

MONTHLY UPDATE – OCTOBER 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 st October 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	0.84%	1.85%	4.88%	3.16%	4.02%	3.95%	5.07%
Net Fund return	0.77%	1.66%	4.49%	2.39%	3.25%	3.18%	4.28%
RBA cash rate	0.02%	0.06%	0.13%	0.43%	0.86%	1.07%	1.15%
Active return (net Fund return - RBA cash rate)	0.75%	1.60%	4.36%	1.96%	2.38%	2.10%	3.12%

The 1m, 3m, 6m, 1yr, 2yr, 3yr and since inception net returns for Class A Units are 0.77%, 1.64%, 4.44%, 2.28%, 3.12%, 3.06% & 4.15% respectively.

As at 31 st October 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%	0.43%	1.42%	1.90%	2.34%	2.39%	2.60%
Bloomberg AusBond Composite 0-3 Yr Index	0.11%	0.39%	0.68%	1.84%	2.53%	2.39%	2.39%

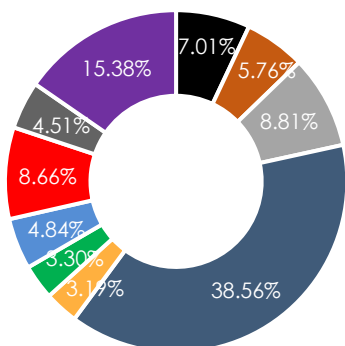
PORTFOLIO UPDATE

Another very solid month for the Fund, as core positioning and active management both added to this month's returns. Credit was tighter throughout October, and as the primary market slowed, investors bought heavily in the secondary market driving credit spreads tighter. Post the COVID-19 lows of equity and credit markets in March this year, we have seen the credit market desensitise from the day to day volatility of equity markets. This is largely technical due to central bank intervention in global corporate bond markets and not in equity markets. Additionally, with outright yields continuing to tumble, investors are turning to the corporate bond market in search of incremental yield. The two biggest risks for the market to see out in 2020 hasn't changed, with the US Presidential Election in full swing and parts of Western Europe going back into shutdown, we have positioned the portfolio accordingly.

All of the Fund's positions had a positive contribution in October. Outperformance was led by Lendlease's new green bond which rallied an impressive 30bps. Over the past 18 months we have noticed quite a pick-up in green and sustainable bond issuance. In addition to Lendlease's new green bond, Woori Bank also issued a sustainable bond in October. In September, we launched the Artesian Green and Sustainable Bond Fund to take advantage of this continuing trend for our investors – those interested see [here](#).

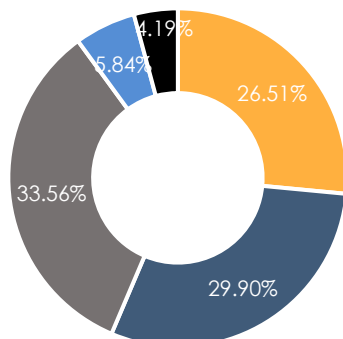
PORTFOLIO BREAKDOWN

SECTOR BREAKDOWN



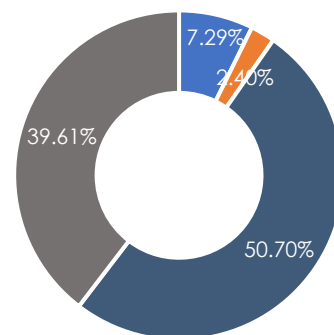
- Cash
- Consumer Discretionary
- Consumer Staples
- Insurance
- Real Estate
- Transportation & Logistics
- Financial
- Machinery
- TMT
- Utilities

REGION & PRODUCT



- Australian AUD FRNs
- International AUD FRNs
- Australian AUD Fixed Rate
- International AUD Fixed Rate
- Cash

CREDIT RATING



- AAA
- AA
- A
- BBB

CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
ITraxx Australia 5yr	0.71%	-0.05%
ITraxx Europe 5yr	0.65%	0.06%
ITraxx Europe Xover 5yr	3.69%	0.24%
CDX US IG 5yr	0.65%	0.06%
CDX US HY 5yr	4.21%	0.12%

Global corporate bond spreads were generally tighter throughout October. However, due to the pending US Election and also new lockdown measures being introduced in Western Europe, we did notice credit indices widen (weaker) towards month end. Australia outperformed versus global peers, as locally we are starting to see internal borders re-open, and finally Melbourne lockdown restrictions are being eased. Whilst the rally in global credit continues, so too do primary and secondary market opportunities. In the secondary market we continue to favour issuers AUD bonds trading +40bps wide to their USD credit curve. In the primary market, the Fund has been focused on non-financial corporates priced cheap to our own internal valuations; a case in point this month being Lendlease's new green bond.

FUND METRICS

As at 31 st October 2020	Oct '20	Chg on Mth
Interest rate duration	0.88	-0.14
Credit duration	4.14	-0.09
Yield to maturity	1.47%	-0.07%
Yield to worst	1.40%	-0.10%
Bloomberg Composite Rating (Weighted Average)*	A	A

*Using the Morningstar methodology for Average Credit Quality

In October, 3yr and 10yr government bond yields fell 6-7bps, providing another positive contribution towards the monthly returns. Credit spreads were generally 3-5bps tighter which suited our slightly longer than mandated target credit duration of 4 years. As outright yields continue to fall, so too does the Fund's coupon income from the corporate bonds it owns, therefore the active management of the Fund will become a proportionally larger contributor to overall returns. As we approach year end with both the primary and secondary markets slowing down, we will be focused on the liquidity profile of the Fund and the credit quality. More recently issued corporate bonds usually exhibit more liquidity in the secondary market due to follow on trading activity post the primary issuance. So throughout the year we have been adding liquidity to the portfolio by selling older positions and replacing them with recently issued corporate bonds.

NEW ISSUES

The new issue market slowed down in October with AUD 4.2b issued by 8 unique issuers. As we have mentioned throughout the report, we are seeing more green and sustainable bond issuance in AUD which is very encouraging. Lendlease received orders over AUD 1b for their new green bond, they issued only AUD 500m which led to a very impressive 35bp rally in the secondary market.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Port of Melbourne	08-Oct-20	350	Fixed	15-Oct-27	-	1.30%	1.22%	-0.08%
Charter Hall Prime Industrial Fund	19-Oct-20	500	Fixed	28-Oct-30	-	1.73%	1.59%	-0.14%
Lendlease	20-Oct-20	500	Fixed	27-Oct-27	-	2.67%	2.32%	-0.35%

DISCLAIMER

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