

MONTHLY UPDATE – DECEMBER 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 31 st December 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	0.53%	2.19%	4.30%	3.93%	4.62%	4.11%	5.21%
Net Fund return	0.46%	2.00%	3.91%	3.16%	3.85%	3.33%	4.42%
RBA cash rate	0.01%	0.04%	0.10%	0.32%	0.74%	1.00%	1.11%
Active return (net Fund return - RBA cash rate)	0.46%	1.96%	3.81%	2.83%	3.10%	2.34%	3.31%

The 1m, 3m, 6m, 1yr, 2yr, 3yr and since inception net returns for Class A Units are 0.47%, 1.99%, 3.89%, 3.06%, 3.74%, 3.22% & 4.29% respectively.

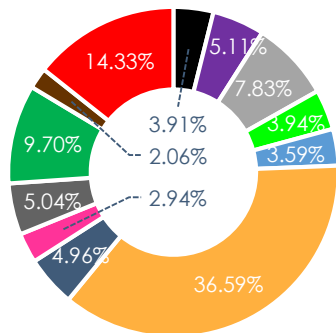
As at 31 st December 2020	OTHER BENCHMARK COMPARISONS						
	1 month	3 months	6 months	1 year	2 year (p.a.)	3 year (p.a.)	Since Inception (p.a.)
Bloomberg AusBond Credit FRN 0+ Yr Index	0.00%	0.53%	1.07%	1.79%	2.34%	2.33%	2.55%
Bloomberg AusBond Composite 0-3 Yr Index	0.01%	0.22%	0.57%	1.88%	2.36%	2.38%	2.31%

PORTFOLIO UPDATE

The Fund closed out 2020 with another solid month; active management drove the majority of the returns earlier in the month and we witnessed a mild contraction in credit spreads as the month progressed. The annual net return for 2020 of 3.16% (RBA cash rate +2.83% for Class B Units), outperforms the Fund's target return of the RBA cash rate +2.75%. Considering the COVID-19 induced market volatility we experienced in late Q1 and into Q2, we are satisfied with the Fund's returns for 2020. With 2020 now behind us, our focus shifts to 2021 and how best to position the Fund. It is hard to find an economic commentator who hasn't predicted higher house prices, low interest rates, higher equities and tighter credit spreads in 2021. This alone makes us pause, as the herd buy together they also sell together. The positive technicals and turning fundamentals of the market have been written about ad nauseam. So our focus as we set the investment strategy for 2021 tends to be more focused on what can upset the consensus, and identifying the best early signalling of these potential events. Events such as: Australia's deteriorating relationship with China, vaccine issues, central banks unwinding stimulus packages, steepening yield curves (and how heavily indebted corporates navigate this), reckless risk taking in the search for yield, and lastly, the unwinding of crowded trades are all areas to watch. In saying that, the outlook for investment grade credit is positive and taking an active approach to interest rate duration will be paramount. From a credit spread perspective, unlike equities, credit spread valuations look reasonable although we do expect them to become rich throughout 2021. We expect robust new issuance volumes as corporates take advantage of low outright yields. Like 2020, the Fund will be focused on adding alpha through active management as opposed to chasing outright yields with lower credit quality.

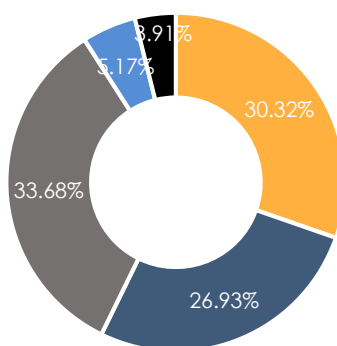
PORTFOLIO BREAKDOWN

SECTOR BREAKDOWN



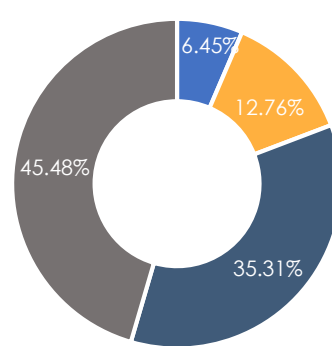
- Cash
- Consumer Discretionary
- Consumer Staples
- Educational Services
- Energy
- Financial
- Insurance
- Machinery
- Real Estate
- TMT
- Transportation & Logistics
- Utilities

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	0.56%	-0.03%
ITraxx Europe 5yr	0.48%	-0.01%
ITraxx Europe Xover 5yr	2.42%	-0.23%
CDX US IG 5yr	0.50%	0.00%
CDX US HY 5yr	2.93%	-0.10%

Credit spreads were mildly tighter (2-5bps) across the board in December. Looking back at 2020, we are finishing the year in AUD corporate bond spreads on average ~5-7bps tighter than where we started. Understandably there is some dispersion in the data set, with sectors like airlines and REITs underperforming due to COVID-19. Technical outperformance due to the lack of issuance, drove the senior debt spreads of Australian major banks tighter than pre COVID-19 levels. In 2021, we see value in subordinated financial and non-financial spreads, foreign banks look cheap compared to Australian major banks and longer dated (7yr to 10yr) non-financial corporates look attractive. We continue to focus on the liquidity profile of the corporate bonds we add to the Fund so RBA repo eligible securities are attractive for this reason. Technically strong corporate bonds like green, sustainable and social bonds also offer incremental value over and above their use of proceeds.

FUND METRICS

As at 31 st December 2020	Dec '20	Chg on Mth
Interest rate duration	0.91	0.11
Credit duration	4.23	-0.03
Yield to maturity	1.49%	0.09%
Yield to worst	1.34%	0.05%
Bloomberg Composite Rating (Weighted Average)*	A	A

*Using the Morningstar methodology for Average Credit Quality

Whilst the Fund's metrics were reasonably unchanged in December, it was the Fund's busiest December in terms of trading volume since 2017. The new issue market was quite active in the first few days of December, which then led to more holistic portfolio rebalancing into year end. The Fund's interest rate duration sits slightly below our mandate target of 1yr, and the Fund's credit duration sits slightly above our mandate target of 4yrs. Whilst we believe the front end of the Australian government bond yield curve is fairly anchored for now, we would expect the long end of the curve to steepen if the economy starts to pick up pace. Whilst constructive on credit spreads, we believe additional diversification achieved by increasing the number of corporate bonds the Fund holds will add value.

NEW ISSUES

December is a seasonally slow month in terms of volumes, we recorded AUD 2.95b which is the largest December volume since 2017. Non-financial issuance from Western Sydney University, Goodman's, University of Wollongong and NBN all garnered significant demand. AMP Life's subordinated deal issued at BBSW +330bps however was the best new issue to see out the final month of 2020.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
AMP Life	01-Dec-20	300	Floating	09-Dec-35	09-Dec-25	3.30%	2.75%	-0.55%
Western Sydney University	01-Dec-20	200	Fixed	08-Dec-27	-	0.68%	0.51%	-0.17%
Goodman Australia Industrial Partnership	02-Dec-20	400	Fixed	14-Dec-28	15-Sep-28	0.91%	0.79%	-0.12%

DISCLAIMER

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