

MONTHLY UPDATE

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.

A S AT 30 TH APR 22	FUND PERFORMANCE - CLASS B UNITS								
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	4 year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
GROSS FUND RETURN	-0.51%	-1.72%	-1.62%	-1.24%	2.70%	2.09%	2.58%	3.29%	3.70%
NET FUND RETURN	-0.57%	-1.91%	-1.99%	-1.98%	1.94%	1.33%	1.82%	2.52%	2.92%
RBA CASH RATE	0.01%	0.02%	0.05%	0.10%	0.14%	0.38%	0.66%	0.82%	0.85%
ACTIVE RETURN (net Fund return - RBA cash rate)	-0.58%	-1.93%	-2.04%	-2.08%	1.80%	0.95%	1.16%	1.70%	2.07%

The 1m, 3m, 6m, 1yr, 2yr, 3yr, 4yr, 5yr and since inception net returns for Class A Units are -0.57%, -1.92%, -2.03%, -2.08%, 1.84%, 1.22%, 1.70%, 2.40% & 2.81% respectively. 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.

A S AT 30 TH APR 22	OTHER BENCHMARK COMPARISONS								
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	4 year (p.a.)	5 year (p.a.)	Since Inception (p.a.)
BLOOMBERG AUSBOND CREDIT FRN 0+ YR Index	-0.05%	-0.35%	-0.31%	-0.16%	0.81%	1.06%	1.56%	1.82%	1.89%
BLOOMBERG AUSBOND COMP 0-3 YR Index	-0.67%	-1.83%	-1.67%	-2.48%	-0.84%	0.25%	0.99%	1.15%	1.24%

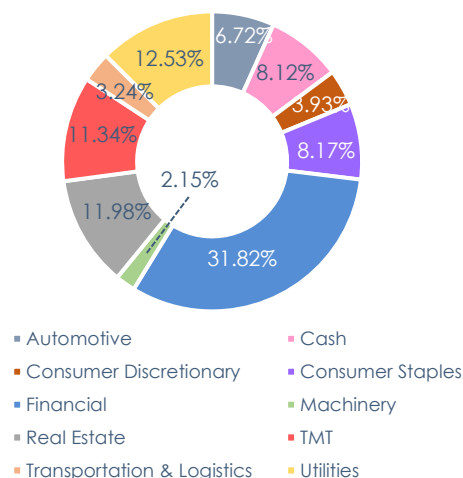
PORTFOLIO UPDATE

It is clear the path of least resistance currently is towards higher yields (interest rates) and wider credit spreads. Whilst the daily/monthly moves in yields are extreme, the moves in credit spreads are relatively subdued. Further drivers of inflationary pressure continue to mount. Covid supply chain issues, global energy shortages and soaring food costs, the war in Ukraine's effect on energy and commodities and China's zero Covid policy. Whilst China's zero case obsession isn't new, the lock down of 26 million Shanghai residents and 16 other cities in April, will only add to the global supply chain issues and slower global growth.

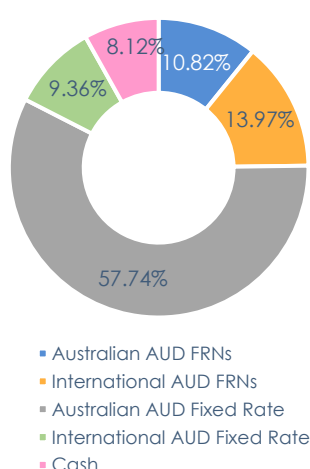
To that end, we have been reducing the Fund's interest rate and credit duration, taking advantage of the high yields offered (>4%) on short dated bonds. Right now, outright yields on AUD corporate bonds are roughly as high as they have been over the past 10 years. Whilst near-term volatility poses the biggest risk to price stability and spread mean reversion, taking a longer-term view (6 to 12 months) considering the strength of our portfolio and market technicals, gives us confidence. Central banks have the tough task of reining in inflation without causing stagflation or a recession. However, as cash rates rise (and they need to significantly to reach the levels currently priced into interest rate curves), central banks are rearming their monetary policy toolkits along the way. So, whilst it is certainly possible that aggressive interest rate hikes could lead to negative growth, we believe a shallow recession is more likely than a deep one.

PORTFOLIO BREAKDOWN

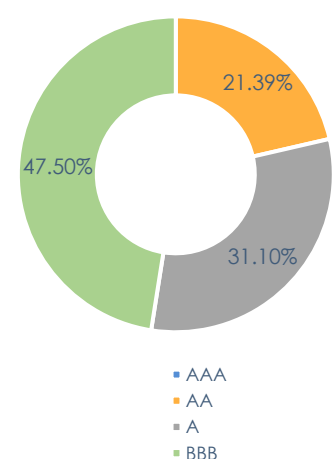
SECTOR BREAKDOWN



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS

AUD corporate bond spreads were 5bps to 10bps wider over the month, which outperformed the CDS index (iTraxx Australia 5yr) which was 14bps wider. AUD corporate bond issuance has been subdued which would normally be technically strong for credit spreads, yet new deals aren't rallying in the secondary market. So, when issuers come to market and add a new issue premium, which makes the new deal look cheap relative to where their existing bonds are trading in secondary, it is dragging its own credit curve and similar rated credit spreads wider. This is typical in a softer market, and a reversal of this trend will indicate a stabilisation in credit spreads. The RBA surprised the market with a 25bp rate rise in early May and currently the market is pricing in a ~3% cash rate by year end. Whilst we believe it will be much closer to 1.50% - 2.00%, right now positioning the Fund with a very short interest rate duration position is prudent to reduce return volatility.

GLOBAL CREDIT INDICES	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.95%	0.14%
ITRAXX EUROPE 5YR	0.90%	0.17%
ITRAXX EUROPE XOVER 5YR	4.28%	0.89%
CDX US IG 5YR	0.84%	0.16%
CDX US HY 5YR	4.61%	0.85%

FUND METRICS

The Fund's credit duration was reduced in April, however the spike higher in yields led to another spike higher in the Fund's running yield to 3.79%. The Fund's credit duration is currently below the mandate target of 4yrs; so too is the Fund's interest rate duration below mandate target of 1yr. Whilst we see some longer term value in both credit and interest rate markets at current levels, we are conscious that markets are currently behaving erratically. Therefore, we will be patient before increasing risk from our current positioning. In any event, we are well positioned for a rally in credit and front-end yields. The AUD corporate bond market has appeared to have found a clearing level a couple of times in recent months, only to then continue to widen. However, we are now reaching decade high levels in outright yields, which on a risk adjusted basis – compared with the ASX dividend yield of ~4.5%, should start to look much more attractive to asset allocators.

AS AT 30 TH APR 22	FUND	CHG ON MTH
INTEREST RATE DURATION	0.56	-0.18
CREDIT DURATION	3.45	-0.31
YIELD TO MATURITY	3.82%	0.39%
YIELD TO WORST	3.79%	0.48%
BLOOMBERG COMPOSITE RATING (weighted average)*	A	A

*Using the Morningstar methodology for Average Credit Quality

NEW ISSUES

A reasonably quiet month on the new issue front with AUD 5b issued from 6 different issuers. It was great to see more corporate labelled bond issuance with NBN issuing an AUD 800m 5yr green bond. Most deals struggled to end the month tighter than their issuing spread, with CBA's subordinated 5yr call date fixed rate bond (4.95% coupon!) and Volkswagen's 3yr fixed rate bond (4.00% coupon!) being the exception.

ISSUER	Bond Type	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
CBA	General corp purpose	06-Apr-22	400	Fixed	14-Apr-32	2.17%	2.15%	-0.02%
VOLKSWAGEN	General corp purpose	07-Apr-22	250	Fixed	14-Apr-25	1.32%	1.30%	-0.02%
OCBC	General corp purpose	07-Apr-22	700	Floating	14-Apr-25	0.70%	0.73%	0.03%

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