

# Aberdeen Standard Inflation Linked Bond Fund

Monthly factsheet - performance data and analytics to 31 August 2019



## Investment objective

To provide investors with a level of long term protection against inflation. This is achieved through value added active investment in a quality diversified portfolio of primarily Australian inflation linked bonds and annuities. The Fund aims to outperform the Bloomberg AusBond Government Inflation Index 0-10 Yr Index over the suggested investment time frame (3 years plus).

## Investment strategy

To aim to consistently add value by managing interest rate risk, choosing the best securities based on relative value and adjusting credit exposure to sectors and individual securities.

## Performance (%)

|   | 1 Month | 3 Months | 1 Year | Per annum |         |                              |
|---|---------|----------|--------|-----------|---------|------------------------------|
|   |         |          |        | 3 Years   | 5 Years | Since Inception <sup>1</sup> |
| Aberdeen Standard Inflation Linked Bond Fund net returns <sup>2</sup>   | 0.18    | 0.71     | 4.93   | 2.70      | 3.00    | 6.89                         |
| Aberdeen Standard Inflation Linked Bond Fund gross returns <sup>3</sup> | 0.21    | 0.80     | 5.31   | 3.07      | 3.37    | 7.24                         |
| Bloomberg AusBond Government Inflation Index 0-10 Yr Index              | 0.22    | 1.16     | 6.12   | 3.13      | 3.30    | 6.90                         |
| Net returns <sup>2</sup> vs index                                       | -0.04   | -0.45    | -1.19  | -0.43     | -0.30   | -0.01                        |
| Gross returns <sup>3</sup> vs index                                     | -0.01   | -0.36    | -0.81  | -0.06     | 0.07    | 0.34                         |

1. This figure represents the annualised performance of the Fund from the first full month of operation.

2. Net performance figures are calculated using end-of-month exit prices, post standard fees, reflect the annual reinvestment of distributions and make no allowance for tax. If investing through an IDPS Provider, the total after fees performance returns of your investment in the Fund may be different from the information we publish due to cash flows specific to your portfolio and any fees charged by the IDPS Provider.

3. Gross performance figures are calculated using end-of-month exit prices, pre-fees, reflect the annual reinvestment of distributions and make no allowance for tax. These returns are provided for the purpose of wholesale investors only. Retail investors should refer to net returns.

Please note: Prior to 1 May 2009 the Fund was known as the Credit Suisse Inflation Linked Bond Fund.

On 1 July 2012 the benchmark for the Fund changed to the UBS Government Inflation Index (<10 years). Prior to 1 July 2012 the benchmark for the Fund was the UBSA Government Inflation Index.

On 29 September 2014 the benchmark was renamed due to the acquisition of UBS Australia bond indexes by Bloomberg Indexes.

Past performance is not a reliable indicator of future results.

## Performance review

The Fund returned 0.21% in August (before fees), underperforming the benchmark by 0.01%.

Positive contributions:

- Overweight US duration
- US Treasury / German Bunds convergence trade
- Overweight credit linkers

Negative contributions:

- Inflation strategies
- US curve steepener
- Underweight AU duration

## Sector holdings (%)

|                         | Fund  |
|-------------------------|-------|
| Cash & Cash Equivalents | 6.24  |
| Government              | 55.35 |
| Semi Government         | 9.57  |
| Corporate               | 29.58 |
| Supra/Sovereign         | 0.00  |
| Financials              | 8.78  |
| Non-Financials          | 14.50 |
| Asset-Backed            | 6.30  |
| CDS                     | 0.00  |
| Swaps                   | -0.74 |

Figures may not always sum to 100 due to rounding.

## Interest rate exposure profile

|               | Modified Duration Contribution |
|---------------|--------------------------------|
| 0 - 6 Years   | 3.41                           |
| 6 - 10 Years  | 1.72                           |
| 10 - 15 years | 0.00                           |
| 15 Plus       | 0.13                           |

## Credit rating profile (%)

|      | Fund  |
|------|-------|
| AAA  | 71.41 |
| AA   | 8.65  |
| A    | 14.69 |
| BBB  | 0.00  |
| <BBB | 0.00  |
| A-1+ | 3.96  |
| Cash | 1.29  |

Figures may not always sum to 100 due to rounding.

## Yield to maturity (%)

|                        | Fund |
|------------------------|------|
| Yield to Maturity (%)* | 0.42 |

\* Real yield that excludes expected inflation accrual

## Key information

|                       |   |
|-----------------------|---|
| APIR Code             | CRS0008AU   |
| Benchmark             | Bloomberg AusBond Government Inflation Index 0-10 Yr Index  |
| Date of launch        | July 1994   |
| Income payable        | 30 June and 31 December   |
| Management costs      | 0.48% pa of the net asset value of the Fund comprising:<br>Management Fee 0.36% pa<br>Indirect costs 0.12% pa |
| Buy/Sell spread       | +0.15%/-0.25%   |
| Fund size             | A\$50.63m   |
| Redemption unit price | \$1.0380  |

Client Services: 1800 636 888  
aberdeenstandard.com.au

# Aberdeen Standard Inflation Linked Bond Fund

## Monthly factsheet - performance data and analytics to 31 August 2019

### Performance Commentary:

Credit strategies delivered a positive performance with corporate inflation-linked bonds outperforming government inflation-linked securities. Royal Women's Hospital 2033s and Wyuna Water 2022s were notable contributor to performance, while JEM Southbank 2035s detracted.

Interest rate strategies were positive for performance, while inflation positions detracted from performance. Our preference for longer-dated US treasuries added value, while underweights to Australian duration hurt. The sharp surge in risk aversion on the back of increased trade tensions resulted in relatively high-yielding US Treasuries outperforming developed-market peers, such as Australian and German bonds. The portfolio increased its defensive positioning during the month by increasing duration and introducing a US Treasury / German Bund spread narrower. These two positions benefited from the risk-off move. However, the US curve steepener underperformed and was subsequently closed.

### Strategy changes – Interest Rates:

- Increased duration exposure
- Introduced US Treasury / German Bund spread narrower
- Closed US curve steepener

Fed chief Jerome Powell's characterisation of the recent rate cut as a "mid-cycle adjustment" meant that the US curve steepener was no longer considered defensive. As a result, the fund replaced this position with a US Treasury / German Bund spread narrower, which should perform under heightened market volatility.

(Note – Flattener: preference for longer dated assets over shorter tenor bonds; Steepener: preference for shorter dated assets over longer tenor bonds. E.g. A 2s 10s curve steepener expresses a preference for 2 year over 10 year bonds)

### Market review

"Buy bonds, wear diamonds" is a quip that has been doing the rounds on social media over the last few months. Not quite institutional-level investment advice, but very effective if you had followed it in August. Bonds had a solid month, with regime-breaking falls in yields delivering stellar returns to investors positioned on the safe side. Naturally, Donald Trump played a starring role as his volte-face on Chinese trade negotiations caught markets offside. With economic data prints confirming that global corporates are turning off the spending taps during this period of heightened uncertainty, the prolonged effects of the trade war are starting to be priced into markets.

It was notable that during the month, Trump had initially looked to gift US consumers an early Christmas present in the form of deferred tariff implementation, which the market viewed as a major concession. Trump also met with multiple industry leaders to discuss the impact of tariffs, including Tim Cook of Apple (not "Tim Apple", as Trump referred to him during the press conference). The good vibes were put to bed with news of new Chinese tariffs, a devaluation of the Chinese yuan and a flurry of retaliatory tweets.

US 10-year Treasury yields fell from 2.0% to 1.5% over the course of August. Shorter bonds rallied to a lesser degree, leading to a flattening of the yield curve. Australian 10-year government bonds slid by 0.3% to yield 0.9% at month-end after having outperformed in prior months. Gold had another solid session, advancing 8% to the highest level in six years, while copper, a decent proxy for global industrial production, fell 5%. Emerging market currencies fell around 4% after the yuan devaluation, with the Australian dollar falling just 2%.

Despite the strong safe haven bid, risk assets stayed relatively solid. After trading in a saw tooth pattern, the S&P 500 fell just 2% and US investment-grade credit spreads widened by just 0.12% during August. Australian credit spreads were flat, delivering small but positive excess returns versus government bonds. Australian swap spreads tightened, which is typically a 'risk-on' kind of price action, while the index credit-default swap contract widened by only 0.04%. This was a very resilient performance considering iron-ore prices fell from USD120/t to around USD90/t. Investors focused on the improvement in domestic property dynamics, where auction clearance rates increased significantly as East Coast house prices rose once again.

Client Services: 1800 636 888  
aberdeenstandard.com.au

# Aberdeen Standard Inflation Linked Bond Fund

Monthly factsheet - performance data and analytics to 31 August 2019

## Outlook

Our macro outlook is dominated by two factors –the uncertainty emanating from the US-China trade relationship and easier global financial conditions.

The recent G20 Summit concluded with an uneasy truce but details, as is often the case with Donald Trump, remain scarce. A trade resolution between the US and China remains an upside scenario, resulting in a positive skew to our yield forecasts. In the base case, however, we don't expect any swift resolution of global trade tensions. This will continue to weigh on global economic activity and delay the recovery that we expected earlier in 2019. These dynamics have led central banks to proactively intervene to ease financial conditions, shielding their respective economies from shocks to confidence and investment. We expect the Fed to deliver rate cuts in 2019, and the ECB will remain on hold for the foreseeable future.

In Australia, policy is easing on multiple fronts: monetary, fiscal and macro-prudential. The RBA cut the cash rate in June and we expect another cut in 2019. Further tax cuts are expected to be passed in July, supporting household disposable income. Australian Prudential Regulation Authority has also proposed to lower the debt serviceability test for mortgage holders, offsetting the reduced borrowing capacity of households following closer scrutiny of expenses and harsher enforcement of debt-to-income limits in 2018. Collectively, these policies represent a notable easing of policy to support Australian households; lowering the interest rate burden, releasing disposable income and stabilising house prices. Since the re-election of the coalition government, auction clearance rates have recovered and house prices have stabilised. In the absence of a sharp rise in the unemployment rate, household consumption should gradually recover. Elsewhere, the mining sector is doing well and supporting gross domestic income. With increasing likelihood of infrastructure investment in China (supporting the domestic economy while the trade war remains in place), the growth in national income is sustainable and will be a tailwind. Overall, these policies are reflationary, pinning down real yields at the front end, while supporting longer-term inflation expectations.

The dovish tilt of global central banks underpins the desire for excess spread and reinforces a carry/roll focus for global investors. Given where government bond yields are, credit spreads are an increasingly meaningful contributor to the overall yield on a corporate bond. Global default rates remain very low while revenue/earnings growth is positive, albeit at a much lower level than 2017/18. Given Trump's repeated references to the S&P 500 as being some kind of proof of his presidential prowess, we think that it is unlikely that the current trade spats deteriorate into an all-out war that hurts equities, particularly in the lead-up to the 2020 US election. However, we do acknowledge that we are late-cycle and do not want to be overextending into relatively illiquid parts of the credit spectrum at this juncture.

We continue to dynamically dial up/down our active credit position with liquid instruments, while maintaining a greater proportion of higher-quality credit in funds (we have increased our allocations to AAA-rated state government and supranational bonds).

## Important information

Issued by Aberdeen Standard Investments Australia Limited ABN 59 002 123 364 AFSL No. 240263. Aberdeen Standard Investments is a brand of the investment businesses of Aberdeen Asset Management and Standard Life Investments. This document has been prepared with care, is based on sources believed to be reliable and opinions expressed are honestly held as at the applicable date. However it is of a general nature only and we accept no liability for any errors or omissions. This is not an offer of securities. A Product Disclosure Statement (PDS) and application form is available for each Fund by calling Aberdeen Standard Investments Client Services on 1800 636 888, at [www.aberdeenstandard.com.au](http://www.aberdeenstandard.com.au), or from your financial adviser. This document has been prepared without taking into account the particular objectives, financial situation or needs of any investor. Investments are subject to investment risk, including possible delays in payment and loss of income and principal invested. It is important that before deciding whether to acquire, hold or redeem an investment in a Fund that investors consider the Fund's PDS, the Fund's appropriateness to their own circumstances, objectives and financial situation and consult financial and tax advisers. Past performance is not a reliable indicator of future results. All dollars are Australian dollars unless otherwise specified. Indices are copyrighted by and proprietary to the issuer.

ABDNILB\_0819

## Contact us

Telephone:  
1800 636 888 or +61 2 9950 2853  
if calling from outside Australia  
Email:  
[client.service.aust@aberdeenstandard.com](mailto:client.service.aust@aberdeenstandard.com)  
Website:  
[aberdeenstandard.com.au](http://aberdeenstandard.com.au)