

# MONTHLY UPDATE – MAY 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> May 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>0.57%</b>	1.76%	2.74%	4.50%	4.91%	5.97%	14.20%
Net Fund return	<b>0.51%</b>	1.57%	2.36%	3.72%	4.13%	5.16%	12.23%
RBA cash rate	<b>0.13%</b>	0.38%	0.74%	1.50%	1.50%	1.50%	3.47%
Active return (net Fund return - RBA cash rate)	<b>0.38%</b>	1.19%	1.61%	2.22%	2.63%	3.66%	8.76%

The 1 month, 3 month, 6 month, 1yr, 2yr and since inception net returns for Class A Units are 0.51%, 1.55%, 2.30%, 3.59%, 4.00% & 5.04% respectively.

As at 31 <sup>st</sup> May 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>0.17%</b>	0.92%	1.77%	3.07%	2.90%	2.99%	6.98%
Bloomberg AusBond Composite 0-3 Yr Index	<b>0.39%</b>	1.26%	2.19%	3.38%	2.54%	2.68%	6.25%

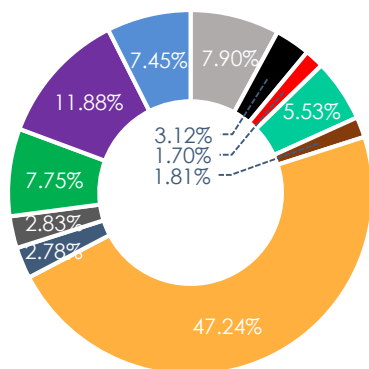
## PORTFOLIO UPDATE

For the fourth month in a row the Fund produced net returns greater than 50bps. May was a mixed month in terms of sentiment and price action. The US/China trade spat continues to dominate headlines and drive risk assets higher or lower depending on what message President Trump or President Xi Jinping communicate through their local media. Credit spreads globally drifted wider over the month, but to offset that we saw some considerable outperformance on new deals issued at prices we valued cheap to fair value.

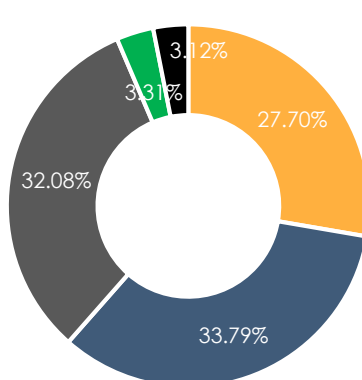
Outperformance in May came from the Consumer Staples (Woolworths green bond) and Financials (new subordinated bonds issued by NAB and Credit Agricole) sectors. The Fund also generated positive returns from interest rate duration as government bond yields continue to fall globally. The Fund continues to add alpha by capturing relative value opportunities in the AUD corporate bond market.

## PORTFOLIO BREAKDOWN

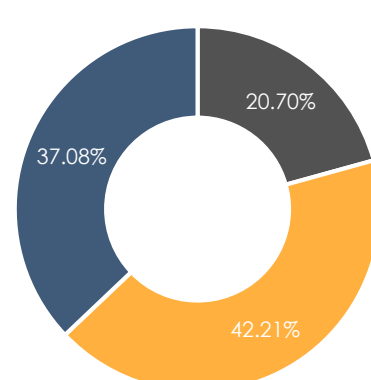
### SECTORS



### REGION & PRODUCT



### CREDIT RATING



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

## CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
ITraxx Australia 5yr	0.79%	0.12%
ITraxx Europe 5yr	0.72%	0.14%
ITraxx Europe Xover 5yr	3.10%	0.62%
CDX US IG 5yr	0.70%	0.13%
CDX US HY 5yr	3.93%	0.69%

Australian credit spreads both synthetic (CDS) and cash (corporate bonds) outperformed their global (US & European) peers in May. Especially AUD corporate bond spreads which were mildly tighter compared to USD and EUR spreads which were wider in May. As we have highlighted previously, Australian corporate bond spreads exhibit less volatility when compared to more mature markets and May was no different. This technical allows nimble AUD corporate bond investors to take heed of global events and position themselves accordingly if the view is formed that the widening/tightening will continue.

## FUND METRICS

As at 31 <sup>st</sup> May 2019	May '19	Chg on Mth
Interest rate duration	0.41	0.04
Credit duration	3.61	0.04
Yield to maturity	2.29%	-0.23%
Yield to worst	2.29%	-0.23%
Bloomberg Composite Rating (Weighted Average)*	A	A

\*Using the Morningstar methodology for Average Credit Quality

Although the Fund's metrics are quite static month on month, we were quite active in May circulating positions throughout the portfolio. Interest rates have dropped significantly over the past 12 months, 3yr and 10yr yields are +100bps lower and we view duration as expensive. At the time of writing, it's worth considering 6-month BBSW is 1.43% and 10yr government bond yields are 1.48%! Naturally the running yield of the Fund has fallen with interest rates throughout 2019, however we remain committed to maintaining our weighted average credit rating of A. Although there was a softer tone to global markets in May, demand for new AUD corporate bond deals continues to outweigh supply driving bond prices higher/spreads tighter.

## NEW ISSUES

In May we witnessed the highest volume month for 2019 as issuers took advantage of low yields and locked in relatively cheap funding. The month was dominated by financials with total volume of AUD 8.95b recorded across 12 bonds from 9 issuers. May certainly had a Kangaroo (foreign issuers in AUD) feel to it with banks from Canada, United States, China, Sweden, Japan and France all issuing bonds into the local market. National Australia Bank was not to be outdone by its global peers however, with its 10yr (5yr call) subordinated bond rallying an impressive 15bps from its initial spread of BBSW +215bps.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread FFP/BBSW	Month End Bid Spread	Net Change
Westpac Banking Corporation	08-May-19	300	Fixed	16-Aug-24	-	1.15%	1.11%	-0.04%
National Australia Bank	09-May-19	1,000	Floating	17-May-29	17-May-24	2.15%	2.00%	-0.15%
Crédit Agricole	21-May-19	600	Fixed	29-May-34	29-May-29	2.55%	2.46%	-0.09%

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