

# MONTHLY UPDATE – MARCH 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.

As at 31 <sup>st</sup> March 2019	FUND PERFORMANCE - CLASS B UNITS						
	1 month	3 months	6 months	1 year	2 year p.a.	Since Inception p.a.	Since Inception 13.02.17
Gross Fund return	<b>0.59%</b>	1.50%	2.04%	3.83%	5.01%	5.88%	12.90%
Net Fund return	<b>0.53%</b>	1.31%	1.66%	3.06%	4.22%	5.07%	11.08%
RBA cash rate	<b>0.13%</b>	0.37%	0.74%	1.50%	1.50%	1.50%	3.21%
Active return (net Fund return - RBA cash rate)	<b>0.41%</b>	0.94%	0.92%	1.56%	2.72%	3.57%	7.87%

The 1 month, 3 month, 6 month, 1yr, 2yr and since inception net returns for Class A Units are 0.52%, 1.28%, 1.59%, 2.91%, 4.10% & 4.94% respectively.

As at 31 <sup>st</sup> March 2019	OTHER BENCHMARK COMPARISONS						
	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	<b>0.40%</b>	1.12%	1.56%	2.97%	2.85%	2.97%	6.42%
Bloomberg AusBond Composite 0-3 Yr Index	<b>0.52%</b>	1.13%	1.84%	3.02%	2.52%	2.54%	5.47%

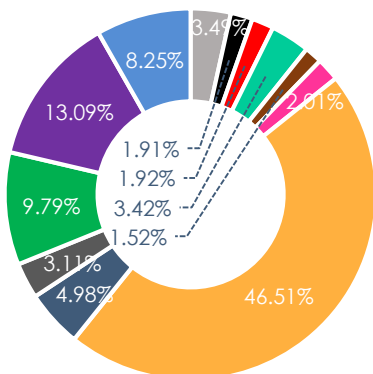
## PORTFOLIO UPDATE

March was another very solid month for the Fund, as investment grade credit continued to rally and supply in new corporate bonds was met with high demand. The Fund's overweight positioning to financials drove capital gains throughout the month, specifically the Australian big four banks which continue to outperform within the sector.

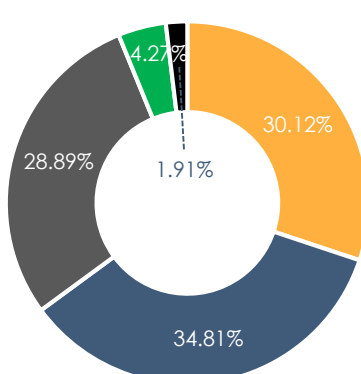
The month was also notable as Australian government bond yields continued to plummet to all-time lows. It's interesting to note that not even in the depths of the Global Financial Crisis have bond yields been as low as they are presently. The extraordinary move was against a back drop of higher equity prices and tighter credit spreads. We saw the paradox of bond markets pricing in a higher probability of recession, being met by a surge in equity prices. Hence, March saw both the "glass half full equity investors" and the "glass half empty bond investors" both being rewarded.

## PORTFOLIO BREAKDOWN

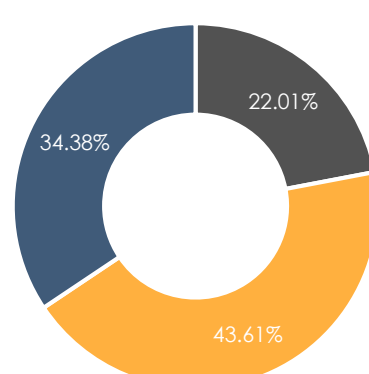
### SECTORS



### REGION & PRODUCT



### CREDIT RATING



- Automotive
- Chemicals
- Consumer Staples
- Financial
- Machinery
- Transportation & Logistics
- Cash
- Consumer Discretionary
- Energy
- Insurance
- TMT
- Utilities
- Australian AUD FRNs
- International AUD FRNs
- Australian AUD Fixed Rate
- International AUD Fixed Rate
- Cash
- AA
- A
- BBB

## CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
ITraxx Australia 5yr	0.66%	-0.03%
ITraxx Europe 5yr	0.60%	-0.02%
ITraxx Europe Xover 5yr	2.74%	-0.03%
CDX US IG 5yr	0.56%	-0.04%
CDX US HY 5yr	3.34%	-0.14%

Global credit indices continued their move tighter in March, primarily driven by falling government bond yields. Locally, as it stands now, the market is expecting two rate cuts over the next year. With 10yr Australian government bond yields hovering around 1.75%, it is an interesting time to look at the ratio of credit spreads to risk free rates. The important question may become whether a 10yr government bond (AAA rated) investment at 1.75% makes sense when compared with higher yields achievable from much shorter dated blue chip corporate bonds. The Fund is currently taking advantage of the tailwinds in the AUD credit market, but as always, is conservative in its overall positioning.

## FUND METRICS

As at 31 <sup>ST</sup> March 2019	Mar '19	Chg on Mth
Interest rate duration	0.30	0.04
Credit duration	3.79	0.07
Yield to maturity	2.69%	-0.29%
Yield to worst	2.68%	-0.30%
Bloomberg Composite Rating (Weighted Average)*	A	A

As mentioned throughout this month's report, falling yields was the topic de jour in March. Hence the 29bp reduction in the Fund's running yield. Put into context, 10yr and 3yr Australian government bond yields were lower by 38bps and 27.5bps respectively.

The Fund's credit and interest rate duration were moderately increased which aided returns considering both credit and interest rates rallied. The search for yield (and risk...) in a low yield environment can often lead to making sub optimal investment decisions, hence the Fund is committed to maintaining its weighted average A credit rating.

\*Using the Morningstar methodology for Average Credit Quality

## NEW ISSUES

Whilst March wasn't a month of quantity (AUD 3.95b), it was a month of quality new issuance. Prior to March, we had witnessed only two non-financial bond issues in 2019. Throughout the month the market happily digested five new non-financial deals from Incitec Pivot, Stockland Trust Management, ConnectEast Finance, Mercedes-Benz Australia and Insurance Australia Group. All eight corporate bonds issued in March finished the month tighter, Incitec Pivot tightened an impressive 11bps.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Incitec Pivot	08-Mar-19	450	Fixed	18-Mar-26	-	2.35%	2.24%	-0.11%
Stockland Trust Management	14-Mar-19	200	Fixed	22-Mar-24	-	1.86%	1.80%	-0.06%
Insurance Australia Group	20-Mar-19	450	Floating	15-Jun-45	16-Jun-25	2.35%	2.29%	-0.06%

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