

MONTHLY UPDATE – SEPTEMBER 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 30 th September 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	0.20%	2.07%	4.02%	2.55%	3.77%	3.90%	4.95%
Net Fund return	0.14%	1.88%	3.63%	1.78%	3.00%	3.13%	4.16%
RBA cash rate	0.02%	0.06%	0.13%	0.47%	0.91%	1.11%	1.18%
Active return (net Fund return - RBA cash rate)	0.12%	1.81%	3.51%	1.31%	2.09%	2.02%	2.98%

The 1m, 3m, 6m, 1yr, 2yr, 3yr and since inception net returns for Class A Units are 0.14%, 1.86%, 3.57%, 1.66%, 2.88%, 3.00% & 4.03% respectively.

As at 30 th September 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	0.02%	0.54%	1.93%	1.72%	2.30%	2.38%	2.57%
Bloomberg AusBond Composite 0-3 Yr Index	0.16%	0.35%	0.75%	1.70%	2.61%	2.48%	2.41%

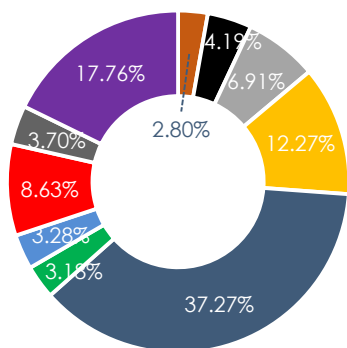
PORTFOLIO UPDATE

Credit was wider across the board in September, yet quite resilient compared to the sell off in global equities. Risk sentiment was soured by significant spikes in new COVID-19 cases throughout Europe. France for example, on September 24th had record daily new cases increase by a staggering +16k. However, whilst their new cases surged, their death rate remains very low in comparison. It appears that the virus is being transmitted amongst a younger demographic who are much more likely to recover. We are closely monitoring the daily numbers, as government restrictions are being re-introduced which will obviously have economic consequences.

The widening in credit was subdued, yet broad across all sectors of the market. Therefore, the longer dated positions in the Fund suffered the most. The Fund's 10yr positions in Coles, Woolworths and WSO Finance led the underperformance for September. Outperformance was attributed to the Fund's positioning in Ausnet, Nextera and Suncorp Metway.

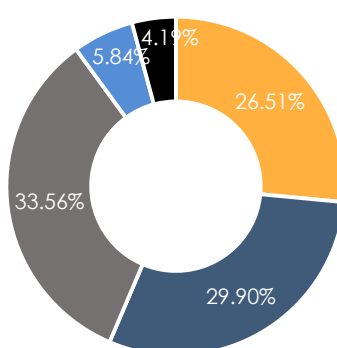
PORTFOLIO BREAKDOWN

SECTOR BREAKDOWN



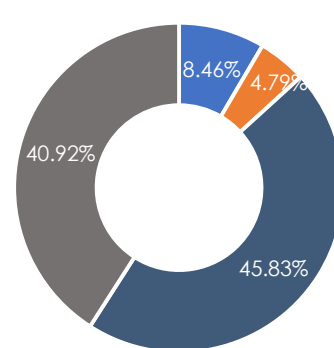
- Automotive
- Cash
- Consumer Discretionary
- Consumer Staples
- Financial
- Insurance
- Machinery
- TMT
- Transportation & Logistics
- Utilities

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	0.76%	0.12%
iTraxx Europe 5yr	0.60%	0.05%
iTraxx Europe Xover 5yr	3.46%	0.22%
CDX US IG 5yr	0.59%	-0.06%
CDX US HY 5yr	4.09%	0.43%

In September, iTraxx Australia 5yr (iTraxx) reversed the gains it made in August as it returned to July's closing level of ~76bps. To put this into context, iTraxx finished 2019 at 46bps, some 30bps tighter than where it is today. Low beta corporate bond spreads were 2-3bps wider and higher beta names were 4-5bps wider. There were no idiosyncratic events to report of, although Australian major bank senior spreads did underperform versus the rest of the market (6-7bps wider). We still see value in non-financial corporates and some foreign banks. New issues are awakening activity in some sectors as relative value opportunities arise. Whilst the market digests all the recent new issuance, it would be reasonable to expect credit spreads to remain in their recent ranges.

FUND METRICS

As at 30 th September 2020	Sept '20	Chg on Mth
Interest rate duration	1.01	0.07
Credit duration	4.23	0.04
Yield to maturity	1.54%	-0.02%
Yield to worst	1.50%	0.03%
Bloomberg Composite Rating (Weighted Average)*	A	A

*Using the Morningstar methodology for Average Credit Quality

Whilst the Fund's metrics remained stable month on month, tactical trading activity and the Fund's interest rate positioning contributed towards a positive outcome against the negative attribution from credit spreads. Some economic commentators were calling for another rate cut from the RBA, which was one contributing factor to 3yr and 10yr government bond yields falling 12.5bps and 19bps respectively. The Fund's credit and interest rate durations are very close to our target exposures, which is a reflection of our current 'neutral' view. Liquidity in the secondary market remains robust, driven by elevated activity in the primary market as non-financials continue to take advantage of relatively cheap funding levels. As always, credit quality remains a focus for the Fund, the weighted average credit rating of A for the portfolio is maintained.

NEW ISSUES

The new issue market continued with another strong month of volume, 13 deals totalling AUD 5.775b were recorded in September. Notable deals were Shinhan Bank's COVID-19 social bond, with the use of proceeds earmarked for lending to COVID-19 effected SME's, and Ausnet's corporate hybrid. However, performance wise the best result was The Flying Kangaroo which issued 10yr bonds that rallied an impressive 39bps.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Qantas Airways	1-Sep-20	500	Fixed	09-Sep-30	-	4.39%	4.00%	-0.39%
Shinhan Bank	22-Sep-20	150	Floating	29-Sep-25	-	0.88%	0.86%	-0.02%
AusNet Services Holdings	24-Sep-20	650	Floating	06-Oct-80	06-Oct-25	3.10%	3.07%	-0.03%

DISCLAIMER

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