

## MONTHLY UPDATE – MAY 2020

**Fund Objective:** The Artesian Corporate Bond Fund (Fund) will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate corporate bonds. The Fund aims to provide returns above the RBA cash rate +2.75% throughout all interest rate cycles. Note the target return is not a forecast. It is merely an indication of what the Fund aims to achieve over the medium term on the assumption that credit markets remain relatively stable throughout the investment timeframe. The Fund may not be successful in meeting the target return. Returns are not guaranteed.

As at 31 <sup>st</sup> May 2020	FUND PERFORMANCE - CLASS B UNITS						
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	Since Inception (p.a.)
Gross Fund return	0.98%	-2.04%	-1.03%	1.29%	2.88%	3.69%	4.52%
Net Fund return	0.92%	-2.22%	-1.40%	0.54%	2.12%	2.91%	3.73%
RBA cash rate	0.02%	0.08%	0.26%	0.75%	1.12%	1.25%	1.27%
Active return (net Fund return - RBA cash rate)	0.90%	-2.30%	-1.66%	-0.21%	0.99%	1.66%	2.46%

The 1m, 3m, 6m, 1yr, 2yr, 3yr and since inception net returns for Class A Units are 0.91%, -2.27%, -1.47%, 0.40%, 1.98%, 2.78% & 3.60% respectively.

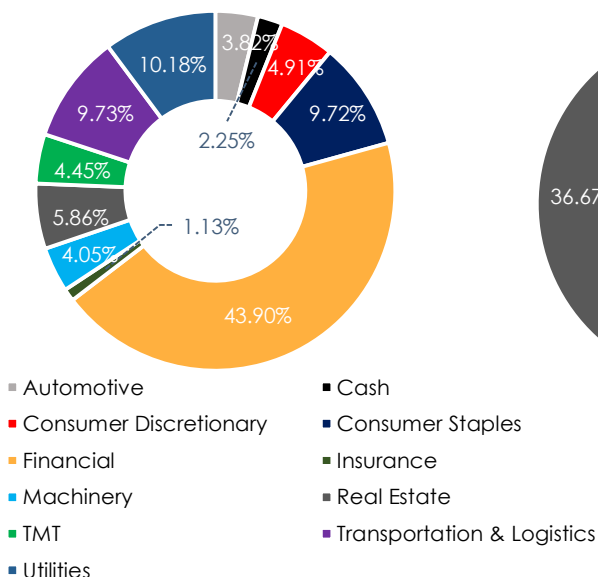
As at 31 <sup>st</sup> May 2020	OTHER BENCHMARK COMPARISONS						
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	Since Inception (p.a.)
Bloomberg AusBond Credit FRN 0+ Yr Index	0.32%	0.21%	0.64%	1.73%	2.40%	2.51%	2.60%
Bloomberg AusBond Composite 0-3 Yr Index	0.09%	0.50%	0.91%	2.14%	2.76%	2.41%	2.51%

## PORTFOLIO UPDATE

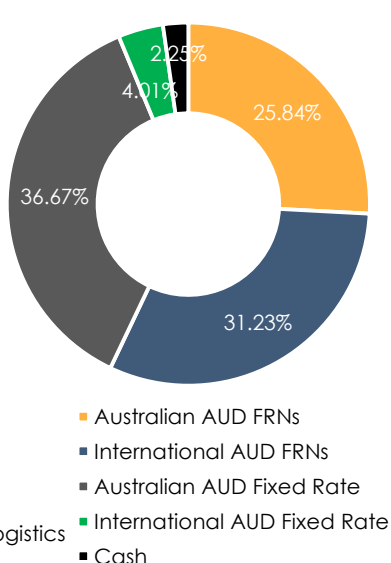
The Australian corporate bond market continues to show signs of strength, as both the supply and demand side of the market have increased significantly. In March there was no new issuance and in April issuance was limited to AAA rated covered bonds. However, in May issuance picked up significantly in domestic financials (Bank of Queensland & Macquarie Bank), international financials (UBS, Export-Import Bank of Korea, Credit Suisse, BCPE & BNP Paribas) and also, more importantly, the non-financial sector (Woolworths, Airservices Australia, BWP Trust & Spark Finance). The increased trading volume leads to greater price discovery, especially in the non-financial sector where credit spreads only began to recover from their COVID-19 wides in May. In comparison, major bank senior spreads are in some cases actually tighter than their pre COVID-19 levels. We went into greater detail on this topic on April 30th, link for that article [here](#). In that article we also highlighted that Federal Reserve eligible securities in AUD looked cheap versus their USD curves. We were positioned accordingly, which led to our position in John Deere being our best performer in May. May 15th we published another article on the value we saw in non-financials, specifically Woolworths & Coles – link to that article [here](#). Woolworths & Coles were our 2nd and 3rd best performing bonds in May. Underperformance in May came from our subordinate debt position in NAB and our position in BNP Paribas.

## PORTFOLIO BREAKDOWN

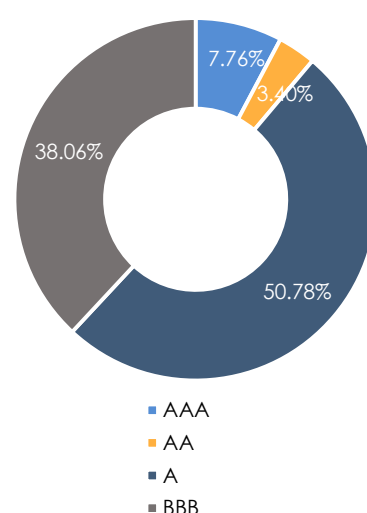
### SECTORS



### REGION & PRODUCT



### CREDIT RATING



## CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
iTraxx Australia 5yr	1.03%	-0.14%
iTraxx Europe 5yr	0.72%	-0.08%
iTraxx Europe Xover 5yr	4.29%	-0.63%
CDX US IG 5yr	0.77%	-0.10%
CDX US HY 5yr	5.40%	-0.86%

Global CDS indices continue to tighten as the world's economies begin to re-open ahead of expectations. Generally speaking, CDS indices are usually more liquid than the corporate bonds they reference within the underlying index. Therefore, their price movements are usually a leading indicator of corporate bond spreads which are generally not as liquid. Due to the dispersion in the movement of credit spreads amongst the various issuers in our investment universe, providing an average spread tightening on the month is a non sequitur. Credit spreads were anywhere from 5bps to 60bps tighter and are still relatively wide compared to pre COVID-19 levels, which is creating ample opportunities in the primary and secondary markets.

## FUND METRICS

As at 31 <sup>st</sup> May 2020	May '20	Chg on Mth
Interest rate duration	0.57	0.06
Credit duration	4.63	-0.01
Yield to maturity	1.97%	-0.14%
Yield to worst	1.97%	-0.15%
Bloomberg Composite Rating (Weighted Average)*	A	A

\*Using the Morningstar methodology for Average Credit Quality

The Fund continues to be positioned for a retracement in credit spreads, especially in foreign banks and non-financial corporates which are still trading much wider than their pre COVID-19 levels. Whilst the Fund metrics are stable month on month, the Fund was very active and trading volumes were the highest they have been since June 2019. This is a reflection of the opportunities we are currently seeing and also the increased liquidity in the market. The credit quality of the portfolio has also increased in 2020 as we take a 'cautiously optimistic' stance in the current environment. We expect continued volatility in risk markets around the globe as the real effects of shutdowns become known. However, our base case is that what we witnessed in March is now behind us, as global central banks have put measures in place to prevent such wild swings in corporate bonds.

## NEW ISSUES

The new issue market was back with a bang in May, we recorded 14 new corporate bonds for a total of AUD 7.775b of issuance. The increased issuance creates additional relative value opportunities and promotes investor and issuer confidence. Most importantly however, the increased issuance improves liquidity and secondary market activity. In May, long dated non-financial corporate bonds were well sort after which led to the outperformance of Woolworths & Airservices Australia. However, it was the first foreign bank to issue since COVID-19 which was the best performer in May, UBS' 2.5yr bond rallied an impressive 13bps.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
UBS	12-May-20	1,500	Floating	21-Nov-22	-	1.05%	0.92%	-0.13%
Woolworths	13-May-20	600	Fixed	20-May-30	-	1.89%	1.80%	-0.09%
Airservices Australia	19-May-20	275	Fixed	15-May-30	-	1.31%	1.20%	-0.11%

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