

## 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> JAN 23	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	1.17%	2.54%	2.71%	0.73%	0.73%	1.69%	2.64%	2.68%	3.65%
NET FUND RETURN	1.10%	2.35%	2.33%	-0.02%	-0.03%	0.93%	1.88%	1.91%	2.88%
RBA CASH RATE	0.26%	0.75%	1.30%	1.53%	0.81%	0.63%	0.75%	0.90%	0.99%
ACTIVE RETURN (net Fund return - RBA cash rate)	0.84%	1.60%	1.03%	-1.55%	-0.84%	0.30%	1.13%	1.01%	1.88%

The 1m, 3m, 6m, 1yr, 2yr, 3yr, 4yr, 5yr and since inception net returns for Class A Units are 1.10%, 2.32%, 2.27%, -0.02%, -0.09%, 0.85%, 1.79%, 1.82% & 2.78% 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> JAN 23	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	0.42%	1.19%	1.83%	1.69%	0.97%	1.21%	1.61%	1.75%	1.95%
BLOOMBERG AUSBOND COMP 0-3 YR Index	0.78%	1.16%	0.82%	-0.56%	-0.61%	0.08%	0.81%	1.14%	1.30%

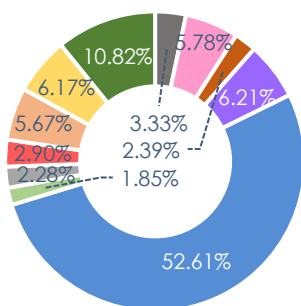
## PORTFOLIO UPDATE

A very solid month of performance for the Fund in January, the best monthly return since February 2017. The Fund's returns in January were aided by lengthening the Fund's interest rate duration in late December, prior to January's ~40bp rally in 3yr yields. However, the largest driver of returns in January was from the impressive rally in AUD credit spreads. Put into context, 5yr financial spreads were 5bps to 10bps tighter and 5yr non-financial spreads were 10bps to 15bps tighter. As mentioned in last month's report, non-financials look set to continue their outperformance as they are technically supported by very low levels of primary issuance.

Outperformance in January came from the Fund's positions in Air New Zealand, Australian Postal Corporation, Ausnet, Rabobank and Mercury NZ. The month's underperformers for the Fund were ANZ, Macquarie Bank, Toronto-Dominion Bank and Woolworths.

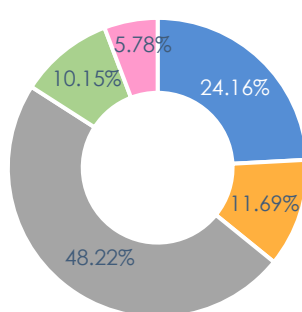
## PORTFOLIO BREAKDOWN

## SECTOR BREAKDOWN



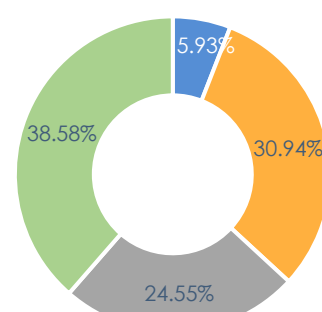
- Automotive
- Consumer Discretionary
- Financial
- Machinery
- TMT
- Utilities
- Cash
- Consumer Staples
- Insurance
- Real Estate
- Transportation & Logistics

## 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 were tighter across the globe in January. There was AUD +7.7b of issuance from financials in January with CBA the standout, issuing AUD 5b across 4 tranches. Even with the large issuance, credit spreads performed well in the secondary market and CBA's new 5yr fixed rate bond finished the month 29bps tighter. Non-financial spreads continue to outperform as we await the first benchmark deal for 2023. Tier 2 subordinated bank debt had been underperforming the market recently, due to the uncertainty caused by APRA's letter on the expectations on capital calls. However, that uncertainty was put to ease on the 27th of January when APRA approved Westpac to call their AUD 250m Feb-28/23 Tier 2 bonds. This led to rally in Tier 2 spreads across the market, especially those with shorter call dates in 2023 and 2024.

AS AT 31 <sup>ST</sup> JAN 23	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.80%	-0.10%
ITRAXX EUROPE 5YR	0.79%	-0.11%
ITRAXX EUROPE XOVER 5YR	4.14%	-0.60%
CDX US IG 5YR	0.71%	-0.11%
CDX US HY 5YR	4.30%	-0.54%

## FUND METRICS

The Fund's interest rate duration (IRD) was increased to 0.70yrs in late December as 3yr yields had spiked 44bps over the month. In January we saw a reversal of this move and 3yr yields rallied all the way back to end January at 3.19%. We used this opportunity to reduce the IRD back down to 0.32yrs. Although the credit duration of the Fund was largely unchanged MoM, the Fund was very active trading financials in the primary and secondary markets. BBSW 3m spiked another 11bps in January to 3.37%, which now makes floating rate notes (FRN) equally attractive to fixed rate bonds due to a relatively flat yield curve. So the Fund was active adding FRNs in the primary market and selling fixed rate bonds in the secondary market throughout the month.

AS AT 31 <sup>ST</sup> JAN 23	FUND	CHG ON MTH
INTEREST RATE DURATION	0.32	-0.37
CREDIT DURATION	3.23	0.02
YIELD TO MATURITY	4.69%	-0.36%
YIELD TO WORST	4.61%	-0.46%
BLOOMBERG COMPOSITE RATING (weighted average)*	A	A

\*Using the Morningstar methodology for Average Credit Quality

## NEW ISSUES

Financials continue to dominate the AUD corporate bond market and January was no different. We recorded AUD 7.7b issued from 6 unique financial issuers. CBA did a jumbo AUD 5b across 4 tranches, not only the biggest deal of the month also the best performer by some margin.

ISSUER	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
CBA	09-Jan-23	450	Fixed	13-Jan-26	-	1.37%	1.14%	-0.23%
CBA	09-Jan-23	750	Fixed	13-Jan-28	-	1.66%	1.37%	-0.29%
CBA	09-Jan-23	2,000	Floating	13-Jan-28	-	1.15%	1.03%	-0.13%

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