# 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.

| AS AT 31ST MAR 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 | 0.30% | 2.21% | 3.45% | 3.02% | 1.30% | 2.99% | 2.61% | 2.85% | 3.73% |
| NET FUND RETURN | 0.24% | 2.02% | 3.06% | 2.25% | 0.55% | 2.22% | 1.84% | 2.08% | 2.95% |
| RBA CASH RATE | 0.30% | 0.81% | 1.51% | 2.06% | 1.08% | 0.78% | 0.82% | 0.96% | 1.06% |
| ACTIVE RETURN (net Fund return - RBA cash rate) | -0.06% | 1.21% | 1.55% | 0.19% | -0.53% | 1.44% | 1.02% | 1.12% | 1.89% |

*The 1m, 3m, 6m, 1yr, 2yr, 3yr, 4yr, 5yr and since inception net returns for Class A Units are 0.23%, 1.98%, 3.01%, 2.23%, 0.48%, 2.14%, 1.75%, 1.98% & 2.85% 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.*

| AS AT 31ST MAR 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 | 0.26% | 1.12% | 2.05% | 2.70% | 1.32% | 1.73% | 1.57% | 1.85% | 2.06% |
| BLOOMBERG AUSBOND COMP 0-3 YR Index | 1.17% | 1.58% | 2.49% | 1.41% | -0.19% | 0.19% | 0.79% | 1.23% | 1.40% |

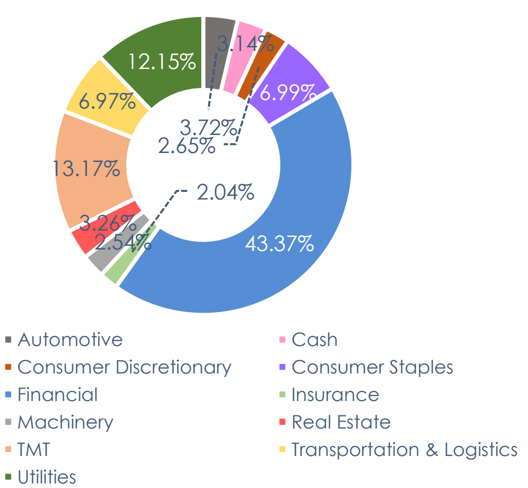
## PORTFOLIO UPDATE

An eventful month to say the least, as a US regional banking crisis was followed by the collapse of a Swiss banking giant founded in 1856. Whilst it was inevitable that the aggressive hiking of interest rates around the globe would eventually break something, the lack of risk management in the case of SVB was quite astounding. Credit spreads of hybrid securities (no exposure in the Fund), gapped wider as investors took a sell first, ask questions later approach post the UBS merger with Credit Suisse and the zero-value applied to the latter's hybrid (AT1) securities. The quasi-equity risk of hybrids, which is well understood by institutional investors and conversely mis-understood by retail investors, led to a large dispersion in pricing between listed and unlisted hybrids.

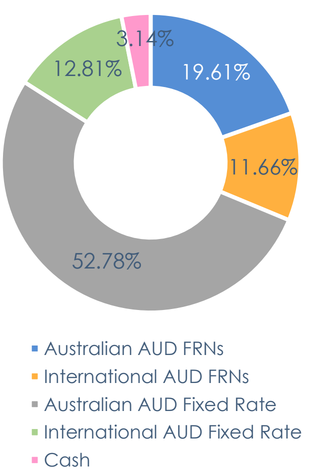
Whilst credit was wider, the Fund's modest interest rate duration exposure aided the month's performance. In addition, the Fund's healthy running yield also provided a nice counterbalance to the widening in credit spreads. Underperformance in March came from the Fund's positions in BNP, Goldman Sachs, Air New Zealand, Bank Australia and Macquarie Bank. Outperformance came from the Fund's positions in the Australian Postal Corporation, Nextera, Lendlease, Computershare and Optus.

## PORTFOLIO BREAKDOWN

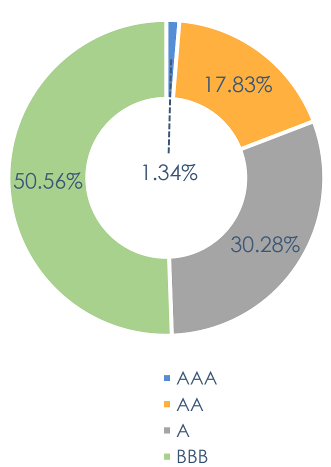
### SECTOR BREAKDOWN




### REGION & PRODUCT




### CREDIT RATING



## CREDIT SPREADS

Credit was naturally wider in March. The significant underperformer was bank hybrid (AT1) spreads. US and European financials have suffered more significant widening in their respective currencies and for good reason, considering the collapse of SVB and Credit Suisse. Australian senior bank spreads did widen during the month but finished roughly where they started, as the panic in the market eased. Subordinated Tier 2 spreads finished the month 5bps to 10bps wider and non-financial corporate bonds spreads are largely unchanged MoM. Risks within the financial system remain, hence our cautious approach to investing over the past 12 months. We remain focused on investing in the 3yr to 5yr part of the curve where we see the best risk/return. This enables the Fund to maximise its coupon income on the beta allocation of the portfolio, whilst we actively pursue relative value opportunities in the alpha allocation of the portfolio.

| AS AT 31ST MAR 23 | PRICE | CHG ON MTH |
|---|---|---|
| ITRAXX AUSTRALIA 5YR | 0.91% | 0.04% |
| ITRAXX EUROPE 5YR | 0.84% | 0.05% |
| ITRAXX EUROPE XOVER 5YR | 4.36% | 0.23% |
| CDX US IG 5YR | 0.76% | -0.01% |
| CDX US HY 5YR | 4.63% | 0.01% |

## FUND METRICS

Post the SVB collapse on March 10th, there was a flight to quality and global government bond yields rallied across the curve. In Australia, 3yr yields rallied 63bps MoM and 10yr yields rallied 50bps MoM. We used the significant rally in yields to reduce the Fund's interest rate duration to 0.50yrs. As central banks now try to navigate the issues within the financial system, which requires tightening and loosening financial conditions at the same time, inflation remains key to the direction of markets in the short-term. The risk central banks are now faced with is pulling back from their restrictive stance and easing too soon which could cause inflation to start drifting higher again. So, we will look to add back some interest rate duration on the next spike in yields as we are of the view that interest rates will be volatile, but within a range, although that range is probably lower than what we saw in 2022.

| AS AT 31ST MAR 23 | FUND | CHG ON MTH |
|---|---|---|
| INTEREST RATE DURATION | 0.50 | -0.17 |
| CREDIT DURATION | 3.35 | 0.13 |
| YIELD TO MATURITY | 4.69% | -0.29% |
| YIELD TO WORST | 4.68% | -0.29% |
| BLOOMBERG COMPOSITE RATING (weighted average)* | A | A |

*Using the Morningstar methodology for Average Credit Quality*

## NEW ISSUES

The AUD new issue market shrugged off the global volatility and delivered another robust month of financial issuance. It was great to see the first non-financial corporate deal of the year from Telstra who issued AUD 650m 5yr fixed rate bond yielding 4.9%. However, it was ANZ who took out March's best performing new issues as highlighted below.

| ISSUER | Issue Date | Issue Size $M | Fixed/ Floating | Maturity | Next Call | Credit Spread EFP/BBSW | Month End Bid Spread | Net Change |
|---|---|---|---|---|---|---|---|---|
| ANZ BANKING GROUP | 28-Mar-23 | 350 | Fixed | 31-Mar-26 | - | 1.37% | 1.33% | -0.04% |
| ANZ BANKING GROUP | 28-Mar-23 | 500 | Fixed | 31-Mar-28 | - | 1.67% | 1.59% | -0.09% |
| ANZ BANKING GROUP | 28-Mar-23 | 1,350 | Float | 31-Mar-28 | - | 1.06% | 0.98% | -0.08% |

## DISCLAIMER



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