

# 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 30 <sup>TH</sup> JUNE 2023	FUND PERFORMANCE					
	1 month	3 months	6 months	1 year	2 year	Since Inception (p.a.)
GROSS FUND RETURN	-0.90%	-0.69%	1.92%	3.45%	-0.70%	0.60%
NET FUND RETURN	-0.94%	-0.81%	1.66%	2.94%	-1.19%	0.09%
BLOOMBERG AUSBOND COMPOSITE 0-5 YR Index	-1.14%	-1.47%	0.78%	1.59%	-1.83%	-1.28%
ACTIVE RETURN (net Fund return - benchmark)	0.20%	0.66%	0.89%	1.34%	0.64%	1.37%

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

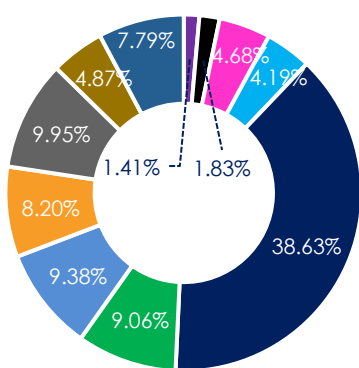
June was a continuation of the market dynamics we saw in May. Lingering inflation induced higher central bank cash rates and higher government bond yields. The Australian yield curve inverted for the first time since 2008, as the risks of a recession rise. In contrast, the labour market remains robust. With that said, it is usually one of the last indicators of a recession. Economic growth was an anaemic 0.2% in Q1, so there is not much wiggle room to protect us from a technical recession like our friends across the Tasman. We continue to run a fairly benign beta portfolio, preferring not to add outright risk, instead add alpha through active management which is incremental to the 5.09% running yield.

The Fund's outperformance versus benchmark was driven by the underweight interest rate duration positioning and overweight credit duration positioning. The Fund's running yield of 5.09% versus the benchmark of 4.43%, also positively contributes to the outperformance on a monthly basis.

The new issue market had another solid month of issuance in June with AUD 2.87b. The Western Australian Treasury Corporation issued their inaugural green bond with total volume of AUD 1.9b. In June, the Fund had strong outperformance from the Australian Postal Corporation (Sustainable), Optus (Sustainability-Linked), NBN (Green), Industrial Bank of Korea (Green) and Mercury (Green). Small underperformance came from the Fund's positions in the University of Melbourne (Green), Bank Australia (Sustainable) and OCBC (Green).

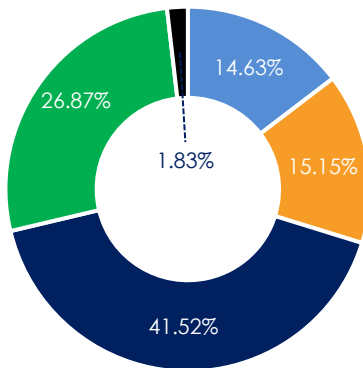
## PORTFOLIO BREAKDOWN

### SECTOR BREAKDOWN



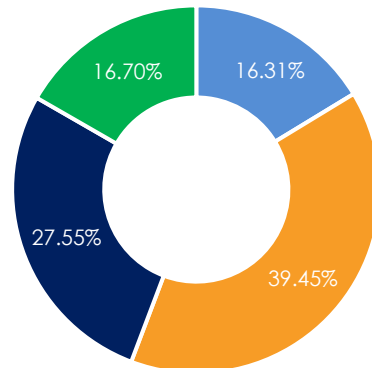
- Agencies
- Consumer Staples
- Financial
- Semi Government
- TMT
- Utilities
- Cash
- Educational Services
- Real Estate
- Supranational
- Transportation & Logistics

### 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

Credit spreads in the AUD market were mixed MoM. Senior bank spreads were largely unchanged whereas subordinated Tier 2 spreads were ~5bps tighter. The Tier 2 rally was all the more impressive considering Westpac issued AUD 2.9b across 3 tranches in June. The increase in supply from the non-financial sector, has meant a pick-up in trading volumes and some pockets of outperformance. Issuers in the primary market have been willing to issue 10bps to 25bps cheap to their secondary market curve, which has produced some strong performance post issuance. We continue to favour rotating out of fixed rate bonds into floating rate notes as BBSW continues to move higher. In June, 3-Month BBSW rose another 37bps to 4.35%, its highest level since early 2012.

AS AT 30 <sup>TH</sup> JUNE 2023	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.81%	-0.02%
ITRAXX EUROPE 5YR	0.74%	-0.08%
ITRAXX EUROPE XOVER 5YR	4.00%	-0.34%
CDX US IG 5YR	0.66%	-0.09%
CDX US HY 5YR	4.30%	-0.45%

FUND METRICS

As 3yr yields have continued their move higher, we have continued to add back interest rate duration and move closer towards benchmark. Since the beginning of May 3yr yields are now 100bps higher at ~4.00%. We have been managing the Fund's interest rate duration, by trading the 3% to 4% range in 3yr yields for the last 12 months. The Fund's current running yield of 5.09% provides a steady monthly income of 42bps, which in turn provides some insulation against a spike higher in yields like what we saw this month. The Fund's credit duration remains 0.43yrs longer than benchmark which has been a positive contributor to returns post the spread widening in March. On a global basis, AUD corporate bond spreads have lagged the move tighter since March and still look quite attractive on a relative value basis.

AS AT 30 <sup>TH</sup> JUNE 2023	FUND	BENCH-MARK
INTEREST RATE DURATION	2.16	2.45
CREDIT DURATION	2.88	2.45
YIELD TO MATURITY	5.09%	4.43%
YIELD TO WORST	5.09%	4.43%
BLOOMBERG COMPOSITE RATING (weighted average)	A*	AA+

\*Using the Morningstar methodology for Average Credit Quality

NEW ISSUES

An active month for new issues, with 6 new labelled bonds issued for a total of AUD 2.87b in issuance. This month we have highlighted the Western Australian Treasury Corporation's green bond which was issued in June.

ISSUER	Bond Type	Issue Date	Issue Size \$M	Fixed/Floating	Maturity
WESTERN AUSTRALIA TREASURY CORPORATION	Green	8-June-23	1,900	Fixed	20-Jul-33

Issuer	WESTERN AUSTRALIAN TREASURY CORPORATION
Currency	AUD
Sector	Semi Government
SDG Alignment	
Eligible Projects	<p>Eligible green projects must contribute to environmental objectives such as;</p> <ul style="list-style-type: none"> <li>Sustainable water and wastewater management</li> <li>Renewable energy and energy efficiency</li> <li>Clean transportation</li> <li>Climate change adaption</li> </ul>

Western Australian Treasury Corp (WATC) is government-owned and established as the central borrowing authority for the Western Australian government.

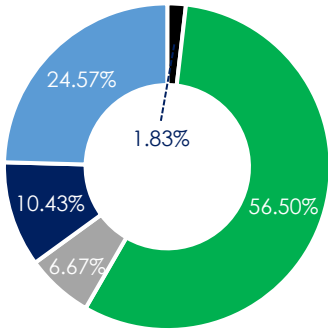
This was their inaugural issue and considerable work was done on their Sustainability Bond Framework.

Through their Sustainability Bond Framework that was released in April 2023, WATC aims to support the Western Australian Government's commitment to the Paris Agreement, reaching net-zero GHG emissions by 2050 and progressing the objectives of the United Nations Sustainable Development Goals.

GREEN, SUSTAINABLE & SOCIAL

CARBON ABATEMENT

BOND TYPE



■ Cash ■ Green ■ SLB ■ Social ■ Sustainable

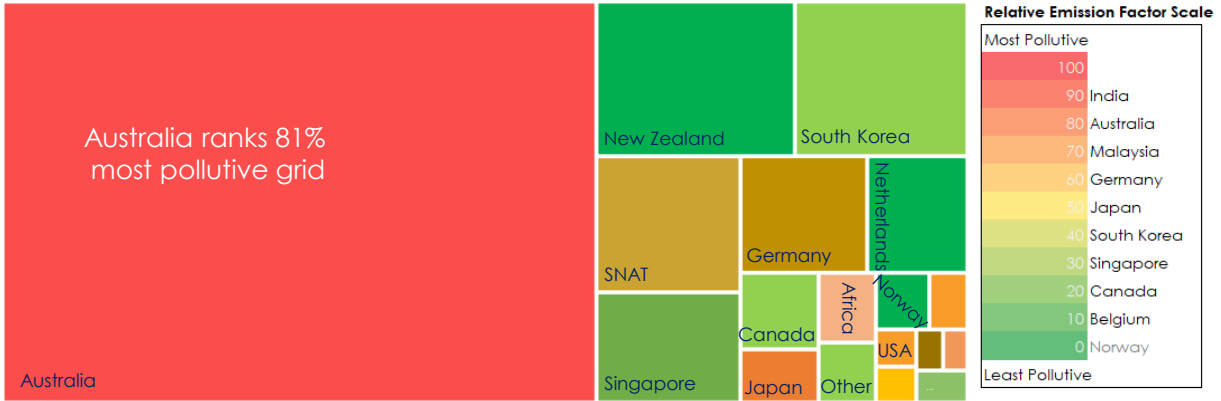
	Fund
June's estimated carbon abatement	2,312.2 † CO2e*
Since inception estimated carbon abatement <sup>†</sup>	47,514.6t CO2e*
% of Fund used in this estimation	45%

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 45% of the Fund used to calculate the carbon abatement.



Equivalent to **22,274 cars\*\*** off the road for a year, since fund inception

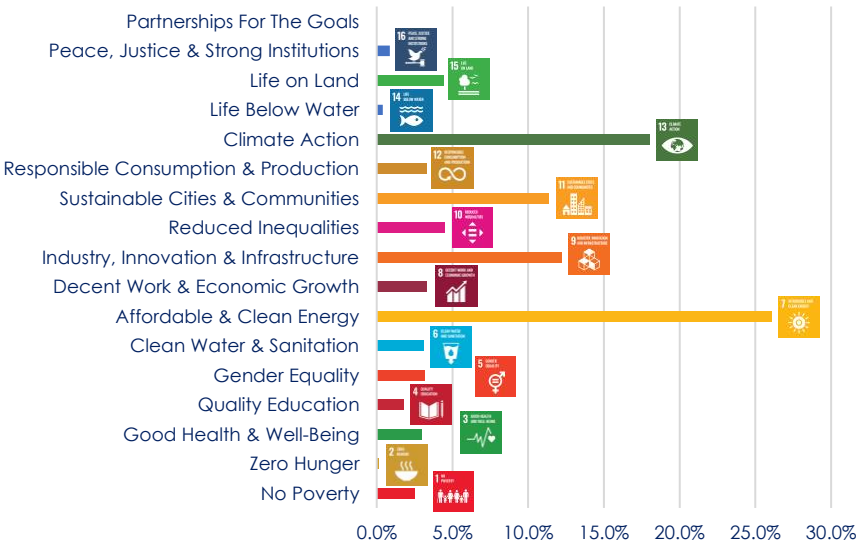
ALLOCATION OF FUNDS HEATMAP



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 16 of the 17 SDGs, with the goal of supporting all 17 as the Fund grows.

IMPACT SINCE INCEPTION

275,736



Trips made on clean & sustainable transportation.

10



Affordable housing dwellings financed.

49%



Fund bond issuers supporting TCFD.

97,546,206



Litres of water saved.

1,754



People provided with access to education.

20%



Fund bond issuers supporting PCAF.

6,980



Square metres of green energy efficient buildings financed.

100%



Female representation on board of Fund holdings.

86%



More than one female on board of Fund holdings.

34,865



People provided with access to water & sanitation.

154



Jobs created or preserved.

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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