

## 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 31 <sup>ST</sup> DEC 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	0.39%	1.22%	2.16%	-0.45%	0.27%	1.48%	2.43%	2.56%	3.50%
NET FUND RETURN	0.33%	1.03%	1.78%	-1.20%	-0.48%	0.72%	1.66%	1.79%	2.73%
RBA CASH RATE	0.26%	0.70%	1.15%	1.27%	0.68%	0.56%	0.71%	0.87%	0.96%
ACTIVE RETURN (net Fund return - RBA cash rate)	0.08%	0.33%	0.63%	-2.47%	-1.16%	0.16%	0.95%	0.92%	1.76%

The 1m, 3m, 6m, 1yr, 2yr, 3yr, 4yr, 5yr and since inception net returns for Class A Units are 0.31%, 1.01%, 1.72%, -1.20%, -0.54%, 0.65%, 1.58%, 1.70% & 2.63% 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 31 <sup>ST</sup> DEC 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	0.34%	0.92%	1.64%	1.28%	0.80%	1.13%	1.57%	1.71%	1.95%
BLOOMBERG AUSBOND COMP 0-3 YR Index	-0.18%	0.90%	0.84%	-1.56%	-0.97%	-0.03%	0.68%	1.03%	1.19%

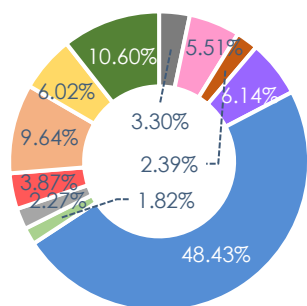
## PORTFOLIO UPDATE

The key evidence is in for 2022; global unwinding of loose monetary policy, elevated fiscal policy, war in Europe, overhanging supply chain issues and inflation. The causes and the responses to runaway inflation fundamentally changed the investing landscape. Transitory it was not, and in 2023 we will start to see the real impacts of considerably higher interest rates and the drag that will have on consumer spending and corporate margins. However, investment grade corporate balance sheets look robust, credit spreads are wide, interest rate volatility is stabilising and the outlook for fixed income and good quality credit is encouraging.

The Fund performed well in December considering 3yr yields and 10yr yields spiked 44bps and 58bps respectively. Credit spreads were mixed over the month, but largely unchanged. The Fund now has a running yield +5%, which not only provides an attractive source of income, it also provides some downside protection against interest rate and credit spread volatility, like what we saw in December. Also worth noting the attractiveness of a +5% running yield with a ~3yr credit duration on a risk/return basis, versus the indicative dividend yield of the S&P/ASX 200 index ~4.40%.

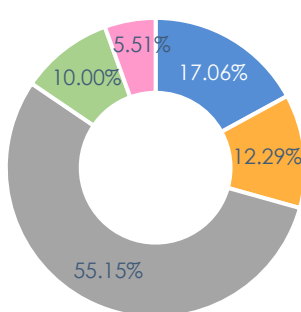
## PORTFOLIO BREAKDOWN

## SECTOR BREAKDOWN



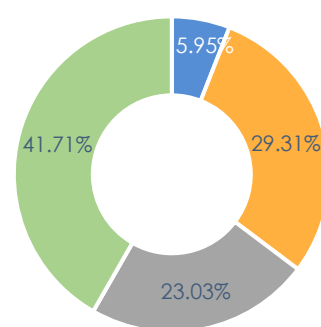
- Automotive
- Consumer Discretionary
- Financial
- Machinery
- TMT
- Utilities
- Cash
- Consumer Staples
- Insurance
- Real Estate
- Transportation & Logistics

## REGION &amp; PRODUCT



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

## CREDIT RATING



- AAA
- AA
- A
- BBB

## CREDIT SPREADS

Credit spreads oscillated throughout the month, although towards the end of the month the market felt stronger as the lack of issuance led to a bid for bonds in the secondary market. Spreads are comfortably off their wides reached in October and have been rallying globally since August, so the AUD market still has some catching up to do. According to our records, non-financial corporate issuance recorded its lowest volume since 2016, at AUD 5.6b in 2022. Corporates were active extending maturities and locking in attractive funding levels in 2020 and 2021, so their requirements at existing levels has been muted. Whilst largely unloved throughout 2022, our view is that non-financial corporates should outperform due to their existing wide levels relative to financials, robust fundamentals and are technically supported by low issuance volumes and diversification benefits.

AS AT 31 <sup>ST</sup> DEC 22	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.90%	0.00%
ITRAXX EUROPE 5YR	0.91%	-0.01%
ITRAXX EUROPE XOVER 5YR	4.74%	0.15%
CDX US IG 5YR	0.82%	0.06%
CDX US HY 5YR	4.84%	0.31%

## FUND METRICS

After the rally in interest rates in November, there was a reasonable sell off of ~50bps across the curve in December. So we used the opportunity to increase the Fund's duration up to a modest 0.70yrs. The tenor of choice is 3yrs, as we have a stronger view on our 3yr outlook than we do further out the curve. The Fund traded very little volume in corporate bonds in December so the credit duration remains almost unchanged at 3.21yrs. We believe that 2023, more so than 2022, will be a year for active management as relative value opportunities continue to present themselves to nimble managers. Hence, we will remain relatively conservative in our core beta positioning and continue to be very much focused on producing alpha.

AS AT 31 <sup>ST</sup> DEC 22	FUND	CHG ON MTH
INTEREST RATE DURATION	0.70	0.21
CREDIT DURATION	3.21	0.07
YIELD TO MATURITY	5.05%	0.16%
YIELD TO WORST	5.07%	0.20%
BLOOMBERG COMPOSITE RATING (weighted average)*	A	A

\*Using the Morningstar methodology for Average Credit Quality

## NEW ISSUES

2022 was a massive year for AUD corporate bond issuance, according to our records AUD 91.5b was issued which is a post GFC record. Financials only issued AUD 27.8b in 2021, compared with AUD 85.9b in 2022. Financial volumes in 2021 were offset by a significant pick up in bank deposits and also the cheap funding available under the RBA's Term Funding Facility (TFF). After 3 years of elevated levels of issuance (average AUD 17.5b per year 2019-2021), non-financial corporates only issued AUD 5.6b in 2022.

YEAR	Total Issuance \$ M	Fixed Issuance \$ M	FRN Issuance \$ M	Financial Issuance \$ M	Non-Fin Issuance \$ M
2022 AUD CORPORATE ISSUANCE	91,460	33,500	57,960	85,885	5,575
2021 AUD CORPORATE ISSUANCE	48,645	20,945	27,700	27,825	20,820
2020 AUD CORPORATE ISSUANCE	63,867	19,542	44,325	46,750	17,117
2019 AUD CORPORATE ISSUANCE	81,161	23,000	58,161	66,501	14,660

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