MONTHLY UPDATE – DECEMBER 2018

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 December 2018	1 month	3 months	6 months	1 year	Since Inception p.a.	Since Inception 13.02.17
Gross Fund return	**0.06%**	0.53%	1.59%	3.08%	5.83%	11.23%
Net Fund return	**0.00%**	0.35%	1.21%	2.31%	5.03%	9.65%
RBA cash rate	**0.13%**	0.38%	0.75%	1.50%	1.50%	2.84%
Active return (net Fund return - RBA cash rate)	**-0.13%**	-0.03%	0.46%	0.82%	3.53%	6.81%

The 1 month, 3 month, 6 month, 1 year and since inception p.a. net returns for Class A Units are -0.02%, 0.31%, 1.15%, 2.18% & 4.89% respectively.

	OTHER BENCHMARK COMPARISONS					
As at 31st December 2018	1 month	3 months	6 months	1 year	Since Inception p.a.	Since Inception 13.02.17
Bloomberg AusBond Credit FRN 0+ Yr Index	**0.12%**	0.44%	1.23%	2.29%	2.76%	5.25%
Bloomberg AusBond Composite 0-3 Yr Index	**0.32%**	0.70%	1.28%	2.41%	2.26%	4.29%

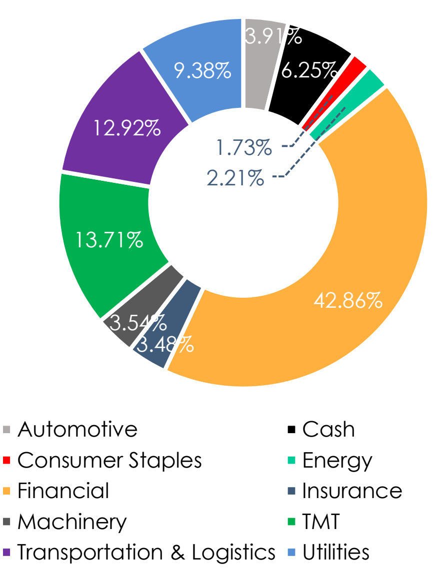
MARKET UPDATE

Most investors would have been happy to see the end of 2018 considering the significant December sell off in US equities. Whilst there was no one catalyst, there were numerous issues which added to the risk off tone. The Brexit legislation failed, although Theresa May managed to hang on to her job. Continued worries over the Italian deficit, the US Government shutdown, Federal Reserve raising rates, Presidents Trump and Xi trade war dialogue (although a 90 day cease-fire in the US China trade war was agreed) all encouraged capital outflows flow from equities to bonds.

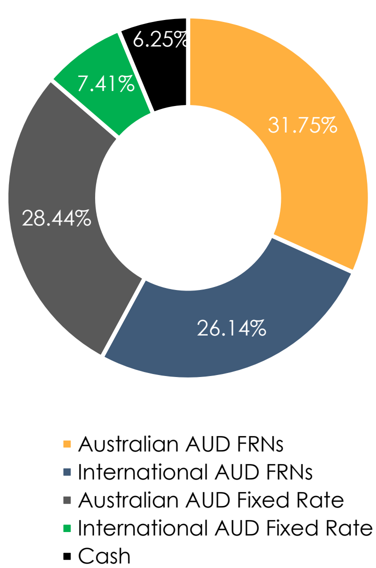
Locally Australian data was a touch weaker in December, GDP rose 0.3% verses market consensus of 0.6% and unemployment ticked up to 5.1% from 5%. The data combined with the sell off in equities lead to a significant rally in rates, 3yr and 10yr Government bond yields finished lower by 27.5bps (1.80% yield) and 31bps (2.32% yield) respectively.

PORTFOLIO BREAKDOWN

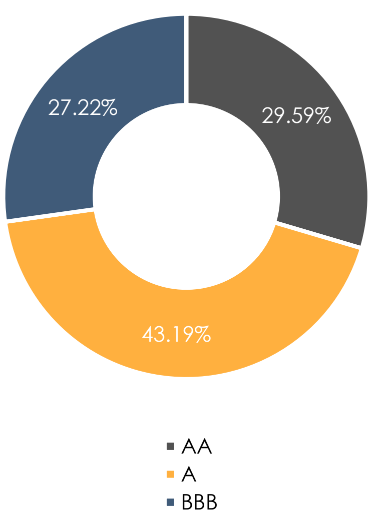
SECTORS



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
iTraxx Australia 5yr	0.95%	0.08%
iTraxx Europe 5yr	0.87%	0.07%
iTraxx Europe Xover 5yr	3.53%	0.25%
CDX US IG 5yr	0.88%	0.13%
CDX US HY 5yr	4.49%	0.57%

AUD corporate bond credit spreads were ~4 to 6bps wider in December, slight outperformance versus iTraxx Australia 5yr (CDS index) which was 8bps wider. Using Australian major bank 5yr corporate bond spreads as a proxy for 2018, spreads are 36bps wider. In January 2018 ANZ issued a 5yr FRN at BBSW +77bps and in January 2019 CBA issued a 5yr FRN at BBSW +113bps. The Fund has remained underweight Australian majors throughout 2018 and that trend is likely to continue in 2019, although spreads are much more attractive at present. The Fund's exposure to financials is now predominately in the very short end, less than 3yrs to maturity. As the new issue market reopens for business the Fund's focus will remain on rolling short dated financial positions into slightly longer dated corporates where valuations are attractive.

FUND METRICS

As at 31st December 2018	Dec '18	Chg on Mth
Interest rate duration	0.22	-0.04
Credit duration	3.54	-0.73
Yield to maturity	3.15%	-0.24%
Yield to worst	3.14%	-0.24%
Bloomberg Composite Rating (Weighted Average)*	A	A

Using the Morningstar methodology for Average Credit Quality

The most notable changes in the Fund's metrics in December was the reduction in credit duration and therefore running yield. In December 2017, the Fund's credit duration was 5.38 which reflected the positive backdrop to credit spreads and being fully invested and long carry over the quiet holiday period. Fast forward to now, whilst being long carry still makes sense in the holiday season, being invested in shorter dated securities which reduces risk whilst markets are less liquid and more volatile was the reason for the change. Considering the move wider in spreads throughout 2018, we anticipate there will be very good opportunities for the Fund in 2019. Running a 6.25% cash position for the Fund is reasonably meaningful, which has proven to be helpful when taking advantage of short term relative value buying opportunities due to increased volatility.

NEW ISSUES

December was undoubtedly the quietest month of the year in relation to new issuance volume. Only one deal was recorded in December with the Bank of Queensland issuing 100m March 2012 FRN at BBSW +98bps. So with no new deals to highlight, below we have highlighted the new issuance volumes for the last 5 years. These are internal records done on a best efforts basis, recording all AUD corporate bond deals greater than 100m in issuance size. Volumes in 2018 impressively (just) exceeded those in 2017 which is very encouraging. Non-financial issuance was less than half 2017's record breaking volume, however still greater than 2014-2016 non-financial issuance. In 2019, we would like to see continued growth of the overall market but in particular non-financial issuance.

	Total Issuance $ (m)	Fixed Issuance $ (m)	FRN Issuance $ (m)	Financial Issuance $ (m)	Non-Fin Issuance $ (m)
2014	45,884	15,834	30,050	37,109	8,775
2015	47,875	10,975	36,900	40,470	7,405
2016	56,000	8,700	47,300	51,445	4,555
2017	78,240	30,420	47,820	57,945	20,295
2018	78,771	21,696	57,075	69,515	9,256

DISCLAIMER

artesian

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