MONTHLY UPDATE – JANUARY 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 January 2019	1 month	3 months	6 months	1 year	Since Inception p.a.	Since Inception 13.02.17
Gross Fund return	**0.33%**	0.50%	1.66%	2.82%	5.75%	11.59%
Net Fund return	**0.27%**	0.32%	1.28%	2.05%	4.95%	9.94%
RBA cash rate	**0.13%**	0.38%	0.75%	1.50%	1.50%	2.97%
Active return (net Fund return - RBA cash rate)	**0.14%**	-0.06%	0.53%	0.55%	3.45%	6.97%

The 1 month, 3 month, 6 month, 1 year and since inception p.a. net returns for Class A Units are 0.27%, 0.29%, 1.22%, 1.93% & 4.82% respectively.

	OTHER BENCHMARK COMPARISONS					
As at 31st January 2019	1 month	3 months	6 months	1 year	Since Inception p.a.	Since Inception 13.02.17
Bloomberg AusBond Credit FRN 0+ Yr Index	**0.28%**	0.49%	1.22%	2.31%	2.79%	5.55%
Bloomberg AusBond Composite 0-3 Yr Index	**0.26%**	0.69%	1.38%	2.43%	2.30%	4.56%

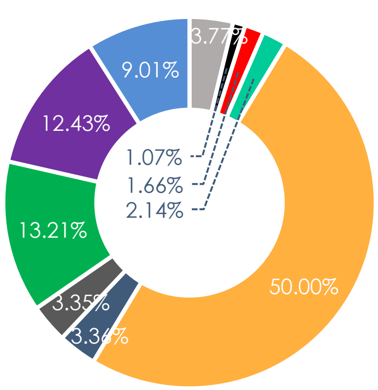
MARKET UPDATE

After a rather poor end to 2018 for risk assets, January got off to a positive start as investors deployed capital buoyed by a slightly more dovish US Federal Reserve and improving rhetoric towards China from the White House. Seemingly putting to one side the US government shutdown, mixed macroeconomic data and the never-ending saga which is Brexit.

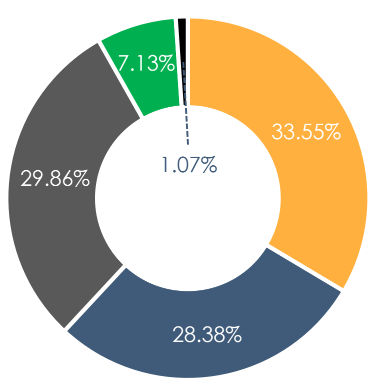
Whilst Australian synthetic (iTraxx CDS Index) credit spreads ripped 19bps tighter, AUD corporate bond spreads were relatively unchanged around the same 5yr duration. This was because AUD corporate bond spreads were quite resilient as spreads widened globally in November and December. As often seen in AUD corporate bond spreads, they usually exhibit less volatility than their US and European peers. Heading into February we expect AUD corporate bond spreads to be tighter in a more risk friendly environment, combined with technically strong supply and demand dynamics.

PORTFOLIO BREAKDOWN

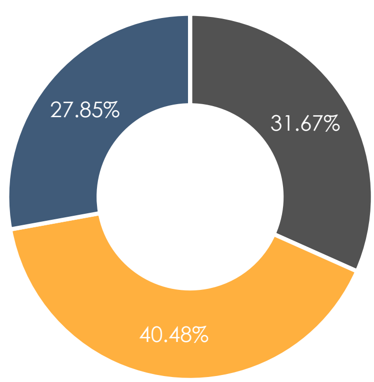
SECTORS



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
iTraxx Australia 5yr	0.76%	-0.19%
iTraxx Europe 5yr	0.70%	-0.17%
iTraxx Europe Xover 5yr	3.08%	-0.45%
CDX US IG 5yr	0.66%	-0.22%
CDX US HY 5yr	3.53%	-0.97%

Global credit indices whipped back from their wides in December in fairly spectacular fashion. As iTraxx and CDX are a hedging tool for a large proportion of institutional investment managers, moves are generally overstated in either direction. As such, the execution (buy or sell) of these derivatives needs to be near perfect or these hedges can drag on performance. Hence, the Fund takes the view that CDS indices aren't the most appropriate tool to manage/hedge credit risk. Often, the most appropriate course of action is to increase or reduce the Fund's credit duration by buying or selling AUD corporate bonds.

FUND METRICS

As at 31st January 2019	Jan '19	Chg on Mth
Interest rate duration	0.18	-0.04
Credit duration	3.86	0.32
Yield to maturity	3.16%	0.01%
Yield to worst	3.13%	-0.01%
Bloomberg Composite Rating (Weighted Average)*	A	A

Using the Morningstar methodology for Average Credit Quality

As mentioned in last month's update, Australian major bank 5yr corporate bond spreads were ~36bps wider in calendar year 2018. In January CBA, Westpac and ANZ all issued new 5 to 5.25yr bonds at quite attractive levels. As such some short dated financial positions were sold and those proceeds, along with some cash reserves, were allocated to these new deals which finished the month 4 to 8bps tighter. This led to a small extension in the Fund's credit duration and sector wise, an increase in financials and a decrease in cash. The Fund continues to be focused on high quality investment grade credit and maintaining the average A rating.

NEW ISSUES

Positive signs were observed in the new issue market in January with CBA, Westpac and ANZ all issuing large volumes which were oversubscribed. Total volumes were $8.85b from the 3 majors with FRNs accounting for 88% ($7.8b). With outright yields attractive for issuers and supply relatively low, the stage is set for more pure corporate (non-financial sector) issuance in 2019. The 3 majors issued 7 new bonds between them over January, highlighted below are the 3 largest transactions which all performed well.

Issuer	Issue Date	Issue Size $M	Fixed/ Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Commonwealth Bank of Australia	08-Jan-19	2,200	Floating	11-Jan-24	-	1.13%	1.05%	0.08%
Westpac Banking Corporation	17-Jan-19	1,900	Floating	24-Apr-24	-	1.14%	1.07%	0.07%
ANZ Banking Group	30-Jan-19	2,200	Floating	08-Feb-24	-	1.10%	1.06%	0.04%

DISCLAIMER

artesian

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