MONTHLY UPDATE – NOVEMBER 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.

As at 30th November 2018	FUND PERFORMANCE - CLASS B UNITS				
	1 month	3 months	6 months	1 year	Fund Inception 13.02.17
Gross Fund return	**0.11%**	0.73%	1.71%	3.51%	6.08%
Net Fund return	**0.05%**	0.54%	1.33%	2.74%	5.27%
RBA cash rate	**0.12%**	0.37%	0.75%	1.50%	1.50%
Active return (net Fund return - RBA cash rate)	**-0.07%**	0.17%	0.58%	1.24%	3.77%

The 1 month, 3 month, 6 month, 1 year and since inception net returns for Class A Units are 0.04%, 0.52%, 1.26%, 2.62% & 5.14% respectively.

As at 30th November 2018	OTHER BENCHMARK COMPARISONS				
	1 month	3 months	6 months	1 year	Fund Inception 13.02.17
Bloomberg AusBond Credit FRN 0+ Yr Index	**0.09%**	0.53%	1.28%	2.37%	2.82%
Bloomberg AusBond Composite 0-3 Yr Index	**0.12%**	0.50%	1.16%	2.00%	2.19%

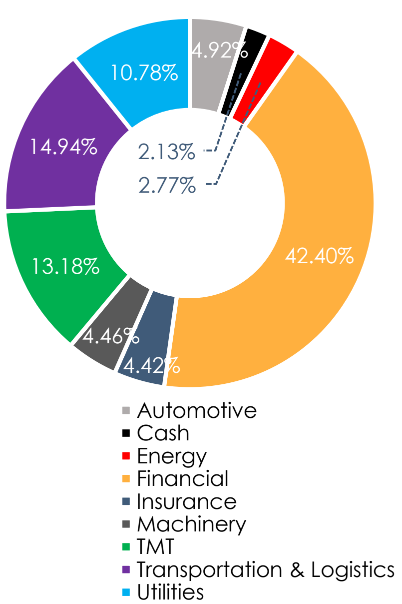
PORTFOLIO UPDATE

October's end of month rally in equity markets continued in the first two weeks of November. However midway through the month green lights on our screens turned to red and the ASX200 finished the month down 2.80%. Sharemarket volatility remained elevated, which in this instance lead to wider credit spreads. The US and Europe bore the brunt of the move with corporate bond spreads advancing ~20bps. Locally however, AUD corporate bond spreads were once again resilient only advancing ~6bps.

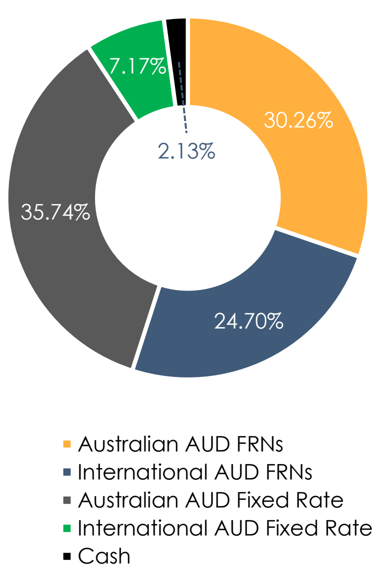
In addition to the negative backdrop, APRA released its discussion paper on loss-absorbing capacity for ADIs. This proposal could lead to an increase in Tier 2 (subordinated) Aussie Bank issuance of ~AUD 70b (currently AUD 35b of existing bonds) by 2023. Whilst negative (spreads widened 15bps on the news) for existing subordinated debt holders, it strengthens senior bank spreads which is where the Fund has more of a focus.

PORTFOLIO BREAKDOWN

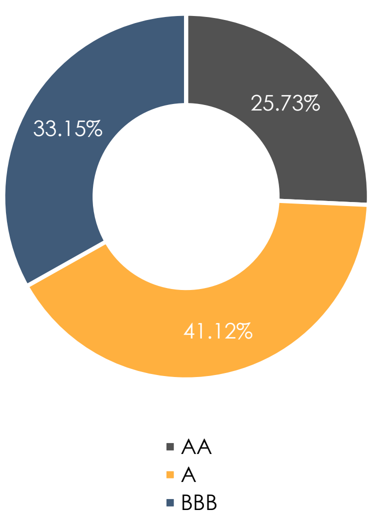
SECTORS



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS

Global Credit Indices	Price	Chg on Mth
iTraxx Australia 5yr	0.87%	0.05%
iTraxx Europe 5yr	0.81%	0.07%
iTraxx Europe Xover 5yr	3.28%	0.30%
CDX US IG 5yr	0.75%	0.06%
CDX US HY 5yr	3.93%	0.18%

Global credit indices were wider in November, Australian iTraxx moving out in unison with US and European indices. Added to the risk off tone to the market, was the considerable pick up in AUD corporate bond issuance. Some new deals appeared cheap to secondary market spreads and in normal market conditions we would expect those deals to rally. However, due to the tone of the market the new deals were unchanged and caused secondary market spreads to widen. Using 5yr senior bank spreads as a proxy, we are now at the wides of the last 2 years (since Fund inception) and value has started to re-emerge in some names across the curve. Idiosyncratic risk has risen, so continuing the Fund's focus on high quality investment grade bonds remains central to our investment decisions.

FUND METRICS

As at 30th November 2018	Nov '18	Chg on Mth
Interest rate duration	0.26	0.07
Credit duration	4.27	0.29
Yield to maturity	3.39%	0.11%
Yield to worst	3.38%	0.15%
Bloomberg Composite Rating (Weighted Average)*	A	A

*Using the Morningstar methodology for Average Credit Quality

Interest rates were once again volatile throughout November, Australian 10yr government bonds yields traded in a 21.5bp range and ended the month 6bps lower at 2.64%. The Fund's credit duration and running yield increased marginally over the month as we deployed cash in the new issue market and rolled some 2yr bonds into 5yr bonds.

Sector positioning was fairly consistent month on month, however we currently favour corporates over financials and will look to re-adjust the portfolio opportunistically. Whilst the new issue market will be quiet over the holiday season, secondary market activity has increased providing attractive relative value buying opportunities.

NEW ISSUES

In November we witnessed a considerable pick up in volume even though the market had a risk-off tone to it. Issuers were obviously keen to lock in new funding before December & January which are seasonally low volume months. We recorded AUD 12.825b in issuance, 22 bonds from 16 different issuers. Financials once again dominating with 92% of issuance. YTD issuance has now exceeded full year issuance for 2017, quite an achievement considering 2017's total issuance was up 40% on 2016.

Issuer	Issue Date	Issue Size $M	Fixed/ Floating	Maturity	Next Call	Credit Spread EFP/BBSW	Month End Bid Spread	Net Change
Bendigo and Adelaide Bank	22-Nov-18	275	Floating	30-Nov-28	30-Nov-23	2.45%	2.47%	-0.02%
ANZ Banking Group	27-Nov-18	2,250	Floating	06-Dec-23	-	1.03%	1.03%	0.00%
ING Groep	28-Nov-18	400	Floating	05-Dec-22	-	1.55%	1.55%	0.00%

DISCLAIMER

artesian

Contacts:
Matthew Clunies-Ross 0400 508 680 matthew@artesianinvest.com
David Gallagher 0412 972 070 david@artesianinvest.com