

MONTHLY UPDATE – OCTOBER 2020

**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 31<sup>st</sup> October 2020

	FUND PERFORMANCE	
	1 month	Since Inception (p.a.)
Gross Fund return	1.39%	1.57%
Net Fund return	1.35%	1.49%
Bloomberg AusBond Composite 0-5 Yr Index (benchmark)	0.20%	0.23%
Active return (net Fund return - benchmark)	1.15%	1.26%

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

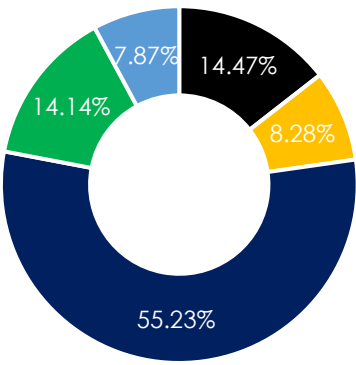
In October the Fund produced strong returns outpacing its benchmark by 1.15%. Returns were driven by the overweight credit duration positioning relative to benchmark and significant outperformance in the new issue market from Lendlease's green bond. It was very encouraging to see three new AUD eligible bonds issued in October. Woori Bank issued a COVID-19 Recovery Sustainability Bond and Lendlease and NSW Treasury Corporation both issued green bonds. All three bonds had sizable demand (especially the green bonds) and all performed well in the secondary market.

Credit was tighter throughout October, and as the general 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 technical in nature, 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. With the US Presidential Election now behind us (we hope), risk markets have taken this very positively. However, this is in the face of record daily cases of COVID-19 in the US which does somewhat temper our enthusiasm.

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 35bps. It wasn't all about the primary market though, with the Fund's position in ANZ's subordinated sustainability bond issued in August 2020 rallying 10bps in October.

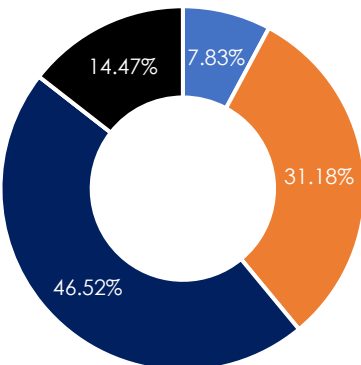
PORTFOLIO BREAKDOWN

SECTOR BREAKDOWN



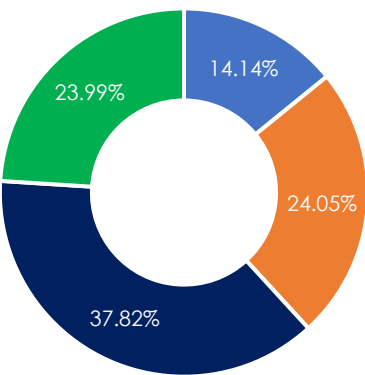
- Cash
- Consumer Staples
- Financial
- State Government
- Real Estate

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 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 <sup>st</sup> October 2020	Fund	Benchmark
Interest rate duration	2.33	2.43
Credit duration	3.78	2.43
Yield to maturity	0.96%	0.29%
Yield to worst	0.92%	0.29%
Bloomberg Composite Rating (Weighted Average)	A*	AA+


\*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 overweight credit duration position versus benchmark. 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 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 gained momentum in October as we witnessed AUD 2.2b from three unique issuers all highlighted below. 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	Bond type	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Woori Bank	Sustainability	15-Oct-20	250	Floating	23-Oct-23	-	0.72%	0.70%	-0.02%
Woori Bank	Sustainability	15-Oct-20	150	Fixed	23-Oct-23	-	0.66%	0.61%	-0.05%
Lendlease	Green	20-Oct-20	500	Fixed	27-Oct-27	-	2.67%	2.32%	-0.35%
NSW Treasury Corporation	Green	27-Nov-20	1,300	Fixed	20-Nov-30	-	0.36%	0.29%	-0.07%

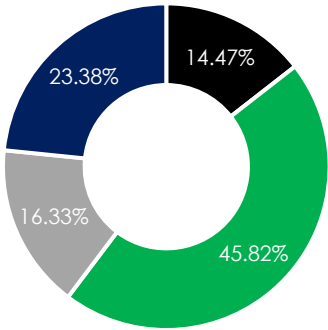
Issuer	 <b>tcorp</b>
Bond Type	Green Bond
Issue Date	20-Oct-20
Issue Size	AUD 1,300,000
Eligible Categories	   
Specific Projects	<ul style="list-style-type: none"><li>• Newcastle Light Rail;</li><li>• Sydney Metro Northwest; and</li><li>• Quakers Hill and St Marys Water Recycling Plants Process and Reliability Renewal</li></ul>

This month we are highlighting the New South Wales Treasury Corporation (TCorp), who issued a 10yr green bond. This AUD 1.3b green bond adds to their existing AUD 2.1b green bond issued in Nov 2019 and their AUD 1.8b sustainability bond issued in 2018. Those three deals combined, make TCorp the largest issuer of sustainable finance in the AUD market. TCorp highlights eligible categories such as clean transportation, green buildings, sustainable water, energy efficiency and pollution prevention in their New South Wales Sustainability Bond Framework. Below we highlight TCorp's total debt profile.



GREEN, SUSTAINABLE & SOCIAL

BOND TYPE



■ Cash ■ Green ■ Social ■ Sustainable

CARBON ABATEMENT

October's estimated carbon abatement

Fund

443t CO2e\*

% of Fund used in this estimation

36%

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 36% of the Fund used to calculate the carbon abatement.

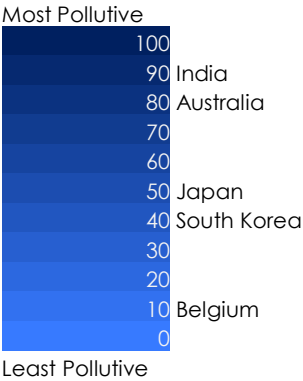


Equivalent to **207 cars\*\*** off the road for a year.

ALLOCATION OF FUNDS HEATMAP



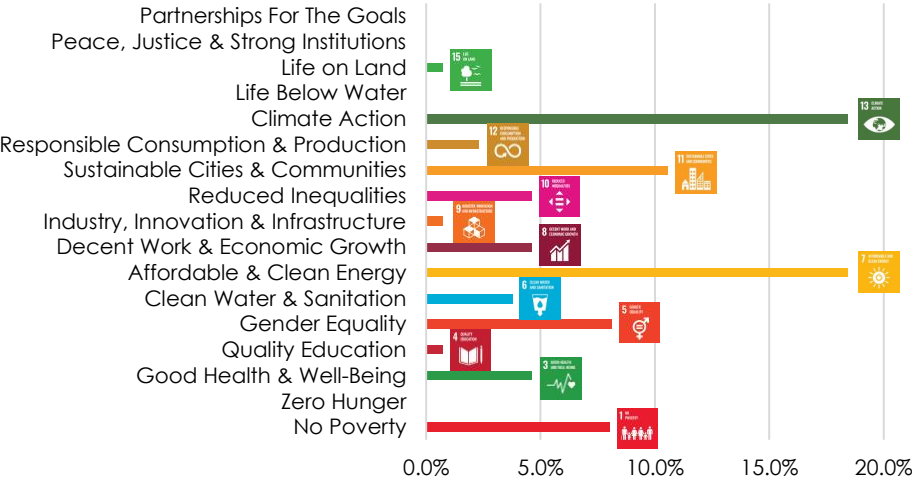
Relative Emission Factor Scale



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 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.

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 47% 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  $[(169\text{g}/\text{km} \times 12,600\text{km}) / 1,000,000]$ .*

DISCLAIMER

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