Fund Update
31 March 2025

Altius Sustainable Short Term Income Fund (Ordinary Units)

The Fund invests in a combination of short-term money market instruments and medium-term floating securities that are investment-grade rated. The investment process is designed to maximise returns while balancing the risk and liquidity of the portfolio.

Performance as at 31 March 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception % p.a.
Gross total return	0.34	1.33	5.92	4.82	3.26	2.93	2.90
Net total return	0.32	1.28	5.71	4.62	3.05	2.72	2.69
Benchmark	0.35	1.07	4.46	3.55	2.15	2.00	1.97
Excess to benchmark	-0.03	0.20	1.26	1.06	0.90	0.72	0.72

Net total returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
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Excess to benchmark is calculated on Net total return.
The benchmark is the Bloomberg AusBond BankBill Index.
Inception date for performance calculations is 13 June 2017.

Portfolio Performance and Activity

Credit was on the back foot for most of March with spread widening pressures growing into month end. Early in the month, general conditions in the US markets were buoyant with the allure of high real yields and strong outperformance of credit versus equities resulting in increased funds flow into credit. This provided support for local markets however it was short-lived as concerns about the April tariff announcements started to dominate market focus. After starting the month close to recent lows, Major Bank 3 and 5-year spread closed 5 to 9 basis points wider at 69 and 86 basis points respectively. Despite spreads being wider, major banks outperformed peers on a flight to quality move with International local branches widening up to 10 bpts with French Banks pushing out up to 35 basis points, and regionals such as Bank of Queensland and Bendigo pushing between 15 to 25 wider. The surprise was the decompression of small ADIs like Newcastle Greater Bank to Major banks by 10 basis points.

While spreads moved wider, support for primary transactions remained high with all deals being well oversubscribed. NAB bought a five-year multi tranche senior transaction, printing $5bn at 83 bpts and being 1.8 times oversubscribed. This was followed by a $2.4bn three-year deal from HSBC and $500m from BNS at 115 bpts and 140bpts respectively.

Bank and corporate subordinated debt widened 19 bpts over March, the largest monthly move since October 2022. The move was exacerbated by supply with five transactions pricing in late February /early March. Markets stabilized in the second half of the month with spreads only moving 2 wider. Subordinated securities outperformed other $AUD corporate securities which saw continued issuance, with deals from Stockland, ETSA, Australian Gas Networks, Coles, Scentre hybrid, and Aurizon hybrid. One significant pocket of underperformance in March was Kangaroo Tier 2 paper which widened by 30 bpts. The underperformance was attributed to several factors with high issuance volumes and domestic investor preference for better known higher rated Major bank securities. At the end of March the fund held 2.20 years of credit risk, 1.30 years of financial and corporate risk and 0.90 years of securitised risk.

Socially Responsible Investments in Focus

Among key sustainable finance developments for March, the People's Pension, one of the UK's most significant pension funds has withdrawn a staggering £28 billion from State Street. The decision by The People's Pension underscores mounting frustration among long-term investors as prominent US asset managers scale back their ESG commitments. In the US, the SEC has ended its legal defence of its climate disclosure rules, effectively walking away from its regulation requiring companies to report on climate risks and greenhouse gas emissions, without rescinding the rules. Ceres (an advocate for Sustainable Capital Markets), said:

"Investors have clearly indicated they require better disclosure, with $50 trillion in assets under management broadly supportive of the rule adopted in March 2024. This is clearly a step backward in helping investors and other market participants have the information they need to manage climate-related financial risks."

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The SBTi has also releases initial draft of its revised Corporate Net Zero standard for consultation, among other things proposing an update to its Corporate Net Zero Standard which clarifies its position on several key issues – specifically around Scope 3 emissions. The standard proposes to allow companies to set more flexible targets for their Scope 3 emissions. Rather than setting an emissions reduction target, the standard emphasises green procurement and revenue generation.

At the same time, the draft maintains that carbon credits should be used as a last resort and not allowed to be used for Scope 3 emissions. Companies are allowed to use carbon credits to address 10% of residual Scope 1 emissions but must also set short-term and long-term SBTi-validated carbon removal and reduction targets that are 'recognised' by the SBTi.

Companies are also proposed to report Scope 1 and Scope 2 emissions separately (not aggregated as is allowed currently), with the aim to increase action by companies to shift to low-carbon energy. The proposed standard includes a requirement for companies to commit to move to zero-carbon electricity no later than 2040. The draft standards also propose more flexibility on the rules of smaller companies, especially those from lower-income countries.

Locally, the Australian Government is under pressure to strengthen its 2035 emissions reduction targets, noting its bid to host COP 30. Consultations have been ongoing for 12 months and no major party willing to set a target ahead of the May election. The government also announced plans to invest AUD250 million over the next five years in nature conservation to kickstart the nature credit market.

ASFI has released a Sustainable Finance Action Plan for the next 3 years aligned with the Government's Australian Sustainable Finance Roadmap (2020) which recognises the need for bold action to reshape Australia's financial system to make it fit for purpose to meet the country's sustainability objectives, including reducing emissions, building climate resilience, protecting and restoring nature, enabling First Nations economic self-determination, and driving community resilience and financial inclusion.

Outlook

The recent lift in Australian longer dated bond yields has been driven by market risk premium associated with US trade policy, central banks unwinding of central bank QE programs and FX reserve activities, and more recently, rebalancing of portfolios given the recent significant equity weakness.

Australia's term premium is standing out in historical terms and versus peers.

The key attraction of high grade – especially sovereign – fixed income is the defensive properties of bonds where duration and liquidity play an important role to play as part of a balanced portfolio or on a standalone basis.

Australia's real interest rates are above 2.2%. These are decade or multi decade highs. Real cash rates are approximately 2.1%, indicating a restrictive monetary setting that, given the weakening global outlook, will likely need the RBA to adjust lower.

We expect the range on Australian long dated bonds to oscillate around a midpoint in 10-year Australian sovereign bonds of 4.0% over the medium term, with an increasing likelihood that yields could be substantially lower in the event of trade war inspired recession.

The portfolio strategy is to actively manage duration settings; incrementally increasing long bond exposure above this point and vice versa.

Growth

President Trump announced reciprocal tariffs on US goods imports on 2nd April.

Tariffs come at the expense of growth, and there are two phases of the growth impact.

To date, we had been confident that the ongoing speculation about the size, scope and target of any tariff centric amendments to US trade policy, largely driven by the US administration public commentary, would create sufficient uncertainty to provide a headwind to US growth. US businesses, as well as international businesses with a US exposure, would have difficulty in planning ahead, deploying capital and employing personnel.

We are now entering the second phase – the announcement and escalation phase. The articulation of the recasting of US trade policy was more significant than expected. What were framed as "reciprocal" tariffs are in fact punitive tariffs that appear to be scaled relative to trade deficits. The average tariff rate will rise to 23%, from just 2.4% in 2024. The 20% increase is the largest rise in 200 years, and the magnitude and breadth of the announcement could be viewed as an economic shock. This has the potential to derail existing projects and cause dislocations with negative growth effects.

The suddenness of the tariff plans adds to this potential. These set to take effect on 5-April (10% minimum reciprocal tariff) and 9-April (reciprocal tariff exceeding the 10% minimum).

Retaliatory actions, including but not limited to tariffs, by other nations are also likely to be far more problematic for global growth than the speculation and uncertainty phase. Export markets and general activity contract, with stresses often appearing in areas not necessarily anticipated.

Inflation

The experience of the previous Trump administration provides a useful insight into how tariffs impact world economies and markets. For bond markets, the inflationary effect is of key importance.

The inflationary impact from tariffs in 2017 to 2019 was minimal. What inflation there was, was confined to the US and largely a result of the income and company tax cuts. We expect this to be the case this time.

For the rest of the world, consumers are not having to pay higher prices on their basket of goods. Moreover, the supply of goods that would otherwise have been consumed in the US are now likely to be rerouted and supply more plentiful in turn pushing prices down. European policy makers expressed concern that Chinese goods bound for the US could be “dumped” into the European market.

Oil prices have fallen 15% below the average price of the first quarter and 20% below their January highs. The expected fall in demand and an increase in supply largely from middle east producers is in real time providing a global disinflationary pulse, to the extent that the oil price remains weak.

Markets will reflect the settings before the real economy

The Fed has a less clear path in the wake of tariff announcements. The Fed had been reducing cash rates with the incremental fall in inflation in 2024, before more recently pausing, reflecting the lack of further inflation improvement and the more recent uncertainty introduced from potential tariffs. The Fed will need to be able to assess the inflationary impact and “to make certain that a one-time increase in the price level does not become an ongoing inflation problem”. Clarity will take some months (of CPI data), thus keeping cash rates higher than they otherwise might be if the economy is weakening.

The RBA expressed concern at the uncertainty US trade policy introduced to the outlook in its most recent decision Australian inflation has very gradually been falling back to target for domestic reasons - led by slowing rents, other housing inputs and wage pressures.

The increased supply of goods rerouted into the Australian market (away from the US), coupled with weaker global aggregate demand and lower transport costs by virtue of lower global oil prices are disinflationary forces. This should provide the RBA with greater confidence that inflation is moving toward target, rather than in either direction, and adjust rates lower in a measured fashion.

Sector Profile as at 31 March 25

Asset Class	Portfolio %
11AM	1.43
Asset Backed	26.03
Cash at Bank	2.57
Financials	64.19
Industrials	4.13
Money Market	1.65

Ratings Exposure

Rating	Portfolio %
A	33.53
AA	13.26
AAA	26.03
BBB	27.19

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	5.88
1 - 3 Years	55.09
3 - 5 Years	29.84

30 - 90 Days	0.65
90 Days - 1 Year	8.54

Top 10 Holdings

Issuer	Portfolio %
Commonwealth Bank of Australia	7.82
ING Bank (Australia) Limited	6.41
Macquarie Bank Limited	6.29
Bank Australia Limited	5.57
Teachers Mutual Bank Ltd.	5.43
Norfina Limited	4.82
Westpac Banking Corporation	3.33
Great Southern Bank (Australia)	2.98
Bendigo and Adelaide Bank Limited	2.47
NBN Co Limited	2.47

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.65	4.10
Credit duration (years)	1.91	
Modified duration (days)	17.3	42.32

Fund snapshot

APIR code	AUS0079AU
Inception date	13 Jun 2017
Distribution frequency	Monthly
Minimum initial investment	$100,000
Fund size (net asset value)	$291m
Management fee*	0.20% p.a.
Buy/Sell spread	0.05%/0.05%
Advice fee	

*Refer to the Fund's Product Disclosure Statement for more details on the Fund's management costs which also include recoverable expenses and indirect costs. Total management costs may vary.

Important Information
The Altius business is now owned by Australian Ethical, however Australian Unity provides transitional support services to Australian Ethical for Altius investors and advisers. For more information on the Altius Sustainable Short Term Income Fund, please contact your financial adviser or our Investor Services Team.

The information has been prepared by Australian Ethical Investment Ltd (ABN 47 003 188 930, AFSL 229949) (Australian Ethical), in its capacity as Responsible Entity of the Altius Sustainable Short Term Income Fund. The information is prepared based on information available at the time. This information is not advice and does not consider your individual circumstances or needs. In deciding whether to acquire, hold or dispose of the product you should obtain a copy of the current Product Disclosure Statement, Additional Information Document and the Target Market Determination, available on altiusam.com. Past performance is no indicator of future performance.