

MONTHLY UPDATE

**Fund Objective:** The Artesian Green & Sustainable Bond Fund (Fund) will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate green, sustainable and social corporate bonds. The Fund aims to provide returns above the Bloomberg AusBond Composite 0-5 Yr Index 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 30 <sup>TH</sup> APRIL 21	FUND PERFORMANCE			
	1 month	3 months	6 months	Since Inception (p.a.)
GROSS FUND RETURN	0.38%	0.29%	1.28%	2.87%
NET FUND RETURN	0.34%	0.16%	1.03%	2.53%
BLOOMBERG AUSBOND COMPOSITE 0-5 YR Index	0.12%	-0.23%	-0.06%	0.17%
ACTIVE RETURN (net Fund return - benchmark)	0.22%	0.39%	1.09%	2.36%

Past performance should not be taken as an indicator of future performance. Net of fees performance is based on end of month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions. Gross performance is the net return with fees and expenses added back.

PORTFOLIO UPDATE

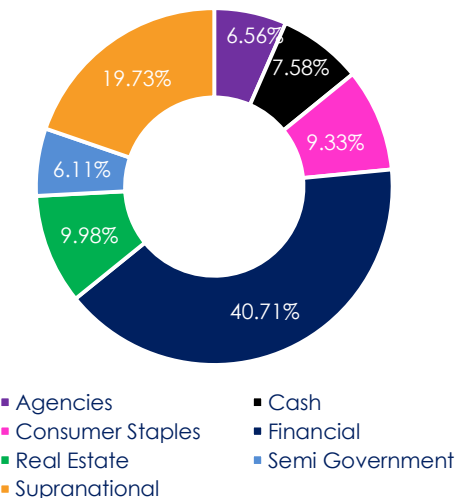
April was another solid month for the Fund, outperforming its benchmark and taking the since inception net return to 2.53%. Issuance was limited to just the three deals in April. NRW Bank issued a social bond for the second month in a row, the Asian Development Bank (ADB) issued a gender bond and the Asian Infrastructure Investment Bank issued a sustainable bond. The talking point for April was ADB's gender bond, initially launched with an AUD 300m size target, the demand led the issuer to then increase to a target AUD 500m and then AUD 700m. Testament to the significant demand in the market for bond issues targeting gender equality, also encouraging for Artesian as we prepare to launch the Artesian Women's Economic Empowerment Bond Fund in the coming weeks.

In April the Fund had significant outperformance from its 7yr and 10yr Lendlease green bond positions. Underperformance emanated from the Fund's European Investment Bank green bond and ANZ's subordinated sustainable bond.

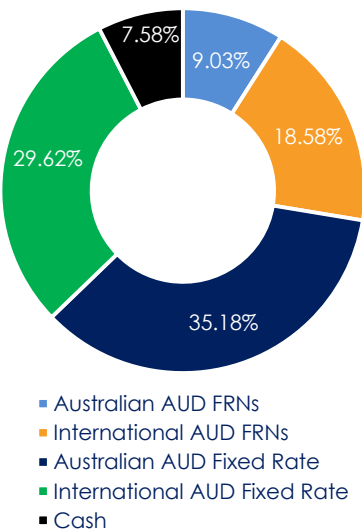
Following the actions of some international peers, on April 22<sup>nd</sup> the Australian Prudential Regulatory Authority (APRA) released its guidance paper on the management of climate-related risks for banks, insurers and superannuation trustees. The draft Prudential Practice Guide CPG 229 Climate Change Financial Risks (CPG 229), will help APRA-regulated entities incorporate and better manage climate related risks by enhancing their risk management and governance frameworks. CPG 229 was developed in consultation with both domestic and international peer regulators.

PORTFOLIO BREAKDOWN

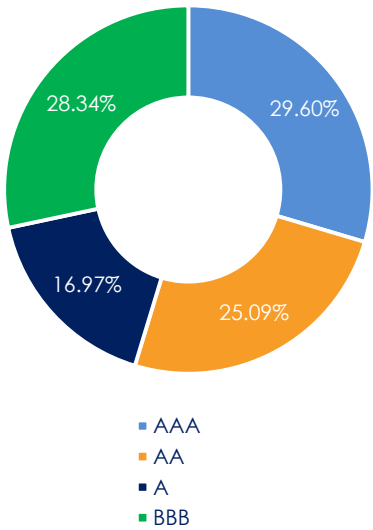
SECTOR BREAKDOWN



REGION & PRODUCT



CREDIT RATING



## CREDIT SPREADS

Non-financial credit spreads outperformed financials in April, REITs led the pack as the sector recovers from COVID-19 induced sufferance. US banks were the month's underperformer as elevated issuance in foreign currencies weighed on their spreads in the AUD market. Longer dated bonds outperformed shorter dated bonds as investors sought out some of the attractive yields on offer further out the curve. Case in point here were the Fund's two best performing bonds in April, the Lendlease 7yr and 10yr green bonds. Major bank subordinated (sub) bonds were 4-5bps weaker in April, we expect to see more sub debt issuance in the back half on 2021 from the majors. To put today's credit spreads into context, we are now back to approximately pre COVID-19 levels.

GLOBAL CREDIT INDICES	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.61%	-0.02%
ITRAXX EUROPE 5YR	0.50%	-0.02%
ITRAXX EUROPE XOVER 5YR	2.49%	-0.04%
CDX US IG 5YR	0.50%	-0.04%
CDX US HY 5YR	2.86%	-0.22%

## FUND METRICS

The credit duration of the Fund was reduced slightly over the month and the interest rate duration was largely unchanged. We invested new Fund inflows into the ADB's gender bond, which is a 4.5yr fixed rate bond. Allocating capital to the primary market allows these positions to roll down the curve to our targeted fair value levels, with the aim of adding capital gains in the process. Outright yields marginally dipped on the month, we also increased the cash holding in the Fund which led to a lower running yield. The increase in cash allows us to take advantage of relative value opportunities as they arise in both the primary and secondary market. Whilst there has been an increase in Supranational bonds in the Fund recently, we are actively engaging syndicate departments of the banks and issuers themselves, in an effort to increase the AUD non-financial corporate issuance.

AS AT 30 <sup>TH</sup> APRIL 2021	FUND	BENCH - MARK
INTEREST RATE DURATION	1.79	2.33
CREDIT DURATION	3.98	2.33
YIELD TO MATURITY	1.14%	0.40%
YIELD TO WORST	1.01%	0.40%
BLOOMBERG COMPOSITE RATING (weighted average)	A*	AA+

*\*Using the Morningstar methodology for Average Credit Quality*

## NEW ISSUES

In April the below three AUD deals were issued, which was a good spread from a bond type perspective (social, gender and sustainable). According to our records, that takes 2021 issuance to AUD 4.28b from 7 unique issuers. Supranationals accounting for AUD 3.08b (72%), financials AUD 900m (21%) and real estate (7%).

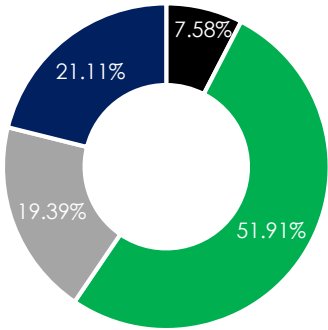
In Q1 2021, global green bond issuance almost tripled to USD 111b when compared with Q1 2020. There still remains significant unmet demand on the buy side, which is encouraging for the AUD market as we see the supply side increase in offshore markets to meet this demand.

Some issuers are motivated by potential pricing benefits, known in the market as the "greenium". For those interested, we recorded a podcast on this topic in April which you can find [here](#).

ISSUER	Bond Type	Issue Date	Issue Size \$M	Fixed/Floating	Currency	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
NRW.BANK	Social	16-Apr-21	100	Fixed	AUD	23-Apr-31	-	N/A	N/A	N/A
ASIAN DEVELOPMENT BANK	Gender	22-Apr-21	700	Fixed	AUD	06-Nov-25	-	0.57%	0.59%	0.02%
ASIAN INFRASTRUCTURE INVESTMENT BANK	Sustainable	28-Apr-21	500	Fixed	AUD	06-May-26	-	0.74%	0.74%	0.00%

GREEN, SUSTAINABLE & SOCIAL

BOND TYPE



■ Cash ■ Green ■ Social ■ Sustainable

CARBON ABATEMENT

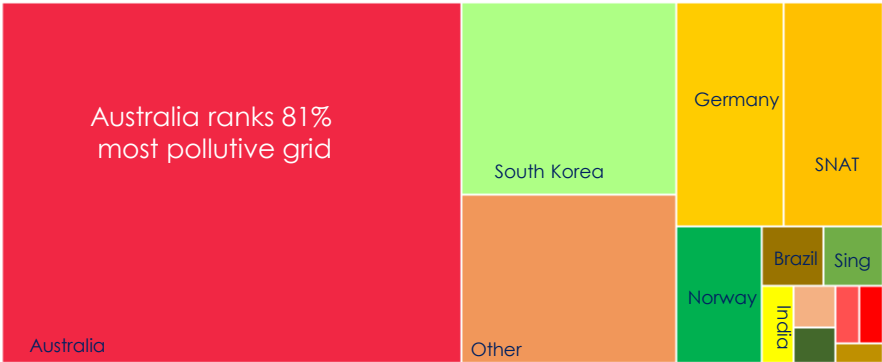
	Fund
April's estimated carbon abatement	335t CO2e*
Since inception estimated carbon abatement¹	2,442.7t CO2e*
% of Fund used in this estimation	42%

One of the primary goals for the Fund is to report regularly on the impact that the bonds we have invested in are having on the environment. As issuers report their use of proceeds achievements we update our records and this should also lead to a continual increase in the 42% of the Fund used to calculate the carbon abatement.



Equivalent to 1,145 cars\*\* off the road for a year, since fund inception

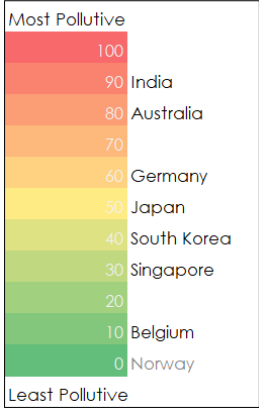
ALLOCATION OF FUNDS HEATMAP



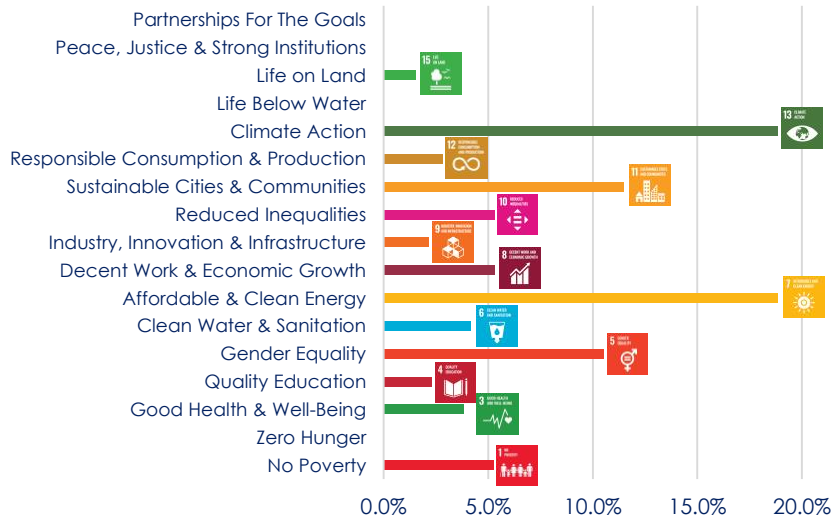
Source: Artesian, EIB; Relative Emission Factor is measured across 43 countries/regions; Oct 2020

The heatmap above shows which countries the Fund is allocating capital to, to improve the global green economy. The Relative Emission Factor Scale shows how dirty the energy grid of each country is. It is a normalised scale of the baseline emission factor for electricity generation across 43 major countries - how much gCO2e/kWh is emitted. In essence, the more green capital investors can channel to higher pollutive countries, the higher the impact per dollar.

Relative Emission Factor Scale



SUSTAINABLE DEVELOPMENT GOALS



The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. When mapping the SDG's per bond held in the Fund, we take a conservative approach. If one bond targets more than one SDG, then the allocation is split evenly between the SDGs and then portfolio weighted. Unsurprisingly, the Fund is most aligned with Clean Energy, Climate Action and Sustainable Cities, making up 49% of the Fund's targeted SDGs. The Fund currently supports 13 of the 17 SDGs, with the goal of supporting all 17 as the Fund grows.

## NOTES

*\*We take a conservative approach to estimating the carbon abatement of our portfolio holdings. If we own a bond that has not yet produced a use of proceeds report or something similar, we don't report any carbon abatement whatsoever. For those issuers who have produced a use of proceeds report, we pro rata the Fund's allocation of the reported carbon abatement. We use the previously reported 12-month carbon abatement figures to project the following 12 months and update those as soon as a new report from the issuer is produced.*

*\*\*As per the ABS's latest Survey of Motor Vehicle Use ([link](#) as of 20 Mar'19), Passenger Vehicles in Australia on average travelled 12,600km a year in 2018. As per NTC's latest emission intensity paper ([link](#); as of Jun'20), Passenger Vehicles in Australia on average had an emission intensity of 169g/km in 2019 (or 169.8g/km in 2018). As a result, we defined the carbon footprint of an average passenger vehicle in Australia as 2.14t CO2e per year being  $[(169\text{g/km} \times 12,600\text{km}) / 1,000,000]$ .*

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