Aberdeen Standard Inflation Linked Bond Fund

Monthly factsheet - performance data and analytics to 30 April 2019

Aberdeen Standard Investments

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 (%)

				Per annum		
	1 Month	3 Months	1 Year	3 Years	5 Years	Since Inception[1]
Aberdeen Standard Inflation Linked Bond Fund net returns[2]	0.75	1.41	4.68	2.84	3.20	6.90
Aberdeen Standard Inflation Linked Bond Fund gross returns[3]	0.78	1.50	5.06	3.21	3.57	7.24
Bloomberg AusBond Government Inflation Index 0-10 Yr Index	0.54	1.77	5.02	3.05	3.45	6.88
Net returns[2] vs index	0.21	-0.36	-0.34	-0.21	-0.25	0.02
Gross returns[3] vs index	0.24	-0.27	0.04	0.16	0.12	0.36

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 0.78% in April (before fees), outperforming the benchmark by 0.24%.

Both interest-rate and credit strategies contributed to performance. Within rate strategies, inflation protection, US curve steepener, and short duration bias in Germany added to performance. However, our positioning for higher yields in Australia at the front end of the curve partially offset the gains. Following lower than expected consumer price index (CPI), the market has brought forward rate cut expectations. We have since closed the position in Australia and now expect rate cuts from the Reserve Bank of Australia (RBA) over the next six to twelve months. Overall, interest-rate strategies added value.

Credit strategies also added to performance. Inflation linked credit spreads tightened against equivalent tenor inflation linked government bonds. Rabobank 2020s, Commonwealth Bank of Australia 2020s, and Royal Women's Hospital Finance 2033s were notable outperformers. The fund also managed to secure a rare but solid credit inflation-linked security, Australian Gas Networks. It had a modest mark-to-market impact on performance.

Sector holdings (%)

	Fund
Cash & Cash Equivalents	1.88
Government	60.08
Semi Government	9.29
Corporate	29.12
Supra/Sovereign	0.00
Financials	8.80
Non-Financials	14.10
Asset-Backed	6.22
CDS	0.00
Swaps	-0.36

Figures may not always sum to 100 due to rounding.

Interest rate exposure profile

	Modified Duration Contribution
0 - 6 Years	2.88
6 - 10 Years	1.50
10 - 15 Years	0.24
15 plus	0.00

Credit rating profile (%)

	Fund
AAA	75.81
AA	7.83
A	14.48
BBB	0.00
<BBB	0.00
A-1+	0.00
Cash	1.87

Figures may not always sum to 100 due to rounding.

Yield to maturity (%)

	Fund
Yield to Maturity (%)*	0.71

* 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: Management Fee 0.36% pa Indirect costs 0.12% pa**
Buy/Sell spread	**+0.15%/-0.25%**
Fund size	**A$50.80m**
Redemption unit price	**$1.0377**

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Market review

In the first quarter, the Australian bond market was hurt by the release of weak inflation report. The consumer price index fell to the lowest sequential rate on record, at an average 0.2% quarter-on-quarter. This news overshadowed the small improvement in consumer confidence and firm employment gain in March and market priced in a potential cash rate cut in May.

In offshore markets, macroeconomic developments were positive. In the US, core capital goods orders, which lead business investment, improved and retail sales recovered. However, consumer price inflation remained muted. The Federal Reserve Chair Powell communicated a sanguine assessment of low inflation and disappointed the market, which was expecting a more dovish signal. Most of the positive economic surprises came from China, notably an increase in industrial production and faster export growth. The Eurozone continued to lag with a weak purchasing managers' index.

Bond yields drifted marginally higher in the first half of the month and thereafter retreated to varying degrees. This follows several months of an uninterrupted downtrend in yields. Reflecting the above-cited country-specific factors, Australian bonds outperformed their counterparts, notably in bunds and in the US. Short-dated 3-year Australian bond yields ended the month at 1.28%, 11 basis points below their previous month's level. Risk assets had another positive month amid a backdrop of broadly dovish central bank policy. The Australian fixed-income sector delivered a modest positive return with the steepening of the Australian yield curve and a tightening in corporate bond spreads.

Outlook

In contrast to employment data, the national accounts report suggested that income and consumption were sluggish in the second half of 2018. Not surprisingly, we witnessed low inflation in the first-quarter of this year. As a result, the RBA is likely to shift to a clear easing bias and could eventually follow with monetary easing. This comes at a time when the Chinese economy is improving and the US is stabilising. We are constructive about the prospects for the global economy and expect the recent loosening in financial conditions to be supportive. As such, we anticipate a rise in bond yields for much of the developed markets. In Australia, this will be limited by RBA stance. However, the Australian dollar will continue to benefit from a secular downtrend in current account surplus and positive dynamics for risk assets globally.

We expect the trade dispute between China and the US to end with an agreement, which will be positive for growth globally and reduce policy uncertainty. It is likely that the Eurozone will be the last economy to respond positively as it lags improvements in China. The threat of tariffs on the Eurozone by the US is also likely to remain for longer.

Credit endured an exceedingly tough 2018 and started 2019 at attractive valuation levels relative to the last few years. However, we do not believe that 'the last few years' is the optimal yardstick for assessing relative valuation in 2019 as these years encompassed globally-coordinated quantitative easing from major central banks and record low yield and credit spread levels, and as a result artificially suppressed default rates. We now have a Fed funds rate in the mid-2s that not only impacts core global yield levels (and in turn refinancing rates for corporates) but also the hedging costs for the large overseas buyers of US investment-grade credit that drove 2017s issuance boom. Global economic growth has slowed and our expectation is that US corporate earnings will continue to meaningfully decelerate in 2019. Taking these factors into account, valuations could best be described as fair, but the recent rally in spreads is starting to make this harder to justify. We continue to believe that approaching credit from a 'sell the rally' angle makes more sense than the 'buy the dip' mantra that was so powerful in 2016 and 2017. For these reasons, we will 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). Ultimately, given we expect default rates to stay low, a degree of credit overweight is warranted but at reduced scale.

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Important information overleaf

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Important information

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