

Altius Sustainable Short Term Income Fund (Retail Units)

Fund Update
31 March 2024

The Fund invests in a combination of short-term money market instruments and medium-term floating securities that are investment-grade rated. The investment process is designed to maximise returns while balancing the risk and liquidity of the portfolio.

Performance as at 31 March 2024

	1 mth %	3 mths %	1 yr %	2 yrs % p.a.	Since inception % p.a.
Gross total return	0.47	1.57	5.97	4.29	2.92
Net total return	0.45	1.50	5.65	3.98	2.61
Benchmark	0.37	1.09	4.19	3.11	2.26
Excess to benchmark	0.08	0.41	1.46	0.87	0.35

Inception date for performance calculations is 28 June 2021.

Gross total returns are calculated before fees and expenses and assumes the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Net total returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

The benchmark is the Bloomberg AusBond BankBill Index.

Excess to benchmark is calculated on Net total return.

Portfolio Performance and Activity

Credit spreads were largely unchanged over March as ongoing primary supply started to weigh on markets. While March saw limited issuance from the Major banks, momentum was retained with a mix of other Australian banks and offshore issuers. Tier 2 issuance was particularly high during March. High yielding issuers remained the favored sector as investors continued to search for yield following the strong spread performance over the quarter. The theme of steepening bank spread curves continued throughout March with Major bank short-dated securities performing well, with the one-year tightening 0.09% over the quarter, while the five-year maturity was largely unchanged at 0.90%. Despite the five-year Major curve being unchanged, price makers reported little to no selling pressure from investors. Credit risk was largely unchanged over the month with total risk of 2.08 years made up of 1.48 years of financials and corporate risk and 0.60 years of ABS risk.

Primary issuance from the financial and corporate sectors remained high in March. Financial issuance was seen from Mizuho with a 4-year deal at a margin of 0.88% with little new issue concession. This was followed by Suncorp Bank issuing for five years at a price of 0.98%, 0.08% wider than the (likely) new parent, ANZ. ING Australia debuted with a three-year deal at 0.95% while Kiwibank returned to market with a three year at a margin of 1.02%. NAB bought the largest Major bank senior

transaction issuing \$4.5bn for five years at 0.90%. Over the month the fund participated in the transactions from ING, Kiwibank and NAB.

March was another active month for Tier 2 issuance. HSBC completed \$1.5bn of a 10NC5 at 2.30% and produced a \$5.8bn orderbook, eclipsing the previous record set by Macquarie Bank in February. Westpac completed \$1.25bn of a 10NC5 deal at a margin of 1.88%, representing the tightest level since August 2021 and the largest order book by a Major bank at \$4.3bn. The two transactions took Tier 2 supply to \$8bn, the largest quarter on record. Issuance volumes started to weigh on secondary market levels with spreads moving off there mid-month low of 1.80% to finish the month around 1.87%.

Corporate issuance both locally and globally remained strong through March. Over the March quarter the US market saw \$529bn of issuance, a record for any Q1. Europe was a similar story with a record \$680bn issued. Despite the record volumes the market has been well supported by the stable interest rate outlook and solid funds inflow which saw US Investment grade spreads at their lowest level seen since 2021. It was a similar story in the local market, supply has been strong which has been met with solid order books, limited new issue concessions and strong secondary performance. Corporates issued \$6.8bn in March. This included issuance from REIT's (Region and Stockland), utilities (AusGrid, United Energy and Victorian Power Networks) and the first kangaroo corporate deal for 2024.

Contact us
australianunity.com.au/wealth/
australianunitywealth@unitregistry.com.au

Investor Services
T 1300 997 774

Adviser Services
T 1300 997 774

from Nestle, issuing \$600m for 5 and 10 years at a margin of 0.78% and 1.13% respectively.

Socially Responsible Investments in Focus

Big Oil Falls Short on Climate Disclosures: A new assessment by Climate Action 100+ reveals major gaps in climate disclosures from the world's 10 largest oil and gas companies. These companies scored poorly on metrics related to emissions reductions and future production plans, raising concerns about their commitment to net-zero goals. European companies performed better overall compared to North American peers, highlighting a regional divide in the industry's climate approach and underlines ongoing risks for investors in traditional fossil fuel companies.

<https://www.climateaction100.org/news/climate-action-100-publishes-net-zero-standard-for-oil-gas-company-assessments-alongside-analysis/>

EU Takes Aim at Biodiversity Risks: The European Commission has released a framework to help financial institutions assess and manage biodiversity risks. This framework aligns with existing environmental risk management standards and encourages institutions to quantify the financial impacts of these risks. As biodiversity loss becomes a growing concern, sustainable debt investors should look for institutions that are proactively addressing this issue. <https://www.environmental-finance.com/content/news/eu-releases-biodiversity-risk-assessment-framework.html>

ECB Cracks Down on Banks' Climate Inaction: The European Central Bank (ECB) is preparing to fine 18 banks for failing to meet expectations on climate risk management. These banks haven't properly assessed their exposure to climate-related risks, highlighting potential vulnerabilities in the financial system. Investors in sustainable debt may see this as a positive step towards a more climate-conscious financial sector. <https://www.environmental-finance.com/content/news/ecb-says-18-banks-face-fines-for-failing-to-meet-climate-expectations.html>

Canada Mandates Climate Reporting for Banks and Insurers: Canadian financial institutions will be required to report climate-related financial information in line with international standards. This includes disclosing scope 3 emissions, which are those generated throughout a company's value chain. This move by Canada strengthens transparency and accountability for financial institutions, potentially making it easier for investors to identify sustainable debt opportunities. <https://www.osfi-bsif.gc.ca/en/guidance/guidance-library/climate-risk-management>

Concerns Raised Over Nature-Based Carbon Credits: A new study by the Environmental Defence Fund questions the carbon reduction benefits of many nature-based carbon credit projects. The research suggests that some project types lack a strong scientific basis for their claimed emissions reductions. Investors in nature-based solutions should prioritize projects with robust methodologies and proven benefits. <https://www.nature.com/articles/s41558-024-01960-0>

Renewable Energy Investment Slumps in Australia: Australia's renewable energy investment has dropped significantly, jeopardizing the country's ability to meet its 2030 climate targets. This news underscores the need for urgent action to streamline approvals, expand the transmission grid, and attract investment in clean energy projects. Sustainable debt instruments could play a role in financing this transition. [https://www.afr.com/companies/energy/investment-in-](https://www.afr.com/companies/energy/investment-in-renewable-energy-slumps-80pc-as-2030-target-fades-20240312-p5fbu9)

[renewable-energy-slumps-80pc-as-2030-target-fades-20240312-p5fbu9](https://www.afr.com/companies/energy/investment-in-renewable-energy-slumps-80pc-as-2030-target-fades-20240312-p5fbu9)

US Securities and Exchange Commission (SEC) Releases Scaled-Back Climate Disclosure Rules: The SEC has finalized its long-awaited climate disclosure rules for publicly traded companies. However, the final version is less stringent than the initial proposal. Notably, only large companies will be required to disclose certain climate-related information, and scope 3 emissions reporting is not mandated. While this might be seen as a setback for comprehensive climate transparency, it could still provide valuable insights for sustainable debt investors. <https://www.sec.gov/news/press-release/2024-31>

Outlook

Global goods inflation has retreated but the tension between activity and employment data, and the trajectory of services inflation is expected to continue to manifest in oscillating market reactions. The lags in effect of earlier interest rate adjustments, the timing of data releases, and wage responses ensure a degree of volatility. The slow but nonlinear fall in inflation biases yields lower though with reasonably wide ranges.

Growth is expected to be uneven and weaker in sectors reliant on discretionary consumer activity. In Australia, discretionary spending has virtually stopped, and some degree of savings has lifted among those who can.

Unemployment remains toward 50-year lows and has lunged lower recently, though this may be reflective of the sampling and seasonality issues. While this is the case and inflation is above target, the RBA's inflation mandate remains the greater focus for monetary conditions.

The US economy is benefitting from the fiscal expansion and onshoring associated with the Inflation Reduction Act. Ultra-low mortgage rates that have been locked in previously and so most consumers have been barely squeezed (relatively) by the lift in borrowing rates. In contrast to Australia, US real wages were only briefly negative and are once again positive, thus underpinning growth without a wage response needed to (lift) purchasing power.

Key inflation differences have a further impact on monetary settings.

US inflation has eased in no small part due to new "rents" (including owner-occupied equivalent) being below-measured rents. To the extent new rents become part of measured rents, so the measured rent level falls. This segment makes up 33% of the basket; a far larger impact compared to Australia and Europe.

Australian "asking rents" are tracking at 8.4 per cent - higher than measured rents currently in the CPI. The significant population growth and shortage of housing supply mean rents will still have an upward bias to the CPI going forward, noting the rental subsidy effect was temporary.

We expect lower Australian headline inflation and a less supply-constrained labour market to allow more modest wage growth in aggregate compared to last year. But the cumulative negative 7.5% real wage growth of the last three years will likely see wage negotiations attempt to claw back the loss of disposable income. Wage increase pressures should remain elevated - though not acute - over a longer time horizon.

Rising insurance costs, and domestic flood-inspired damage to

crops and infrastructure coupled with rebounding global oil prices add some inflation pressure.

Largely reflecting a real rates argument, the US can ease cash rates but retain a restrictive bias to monetary settings. Its strong employment and somewhat uniquely solid economy should determine a cautious approach.

The commencement of a gradual US easing cycle in the middle of the year introduces a disinflationary bias through the currency channel and influences the RBA's reaction function.

We expect Australian cash rates to be eased during the fourth quarter. This reflects the higher starting point and more gradual decline of inflation.

The range on Australian long-dated bonds is expected to oscillate around a midpoint in 10-year Australian sovereign bonds of 4.0% with the expected evolution of inflation to allow long bonds to move lower to around 3.75%. The portfolio strategy is to actively manage duration settings; incrementally increasing duration above 4.0% or decreasing duration accordingly.

With cash rates above 4% over the immediate investment horizon, there is a significant benefit of attractive accrual across the yield curve and capital gains from roll down on fixed-rate corporate bonds.

The extension of a low volatility environment correlates bullishly (via reduced risk premia) with higher-yielding corporate bonds converging with- and outperforming - sovereign bonds with a preference for short-dated financials.

A further measure of value that we find in the high-grade corporate market is related to the yield on the Australian Corporate Index is higher than the dividend yield of Australian stocks as defined by the ASX 200. To illustrate at the time of writing, the CBA dividend yield is around 3.8%. By comparison, the higher-ranking CBA (10NC5) subordinated bond yields above 6%.

Fund snapshot

APIR code	AUS1392AU
Inception date	28 Jun 2021
Distribution frequency	Monthly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$407.88m
Management fee*	0.30% p.a.
Buy/Sell spread	0.05%/0.05%

*Refer to the Fund's Product Disclosure Statement for more details on the Fund's management costs which also include recoverable expenses and indirect costs. Total management costs may vary.

Sector Profile

Asset Class	Portfolio %
Industrials	5.48
Financials	69.24
Asset Backed	21.10
Money Market	1.71
11AM	2.24
Cash at Bank	0.23

Portfolio Summary Statistics

Asset Class	Portfolio	Benchmark
Yield to maturity (%)	5.12	3.92
Credit duration (years)	2.02	N/A
Modified duration (days)	22.09	45.14

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	1.88
1 - 3 Years	45.29
3 - 5 Years	39.48
30 - 90 Days	0.93
90 Days - 1 Year	12.42

Top 10 Holdings

Issuer	Senior Rating	Portfolio %
Australia and New Zealand Banking Group Limited	AA-	8.83
Westpac Banking Corporation	AA-	7.91
National Australia Bank Limited	AA-	5.79
Commonwealth Bank of Australia	AA-	5.11
Bank Australia Limited	BBB+	4.15
Bank of Queensland Limited	A-	4.04
Macquarie Bank Limited	A+	3.99
UBS AG (Australia Branch)	A+	3.59
Teachers Mutual Bank Ltd.	BBB+	3.41
Bendigo and Adelaide Bank Limited	A-	3.03

Ratings Exposure

Rating	Portfolio %
A	44.23
AA	12.14
AAA	29.41
BBB	14.23

Ratings / Awards



Important Information

Units in the Altius Sustainable Short Term Income Fund - Retail are issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454 as responsible entity of the fund. The information in this document is general information only and is not based on the objectives, financial situation or needs of any particular investor. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the current Product Disclosure Statement (PDS), Additional Information Document (AID) and Target Market Determination (TMD) and consider whether the product is appropriate for you. Copies are available at www.australianunity.com.au/wealth or by calling us on 1300 997 774 or +61 3 9616 8687 (if calling from overseas). Past performance is not a reliable indicator of future performance. This document is updated monthly and is current at the time of publishing. We may change the investment characteristics of the fund at any time. This information is intended for recipients in Australia only. Not to be reproduced without permission. This information is intended for recipients in Australia only. Not to be reproduced without permission.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (assigned June 2021) referred to in this document is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>