

# 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 2023             | FUND PERFORMANCE |          |          |        |        |                        |
|---|------------------|----------|----------|--------|--------|------------------------|
|   | 1 month          | 3 months | 6 months | 1 year | 2 year | Since Inception (p.a.) |
| GROSS FUND RETURN                           | -0.24%           | 1.66%    | 2.82%    | 3.65%  | -0.22% | 0.96%                  |
| NET FUND RETURN                             | -0.28%           | 1.54%    | 2.56%    | 3.13%  | -0.72% | 0.44%                  |
| BLOOMBERG AUSBOND COMPOSITE 0-5 YR Index    | -0.56%           | 1.38%    | 1.39%    | 2.18%  | -1.33% | -0.89%                 |
| ACTIVE RETURN (net Fund return - benchmark) | 0.28%            | 0.15%    | 1.17%    | 0.96%  | 0.61%  | 1.34%                  |

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

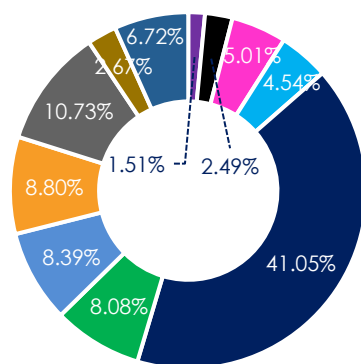
The Fund performed well in May considering the spike (3yrs +0.38bps) in government bond yields, as the fears of lingering inflation in a low unemployment world continue. The ongoing negotiations in the US regarding their debt ceiling, meant that spreads were kept range bound. Over the month we observed some small outperformance in the AUD market compared to the USD market. Outright buyers of fixed rate bonds also emerged throughout the month, keen to lock in attractive yields at these elevated levels.

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 4.61% versus the benchmark of 3.86%, also positively contributes to the outperformance on a monthly basis.

The new issue market picked up pace in May after a subdued April. There was AUD 3.64b in volume issued which was well received, however more encouragingly was the 2<sup>nd</sup> non-financial and non-SSA deal of the year from the Australian Postal Corporation. They issued AUD 100m with a 6yr maturity in Sustainable Bond format, with an order book +235m. In May, the Fund had outperformance from Optus (Sustainability-Linked), University of Tasmania (Green) and Mercury (Green). Underperformance cam from the Fund's positions in Macquarie University (Sustainable), Industrial Bank of Korea (Green) and Transpower (Green).

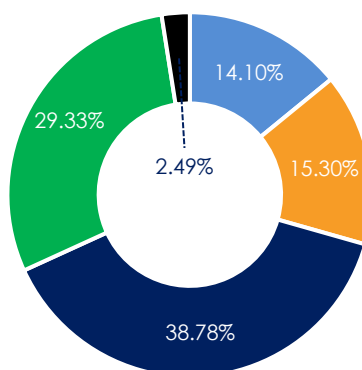
## PORTFOLIO BREAKDOWN

### SECTOR BREAKDOWN



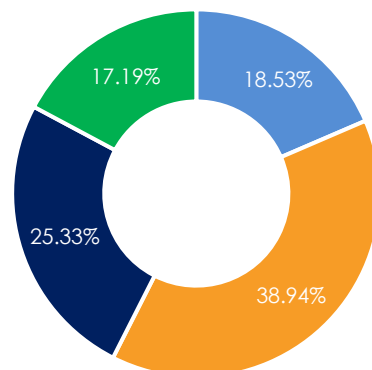
- Agencies
- Cash
- Consumer Staples
- Educational Services
- Financial

### 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 was marginally tighter MoM. Most new issues performed well, as we saw a continued appetite for investment grade credit. This afforded the Fund some opportunities to add alpha for our investors in primary and secondary markets. Considering the pickup in new issue volume, the Fund was quite active adding new positions and rebalancing existing positions. What is encouraging for AUD spreads in the short to medium term, is that they have lagged the move tighter compared to the USD and EUR market. So, on that basis the bid for AUD paper should remain and the Fund is well positioned to take advantage of that.

| AS AT 31 <sup>ST</sup> MAY 2023 | PRICE | CHG ON MTH |
|---------------------------------|-------|------------|
| ITRAXX AUSTRALIA 5YR            | 0.83% | -0.05%     |
| ITRAXX EUROPE 5YR               | 0.82% | -0.01%     |
| ITRAXX EUROPE XOVER 5YR         | 4.34% | -0.01%     |
| CDX US IG 5YR                   | 0.76% | 0.00%      |
| CDX US HY 5YR                   | 4.75% | 0.09%      |

FUND METRICS

The Fund used the 38bps spike in 3yr yields to increase the interest rate duration (IRD) from 1.84yrs to 2.23yrs. The Fund is now almost back to benchmark IRD, as we have reached our ~4.00% yield target on 3yr yields. The spike in yields led to a move higher in the Fund's running yield which now sits at 4.60%. As we mentioned in last month's report, we have been rotating our fixed rate exposure into floating rate notes due to the attractiveness of BBSW. That trend continued in May, and we rolled another ~3% from fixed into floating. Front end rates continue to move higher with the RBA cash rate, 3-month BBSW rose another 31bps to finish the month at 3.98%.

| AS AT 31 <sup>ST</sup> MAY 2023               | FUND  | BENCH-MARK |
|---|-------|------------|
| INTEREST RATE DURATION                        | 2.23  | 2.41       |
| CREDIT DURATION                               | 2.82  | 2.41       |
| YIELD TO MATURITY                             | 4.60% | 3.86%      |
| YIELD TO WORST                                | 4.61% | 3.86%      |
| BLOOMBERG COMPOSITE RATING (weighted average) | A*    | AA+        |

\*Using the Morningstar methodology for Average Credit Quality

NEW ISSUES

A active month for new issues, with 8 new labelled bonds issued for a total of AUD 3.64b in issuance. This month we have highlighted the Australian Postal Corporation's sustainable bond which was issued in May.

| ISSUER                        | Bond Type   | Issue Date | Issue Size \$M | Fixed/Floating | Maturity  |
|-------------------------------|-------------|------------|----------------|----------------|-----------|
| AUSTRALIAN POSTAL CORPORATION | Sustainable | 15-May-23  | 100            | Fixed          | 22-May-29 |

|                   |  |
|-------------------|--|
| Issuer            | Australia Post   |
| Currency          | AUD  |
| Sector            | Transportation & Logistics   |
| SDG Alignment     |  |
| Eligible Projects | <p>Eligible green projects must contribute to environmental objectives such as;</p> <ul style="list-style-type: none"> <li>Climate change mitigation</li> <li>Climate change adaption</li> <li>Natural resource conservation</li> <li>Biodiversity conservation</li> <li>Pollution prevention and control</li> </ul> |

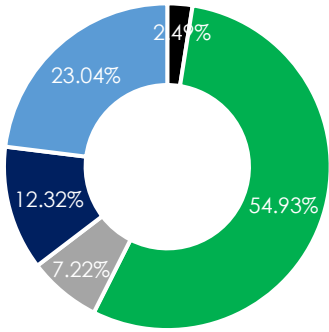
Being a Sustainable Bond, in addition to green projects, the bond will also allocate to social endeavors, such as;

- Living below the poverty line
- Excluded and/or marginalised populations and/or communities
- People with disabilities
- Migrants and/or displaced persons
- Undereducated
- Underserved as a result of lack of access to essential goods and services
- Unemployed
- Women and/or sexual and gender minorities
- Ageing population and vulnerable youth
- Vulnerable groups, including as a result of natural disasters

GREEN, SUSTAINABLE & SOCIAL

CARBON ABATEMENT

BOND TYPE



■ Cash ■ Green ■ SLB ■ Social ■ Sustainable

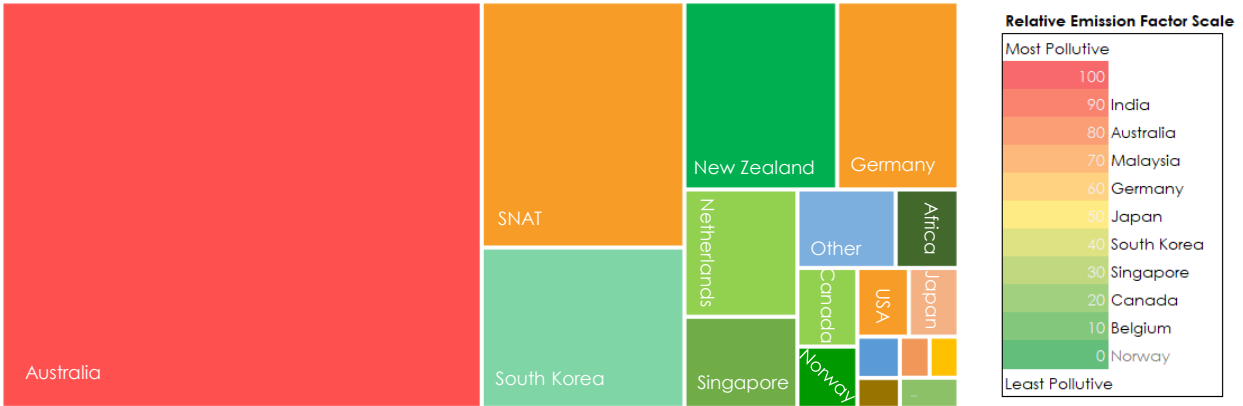
|   | Fund            |
|---|-----------------|
| May's estimated carbon abatement                        | 2,146.3 † CO2e* |
| Since inception estimated carbon abatement <sup>†</sup> | 45,190.1t CO2e* |
| % of Fund used in this estimation                       | 43%             |

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 43% of the Fund used to calculate the carbon abatement.



Equivalent to **21,184 cars\*\*** off the road for a year, since fund inception

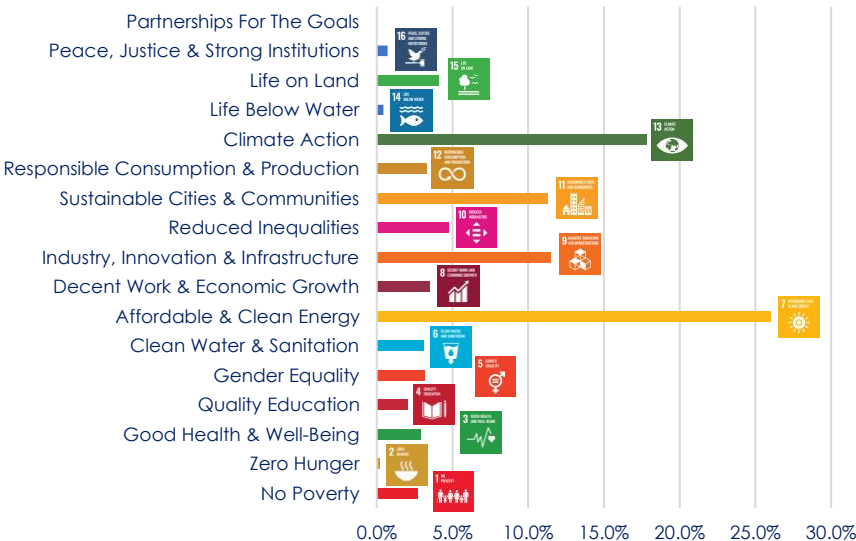
ALLOCATION OF FUNDS HEATMAP



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

298,974



**Trips made on clean & sustainable transportation.**

10



**Affordable housing dwellings financed.**

49%



**Fund bond issuers supporting TCFD.**

97,736,422



**Litres of water saved.**

1,678



**People provided with access to education.**

20%



**Fund bond issuers supporting PCAF.**

6,718



**Square metres of green energy efficient buildings financed.**

100%



**Female representation on board of Fund holdings.**

83%



**More than one female on board of Fund holdings.**

33,020



**People provided with access to water & sanitation.**

149



**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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