and 3.22%, respectively. This quarter, both indices recorded positive returns of 0.94% and 1.52%, respectively, but have still seen negative returns of 0.17% and 0.84% over the past year. The Fixed Income portfolio has also seen a negative return of 0.47% for the year, broadly in line with market indices for the period.

Since its inception around 18 months ago, the Fixed Income portfolio has recorded a positive return of 0.99%. This was lower than the benchmark return of 2.44%, however this underperformance was due to the generally poor returns from bonds over the past few months, while at the same time inflation has actually spiked following the improvement in economic conditions. Over the long-term, and in more 'normal' market conditions, we would expect the fund to outperform the benchmark of inflation plus 1%.

At its July meeting, the RBA left the cash rate unchanged at 0.1%, and reaffirmed their commitment to maintaining highly supportive monetary conditions until at least 2024 when inflation is expected to be within the 2-3% target.

The best performing underlying managed fund by far was the **Australian Ethical Fixed Interest Fund** (1.38%), while the **PIMCO ESG Global Bond Fund** (0.82%), the **Affirmative Global Bond Fund** (0.59%) and the **Altius Sustainable Bond Fund** (0.38%) all performed reasonably well. The only investment to fall in value was the **BetaShares Sustainability Leaders Diversified Bond ETF** (-0.10%).

The overall performance of the portfolio compared with the benchmark, inflation (CPI) plus 1%, is outlined below:

Periods to 30 June 2021	Since Inception	1 Year	6 months	3 months
Ethical Investment Fixed Income Portfolio	+0.99%	-0.47%	-2.00%	+0.52%
CPI +1%	+2.44%	+2.35%	+1.08%	+0.54%
Relative Performance	-1.45%	-2.82%	-3.08%	-0.02%

Managers we Invest in

PIMCO

ALTIUS

BetaShares

AIM Affirmative Investment Management

ae **australianethical**

Portfolio Changes

No changes were made to the Fixed Income portfolio during the quarter.

Sustainability and Impact Updates

This section highlights the positive ethical and sustainable impacts generated within the portfolio.

The **Affirmative Global Bond Fund** invests around 67% of its portfolio in green bonds, supporting climate change mitigation and adaptation. Bonds are used to fund environmental projects such as Fingrid's Green bond framework (Finland's national electrical grid operator), providing finance for the construction and reconstruction of the transmission network with the aim of decreasing network losses and enhancing transmission capabilities for clean energy.

Another example is Volvo's Green Financing which provides funding for investments in zero emissions vehicles. Other bonds in the fund include Social bonds, which fund essential services such as healthcare, social buildings and employment.

Early 2021 has seen a surge in the issuance of Sustainability Linked Bonds (SLBs) and impact bonds matched by strong demand, highlighting the growing importance of sustainability factors for investment decision making.

The **Altius Sustainable Bond Fund** invested in the new National Housing Finance and Investment Corporation (NHFIC) bond. After issuing three transactions under the social bond format, NHFIC issued its first sustainability bond.

While still delivering finance for social and affordable housing, this funding will incorporate environmental criteria for the projects covered by the bond. NHFIC is providing finance to community housing (Victoria) for four development projects. The key environmental initiatives will include a Nationwide House Energy Rating Scheme (NatHERS) performance 7-star average; 6-star minimum for individual apartments, Green star 5 minimum for build rating (excellent), renewable energy supply through solar panels, water saving devices and charging stations for future electric car use.

The property sector is estimated to contribute 23% of Australia's greenhouse gas emission with around half coming from residential, largely as a result of heating, cooling, ventilation, lighting and hot work. A NatHERS 7-star ratings materially exceeds the minimum standard for the National Construction code leading to lower emissions.

Key Facts

Platform Availability

Hub24 (Super & IDPS, Core & Choice)
WealthO2 (Super & IDPS)

Portfolio Fee

0.308% pa GST Inclusive

Estimated Costs of Underlying Investments

0.59% pa GST Inclusive

Avoided Investments



Oil



Tobacco



Weapons



Heavy
Polluters



Gambling



Coal

Targeted investments



Healthcare



Recycling



Education



Sustainable
Technologies



Clean Energy

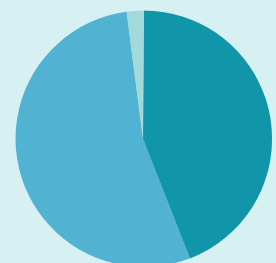


Aged Care

Investment Objective

The fund aims to provide a well-diversified exposure to fixed income assets with a low-cost, low-risk investment strategy that aims to exceed the benchmark of CPI plus 1% per annum.

Asset Allocation



- AUSTRALIAN FIXED INCOME 39%
- INTERNATIONAL FIXED INCOME 59%
- CASH 2%

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The Investment Management Fee shown includes GST and is net of any Reduced Input Tax Credits (RITC). Please also refer to the IDPS Guide/Super PDS and the relevant disclosure document for the managed portfolio for more information on the fees and other costs.

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