

# MONTHLY UPDATE

**Fund Objective:** The Artesian Green & Sustainable Bond Fund (Fund) will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate green, sustainable and social corporate bonds. The Fund aims to provide returns above the Bloomberg AusBond Composite 0-5 Yr Index 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 <sup>ST</sup> MAY 2024	FUND PERFORMANCE						
	1 month	3 months	6 months	1 year	2 year	3 year	Since Inception (p.a.)
GROSS FUND RETURN	0.62%	0.78%	2.92%	4.61%	4.13%	1.36%	1.94%
NET FUND RETURN	0.57%	0.66%	2.66%	4.09%	3.61%	0.86%	1.42%
BLOOMBERG AUSBOND COMPOSITE 0-5 YR Index	0.41%	0.32%	2.11%	2.84%	2.50%	0.04%	0.11%
ACTIVE RETURN (net Fund return - benchmark)	0.16%	0.34%	0.55%	1.25%	1.10%	0.82%	1.31%

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.

## PORTFOLIO UPDATE

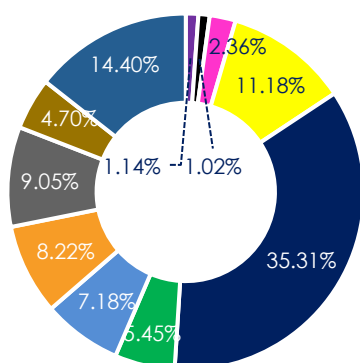
In May, we witnessed a reversal of market conditions that played out in April. Volatility across global markets eased with the VIX closing 19% lower MoM. Whilst it is unusual to have the VIX at such a low level whilst the yield curve is inverted in the US, it was still a positive for bond prices (yields lower), equity markets and credit spreads. Economic data was mixed, but generally supportive of the current stance of most central banks, which is higher for longer, yet rate hikes are unlikely. The good news for fixed income investors, is that they can continue to earn a decent running yield in the range of 5%-5.50%, compared with the dividend yield of the ASX currently at 3.78%.

The Fund's outperformance versus benchmark in May, was driven by the overweight credit duration positioning (credit spreads were lower/tighter) and overweight interest rate duration positioning (interest were lower/tighter). The Fund's running yield of 5.05% versus the benchmark's 4.42%, also contributed to the monthly outperformance.

Every position in the fund had a positive contribution to May's performance. The best performing issuers were Mercury NZ Ltd (Green), Australian Postal Corporation (Sustainable), Optus (Sustainability-Linked), Contact Energy (Green) and the University of Melbourne (Green).

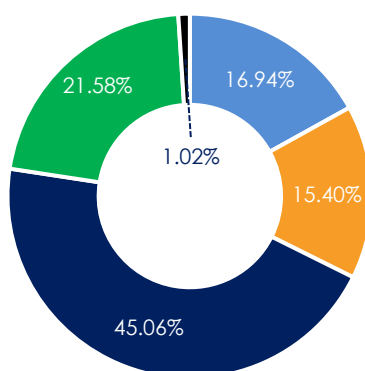
## PORTFOLIO BREAKDOWN

### SECTOR BREAKDOWN



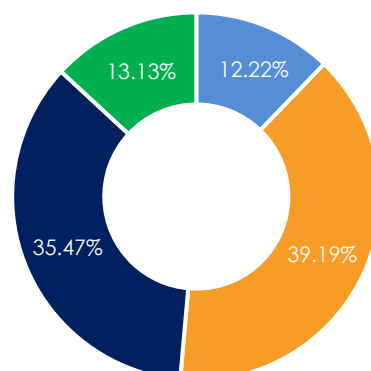
- Agencies
- Consumer Staples
- Financial
- Semi Government
- TMT
- Utilities
- Cash
- Educational Services
- Real Estate
- Supranational
- Transportation & Logistics

### 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

There was a strong bid for credit throughout May which led to tighter spreads and flatter credit curves. AUD corporate bond credit spreads were 5bps to 10bps tighter. Whilst 3yr corporate bonds outperformed, there was a notable rally right across the curve through to 10yr. AUD corporate bond credit spreads have lagged the move tighter in 2024 compared to EUR and USD credit spreads. In May, AUD credit spreads outperformed on average ~8bps tighter, compared to EUR spreads ~4bps tighter and USD spreads 2bps tighter. Whilst AUD new issue market volumes continue to be elevated, we see credit spreads remaining range bound.

AS AT 31 <sup>ST</sup> MAY 2024	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.66%	-0.05%
ITRAXX EUROPE 5YR	0.53%	-0.03%
ITRAXX EUROPE XOVER 5YR	2.96%	-0.22%
CDX US IG 5YR	0.50%	-0.04%
CDX US HY 5YR	3.33%	-0.24%

## FUND METRICS

Australian Government bond yields finished 6bps to 10bps lower across the curve in May. Although the outright move lower was modest, they traded in a 28bps to 33bps range over the month. We used this volatility in government bond yields to actively manage the interest rate duration (IRD) of the Fund, which also contributed to this month's returns. The net result is that the IRD of the Fund is largely unchanged MoM, but was actively managed intramonth. Similarly with the Fund's credit duration (CD), whilst the MoM change was negligible, the Fund was very active in primary and secondary markets executing relative value trades. Both the Fund's IRD and CD sit just above the Fund's benchmark, reflecting our neutral stance on both interest rates and credit spreads at these levels.

AS AT 31 <sup>ST</sup> MAY 2024	FUND	BENCH-MARK
INTEREST RATE DURATION	2.58	2.44
CREDIT DURATION	2.83	2.44
YIELD TO MATURITY	5.07%	4.42%
YIELD TO WORST	5.05%	4.42%
BLOOMBERG COMPOSITE RATING (weighted average)	A	AA+

*\*Using the Morningstar methodology for Average Credit Quality*

## NEW ISSUES

After a slow down in April, the AUD labelled bond new issue market delivered yet again another month of impressive volume. In May, we recorded 5 new bond issues from 4 unique bond issuers, for a total volume of AUD 1.9b.

ISSUER	Bond Type	Issue Date	Issue Size \$M	Fixed/Floating	Maturity
<b>SOUTH AUSTRALIA POWER NETWORKS</b>	Green	24-May-24	245 250	Fixed	3-Jun-27 3-Dec-32

Issuer	SA Power Networks
Currency	AUD
Sector	Utility
SDG Alignment	
Eligible Projects	<ul style="list-style-type: none"> <li>Distribution assets (Stobie poles, powerlines and underground cables, and streetlights).</li> <li>Consumer energy resources (including residential and commercial solar and wind generation, storage batteries, virtual power plants (VPP) and electric vehicles (EVs)).</li> <li>Distribution System Operator capabilities.</li> <li>Smart metering and network management.</li> <li>Energy storage solutions (such as batteries, VPPs, EVs, large, embedded generators and microgrids).</li> </ul>

On 24th May 2024, South Australia Power Network (ETSA) launched a new dual-tranche AUD denominated green bond following an investor roadshow. ESTA was the first non-financial corporate issuer in 2024 and the deal was very well received by the market.

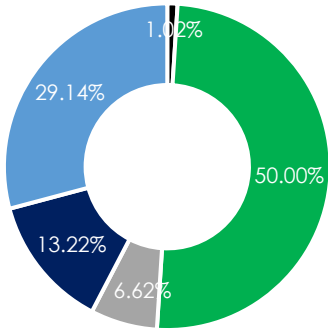
The reported use of proceeds will potentially include:

- Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub>e.
- Capacity of renewable energy plant(s) to be served by distribution systems (MW).
- Percentage of renewable energy capacity in South Australia.
- Number of customers with new Consumer Energy Resources.
- Annual energy savings in MWh/GWh (electricity and GJ/TJ (other energy savings)).
- Number of clean vehicles deployed (e.g. electric).

GREEN, SUSTAINABLE & SOCIAL

CARBON ABATEMENT

BOND TYPE



■ Cash ■ Green ■ SLB ■ Social ■ Sustainable

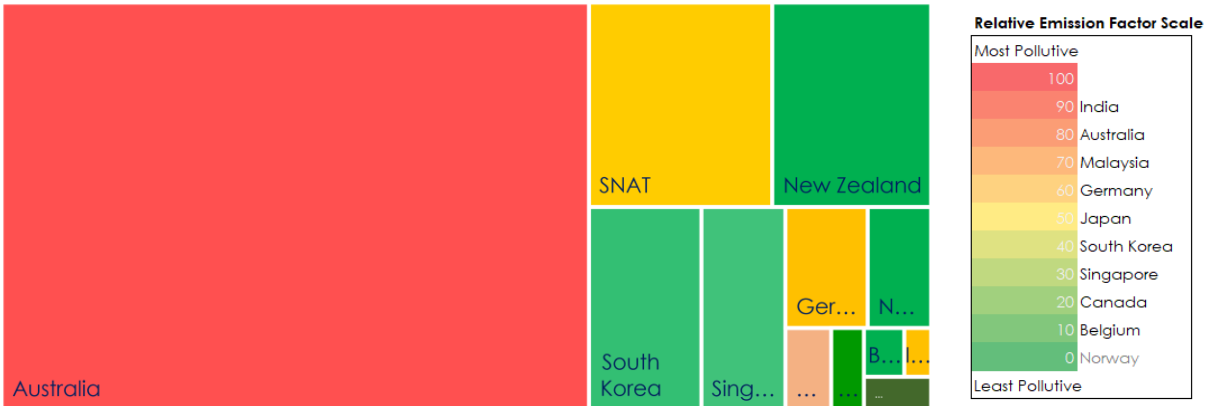
	Fund
May's estimated carbon abatement	1,326 tCO2e*
Since inception estimated carbon abatement <sup>1</sup>	42,559 tCO2e*
% of Fund used in this estimation	33%

One of the primary goals for the Fund is to report regularly on the impact that the bonds we have invested in are having on the environment. As issuers report their use of proceeds achievements, we update our records and this should also lead to a continual increase in the 33% of the Fund used to calculate the carbon abatement.



Equivalent to **19,951 cars\*\*** off the road for a year, since fund inception

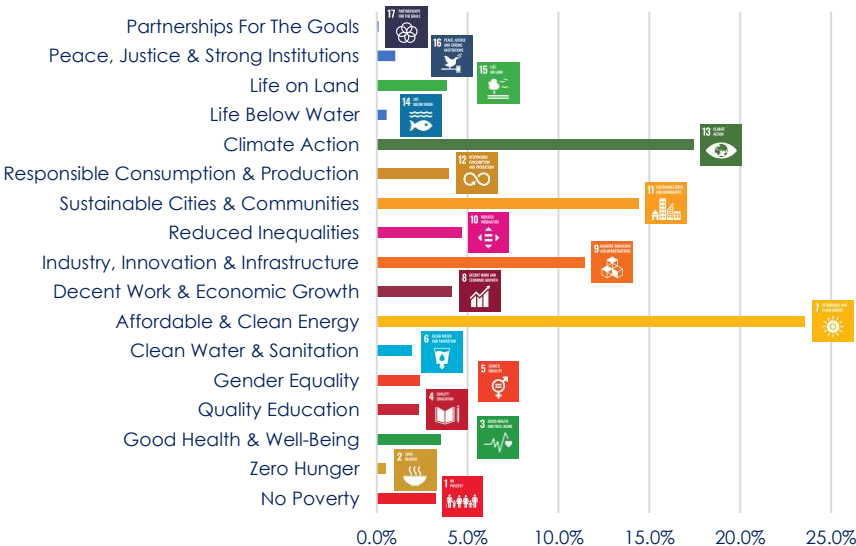
ALLOCATION OF FUNDS HEATMAP



Source: Artesian, EIB; Relative Emission Factor is measured across 43 countries/regions; Oct 2022

The heatmap above shows which countries the Fund is allocating capital to, to improve the global green economy. The Relative Emission Factor Scale shows how dirty the energy grid of each country is. It is a normalised scale of the baseline emission factor for electricity generation across 43 major countries - how much gCO2e/kWh is emitted. In essence, the more green capital investors can channel to higher pollutive countries, the higher the impact per dollar.

SUSTAINABLE DEVELOPMENT GOALS



The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. When mapping the SDG's per bond held in the Fund, we take a conservative approach. If one bond targets more than one SDG, then the allocation is split evenly between the SDGs and then portfolio weighted. Unsurprisingly, the Fund is most aligned with Clean Energy, Climate Action and Sustainable Cities, making up 55% of the Fund's targeted SDGs. The Fund currently supports 17 of the 17 SDGs.

IMPACT SINCE INCEPTION

144,533



Trips made on clean & sustainable transportation.

102,096,426



Litres of water saved.

9,443



Square metres of green energy efficient buildings financed.

91



People provided with access to water & sanitation.

5



Affordable housing dwellings financed.

1,846



People provided with access to education.

100%



Female representation on board of Fund holdings.

177



Jobs created or preserved.

44%



Fund bond issuers supporting TCFD.

19%



Fund bond issuers supporting PCAF.

88%



More than one female on board of Fund holdings.

The figures above are not actuals they are estimates using pro rata calculations taken from issuers use of proceeds reports, done on a best-efforts basis.

NOTES

\*We take a conservative approach to estimating the carbon abatement of our portfolio holdings. If we own a bond that has not yet produced a use of proceeds report or something similar, we don't report any carbon abatement whatsoever. For those issuers who have produced a use of proceeds report, we pro rata the Fund's allocation of the reported carbon abatement. We use the previously reported 12-month carbon abatement figures to project the following 12 months and update those as soon as a new report from the issuer is produced.

\*\*As per the ABS's latest Survey of Motor Vehicle Use ([link](#) as of 20 Mar'19), Passenger Vehicles in Australia on average travelled 12,600km a year in 2018. As per NTC's latest emission intensity paper ([link](#); as of Jun'20), Passenger Vehicles in Australia on average had an emission intensity of 169g/km in 2019 (or 169.8g/km in 2018). As a result, we defined the carbon footprint of an average passenger vehicle in Australia as 2.14t CO2e per year being  $[(169g/km \times 12,600km) / 1,000,000]$ .

The impact metrics published in this document reflects the proprietary methodology developed by Artesian for the collection, evaluation, calculation and harmonization of thematic ESG indicators that are aligned with United Nations Sustainable Development Goals. Actual data and estimated data are both analysed based on companies' disclosures including but not limited to "Use of Proceeds", "Impact Report" and "Second-party Verification", as well as engagement with the companies themselves.

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