MONTHLY UPDATE – AUGUST 2019

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.

	FUND PERFORMANCE - CLASS B UNITS						
As at 31st August 2019	1 month	3 months	6 months	1 year	2 year p.a.	Since Inception p.a.	Since Inception 13.02.17
Gross Fund return	**0.20%**	1.46%	3.25%	5.00%	4.65%	5.96%	15.87%
Net Fund return	**0.14%**	1.27%	2.86%	4.22%	3.87%	5.16%	13.66%
RBA cash rate	**0.08%**	0.28%	0.65%	1.40%	1.45%	1.46%	3.76%
Active return (net Fund return - RBA cash rate)	**0.06%**	1.00%	2.21%	2.82%	2.42%	3.70%	9.90%

The 1 month, 3 month, 6 month, 1yr, 2yr and since inception net returns for Class A Units are 0.13%, 1.23%, 2.80%, 4.09%, 3.74% & 5.03% respectively.

	OTHER BENCHMARK COMPARISONS						
As at 31st August 2019	1 month	3 months	6 months	1 year	2 year p.a.	Since Inception p.a.	Since Inception 13.02.17
Bloomberg AusBond Credit FRN 0+ Yr Index	**-0.04%**	0.66%	1.58%	2.98%	2.77%	2.95%	7.68%
Bloomberg AusBond Composite 0-3 Yr Index	**0.25%**	0.91%	2.18%	3.63%	2.92%	2.77%	7.21%

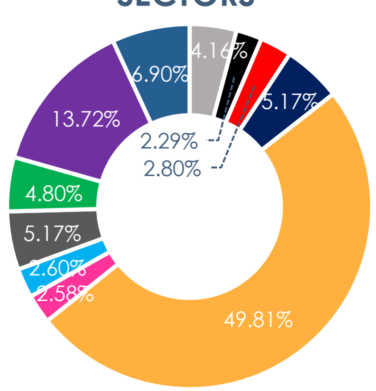
PORTFOLIO UPDATE

Markets had a risk off tone in August as the trade wars heated up/cooled down depending on President Trump's tweets. To add some spice to that, the US 2yr v 10yr yield curve inverted intraday August 14th which has been a reasonably reliable predictor of recessions in the past. Despite an inversion of the yield curve in the US looking likely for some time, when it actually happened the reaction was rather fierce. This had a negative impact on credit spreads as equity prices declined and long term government bonds rallied along with other 'flight to quality' investments such as gold and silver.

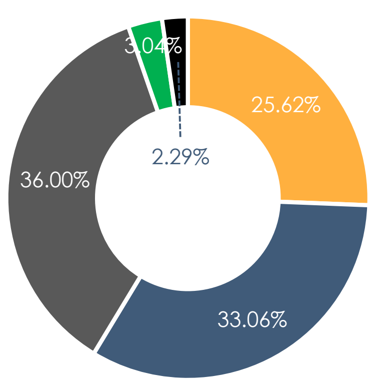
Outperformance in August came from non-financial issuers such as Woolworths, Vicinity Centres and Toyota. Financials drove underperformance, specifically Credit Agricole, NAB and Standard Chartered Bank. Considering the contraction in credit spreads throughout 2019, August appeared like a good month to take profits. So some profits were locked in and the portfolio was marginally de-risked.

PORTFOLIO BREAKDOWN

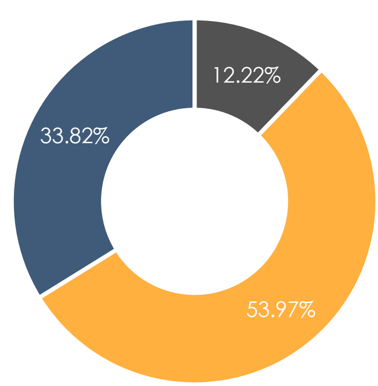
SECTORS



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
iTraxx Australia 5yr	0.63%	0.04%
iTraxx Europe 5yr	0.49%	-0.01%
iTraxx Europe Xover 5yr	2.52%	-0.02%
CDX US IG 5yr	0.54%	-0.01%
CDX US HY 5yr	3.40%	0.14%

As spreads widened throughout August, financials bore the brunt of the blow. The financials sector is ~80% to 90% of total volume, so in times of heightened volatility it's no surprise to see the most frequently issued bonds sold. Within the financials sector, Australian & British (Brexit) banks underperformed.

Senior bank spreads underperformed subordinate spreads, which supports our recent rotation from senior into sub. Non-financial corporates were marginally softer but outperformed on a relative basis. This is more technical than fundamental due to the lack of non-financial corporate issuance.

FUND METRICS

As at 31st August 2019	Aug '19	Chg on Mth
Interest rate duration	0.57	0.23
Credit duration	3.83	-0.18
Yield to maturity	1.84%	-0.20%
Yield to worst	1.83%	-0.20%
Bloomberg Composite Rating (Weighted Average)*	A	A

**Using the Morningstar methodology for Average Credit Quality*

Rates continue to fall globally to historically low levels in most cases, Australia's 10yr yield fell 0.33% to 0.89%. The much-publicised US 2yr v 10yr curve is now oscillating between positive and negative. Australia's 2yr v 10yr curve flattened 0.18% to finish August at 0.16%.

The Fund took a slightly more defensive posture in August as the Fund's interest rate duration was increased and the credit duration was reduced. Profits were taken on some high beta names in the secondary market and those funds were deployed into attractive new deals in the primary market.

NEW ISSUES

In August we witnessed another month of robust volumes in the AUD corporate bond market. There were 22 bonds issued by 14 unique issuers totalling AUD 9.515b. We were very pleased to see another green bond come to market with QIC Shopping Centre Fund issuing a 6yr fixed and floating rate deal. The use of proceeds will go towards rolling out a series of initiatives to improve sustainability in some of their shopping centres. Purely on a performance basis however, Volkswagen's new 5yr fixed rate bond rallied 12bps into month end.

Issuer	Issue Date	Issue Size $M	Fixed/ Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Volkswagen Financial Services Aus	21-Aug-19	350	Fixed	28-Aug-24	-	1.80%	1.68%	-0.12%
QIC Shopping Centre Fund	07-Aug-19	200	Fixed	15-Aug-25	-	1.48%	1.42%	-0.06%
Liberty Financial	29-Aug-19	200	Floating	06-Mar-23	-	2.60%	2.54%	-0.06%

DISCLAIMER

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