

# MONTHLY UPDATE – SEPTEMBER 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 30 <sup>th</sup> September 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>0.28%</b>	1.13%	2.92%	5.02%	4.59%	5.88%	16.19%
Net Fund return	<b>0.21%</b>	0.94%	2.54%	4.24%	3.81%	5.08%	13.90%
RBA cash rate	<b>0.08%</b>	0.25%	0.61%	1.36%	1.43%	1.45%	3.84%
Active return (net Fund return - RBA cash rate)	<b>0.13%</b>	0.69%	1.93%	2.88%	2.38%	3.64%	10.06%

The 1 month, 3 month, 6 month, 1yr, 2yr and since inception net returns for Class A Units are 0.20%, 0.91%, 2.48%, 4.11%, 3.69% & 4.95% respectively.

As at 30 <sup>th</sup> September 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>0.12%</b>	0.53%	1.30%	2.88%	2.72%	2.91%	7.81%
Bloomberg AusBond Composite 0-3 Yr Index	<b>0.00%</b>	0.55%	1.65%	3.52%	2.88%	2.69%	7.21%

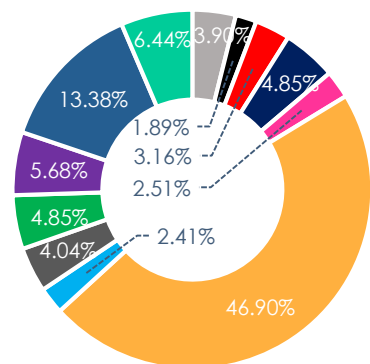
## PORTFOLIO UPDATE

In September we witnessed a steep reversal of technical US long bond positions that caused significant intra month moves in long bond yields. Whilst not unexpected given the sharpness of the previous month's rally, it proved a sobering experience for those investors in long government bonds. In the US 10yr yields spiked ~50bps and Australian 10yr yields spiked ~30bps. Yet in the face of this volatility the AUD corporate bond market was quite benign, with spreads largely unchanged to marginally tighter. Another major talking point was the tightness in the US cash market with the US Federal Reserve responding by entering the repo market.

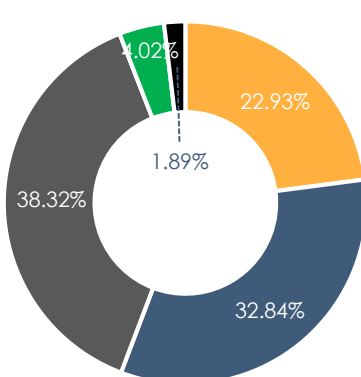
September was noticeable for the 5 new non-financial corporate bond issues the Fund participated in which all performed well. This allowed the Fund to reduce its exposure to the Financial's sector and marginally increase its exposure to the Engineering & Construction, Machinery and TMT sectors. It was great to see another green bond issued in September by Mitsubishi UFJ Financial Group (MUFG), and at the time of writing the Fund's exposure to green bonds has increased to 11%.

## PORTFOLIO BREAKDOWN

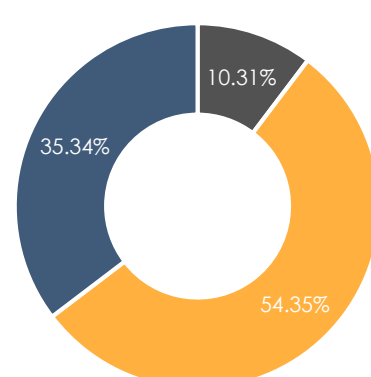
### SECTORS



### REGION & PRODUCT



### CREDIT RATING



## CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
ITraxx Australia 5yr	0.67%	0.04%
ITraxx Europe 5yr	0.55%	0.07%
ITraxx Europe Xover 5yr	2.32%	-0.20%
CDX US IG 5yr	0.60%	0.06%
CDX US HY 5yr	3.50%	0.10%

Despite the continuing geopolitical risks in global markets, AUD corporate bond spreads continue to be supported by strong technicals such as the hunt for yield. As was widely expected the US Federal Reserve cut rates by 25bps on September 18th followed by the RBA reducing rates by 25bps on October 1st. 1yr term deposit rates with the major banks are now 1.50% to 1.60%, with inflation at 1.60% investors will be looking up the risk curve to achieve real returns. The risks inherent in some new investment products coming to market in Australia capitalizing on the demand for higher yields, is the illiquidity and non-transparency of underlying assets in these products. As always, the Fund is very much focused on allocating capital to liquid investment grade corporate bonds which match the daily liquidity profile of the Fund.

## FUND METRICS

As at 30 <sup>th</sup> September 2019	Sept '19	Chg on Mth
Interest rate duration	0.49	-0.08
Credit duration	3.96	0.14
Yield to maturity	1.90%	0.06%
Yield to worst	1.89%	0.06%
Bloomberg Composite Rating (Weighted Average)*	A	A

The Fund received significant new inflows from investors in September, which were easily deployed into attractive new corporate bond issues. This resulted in a modest reduction in interest rate duration and a mild increase in credit duration.

The key here for the Fund is maintaining small, liquid parcel sizes enabling active management of the credit duration when taking into account prevailing market conditions. As we enter into Q4 with global growth slowing and central banks seemingly less able to influence this, the Fund's positioning will remain cautious with an emphasis on credit quality and liquidity.

\*Using the Morningstar methodology for Average Credit Quality

## NEW ISSUES

Whilst September wasn't a large month in terms of absolute volume, it was in terms of non-financial issuance which is always very well received. There were 17 new bonds issued throughout the month from 13 unique issuers totalling AUD 5.55b. The AUD green bond market continues to grow, MUFG issued an AUD 500m 5yr green bond with the use of proceeds to go towards loans to fund existing and future eligible green building projects and eligible renewable energy projects. September's best performers were all non-financial issuers with Pacific National the best performer rallying an impressive 18bps.

Issuer	Issue Date	Issue Size \$M	Fixed/Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Spark Finance	11-Sep-19	125	Fixed	18-Mar-30	-	1.50%	1.47%	-0.03%
Pacific National	18-Sep-19	450	Fixed	24-Sep-29	-	2.61%	2.43%	-0.18%
John Deere Financial	24-Sep-19	500	Fixed	04-Oct-24	-	1.08%	1.05%	-0.03%

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