

Altius Sustainable Short Term Income Fund (Retail 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 30 April 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	Since inception % p.a.
Gross total return	0.16	1.00	5.55	4.92	3.68
Net total return	0.14	0.92	5.23	4.60	3.37
Benchmark	0.35	1.04	4.46	3.68	2.87
Excess to benchmark	-0.21	-0.12	0.77	0.92	0.50

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. Gross total returns are calculated before fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Excess to benchmark is calculated on Net total return.

The benchmark is the Bloomberg AusBond BankBill Index.

Inception date for performance calculations is 28 June 2021

Portfolio Performance and Activity

Like global equities, the credit markets were extremely volatile, and local new issuance markets were non-existent in April. Spreads widened early in the month with senior bank 3- and five-year spreads trading as high as 85 and 110 basis points after starting the month at 69 and 86 basis points, respectively. While bank subordinated 10NC5 securities traded beyond 200 basis points, around 40 basis points wider. Headline risk remained a daily concern for credit markets, particularly towards month end, when the US reporting season saw companies raise concerns about growth and tariffs, with many announcing downgrades and some outright suspending their forward guidance. While equity markets recovered losses in the second half of April, credit markets lagged the recovery, extending the widening trend that commenced in February. Credit sentiment started to improve late in the month as the primary market in the US opened to US major banks post Q1 earnings. Domestic major banks finished the month of their early month highs but still wider over the month, with 3 and 5 years finishing at 77 and 95 basis points and 10NC5 subordinated securities at 177 basis points.

Aussie bank and corporate trading volumes declined in April, and new issuance markets were closed. While trading was impacted by the uncertainty of Liberation Day, a clearing level remained in place through this volatile period. Banks noted that there was steady demand for assets from offshore balance sheets, highlighting investors' interest in bank paper when five-

year senior trades above the 100 basis point level. Major bank reporting commences in early May, which is traditionally a heavy issuance/redemption month, and 2025 will be no exception with a combination of senior and covered maturities across major, regional, and offshore banks. Technicals should be supported by net-redemptions in April that remained largely on the sidelines, which is expected to provide a tailwind for local credit over the coming months.

Socially Responsible Investments in Focus

The Net-Zero Banking Alliance (NZBA) has revised its guidance, introducing a degree of flexibility for signatory banks. While maintaining an overarching goal of aligning with "well below 2°C, striving for 1.5°C," the updated framework has moved away from a mandatory "comply-or-explain" approach for target setting. Signatories are now primarily required to establish emissions baselines and annually report and measure emissions across their lending, investment, and capital markets portfolios. The guidance recommends that banks "individually and independently" set and disclose near- and long-term targets supporting net-zero emissions in line with the Paris Agreement, with target reviews only mandated at least once every five years. This shift introduces a more discretionary approach to target setting within the alliance.

<https://www.environmental-finance.com/content/news/nzba-ditches-requirement-to-target-15c-alignment-to-give-banks-more-flexibility.html>

In Australia, energy policy in Queensland has undergone a significant shift with the new LNP government

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committing substantial funds to extend the operation of its coal-fired power stations to bolster energy reliability. The Callide B power station will continue operating beyond its previously slated closure in 2028, and further extensions for other state-owned plants are expected. While the government intends to repeal the state's renewable energy target, it maintains its commitment to the legislated net-zero emissions reduction target by 2050, which had bipartisan support. Queensland's state-owned coal fleet represents a significant portion of its generation capacity. This decision follows a similar move in New South Wales to extend the life of the Eraring coal power station. While the completion of existing renewable projects and the uptake of rooftop solar are expected to contribute to the state's 50% renewable target by 2030, the longer-term trajectory appears less certain, given the government's stated aversion to new wind projects and ambiguity regarding future emissions reduction targets beyond 2030.

<https://www.afr.com/policy/energy-and-climate/queensland-tears-up-transition-targets-and-will-keep-coal-for-longer-20250407-p5lpn7#:~:text=State%20Energy%20Minister%20David%20Janetcki,burn%20fossil%20fuels%20for%20longer.>

Meanwhile, a report highlights the critical need for Australia's built environment sector to drastically reduce its embodied carbon emissions – by at least 60% by 2035 – to align with national net-zero commitments. This underscores the significant role of the construction and property sectors in achieving broader climate goals.

[250323-ASBEC-Our-Upfront-Opportunity.pdf](#)

On the reporting front, the International Sustainability Standards Board (ISSB) has proposed providing relief for companies reporting on certain Scope 3 greenhouse gas emissions linked to derivatives, facilitated emissions by investment banks, and insurance-associated emissions. This potential easing of reporting requirements for specific financial activities acknowledges the complexities in accurately accounting for these indirect emissions and may influence the comprehensiveness of future corporate disclosures relevant to sustainable debt assessments.

<https://www.environmental-finance.com/content/news/issb-proposes-relief-from-reporting-some-finance-related-emissions.html>

Globally, the International Maritime Organization (IMO) has approved net-zero regulations for the global shipping industry, with formal adoption slated for October 2025 and entry into force in 2027. This landmark decision sets a clear trajectory for the decarbonization of a significant sector and will likely drive demand for sustainable financing options within the maritime industry as it transitions to cleaner fuels and technologies.

[IMO approves net-zero regulations for global shipping](#)

Finally, the IFRS Foundation and the Taskforce on Nature-related Financial Disclosures (TNFD) are collaborating to improve nature-related financial disclosures. This collaboration recognizes the increasing importance of integrating biodiversity and ecosystem considerations into financial risk assessments and reporting, mirroring the established focus on climate-related risks. Enhanced and interoperable frameworks for nature-related disclosures will provide sustainable debt investors with a more holistic understanding of the environmental impact and dependencies of potential investments.

<https://esgnews.com/ifrs-tnfd-sign-agreement-to-advance-nature-related-financial-disclosures/>

In navigating this evolving landscape, our fund will continue to prioritize investments aligned with ambitious climate targets and robust sustainability principles, while carefully assessing the implications of regulatory shifts and the growing emphasis on both carbon and nature-related risks

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.

Australia's term premium stands out in historical terms compared to its 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 stand-alone basis.

Australia's 10-year real interest rates are above 2.2%. These are multi-decade highs. We believe this premium will diminish over time. The inflation component is within the range held since the post-COVID-19 inflation surge.

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. There is an increasing likelihood that yields could be substantially lower when the more immediate tariff-related inflation fears ease. A disinflationary pulse from the oil "market share war" and the resulting lower energy prices is yet to be reflected in long-dated bonds and implied inflation expectations.

Absent a further-than-expected step down in growth, short-end bonds appear fairly priced.

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Real cash rates are approximately 2.05%. These are mildly restrictive monetary settings. Market-implied cash rates, however, are anticipating the RBA will reduce cash rates more than five times over the next year.

Adjusted for inflation, forward cash rates reflect an easy policy stance in response to an expectation of a weakened global outlook.

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

Growth

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

President Trump announced reciprocal tariffs on US goods imports on 2nd April, and a range of escalations and pauses since. The suddenness of the tariff implementation created significant and unanticipated effects on markets. Liquidity was tested, in turn lifting long-dated US rates. Importantly, given the US is largely a fixed-rate regime, this is a tightening of financial conditions and an extra headwind to growth.

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's 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.

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.

How inflation is measured is important. Housing dominates the US CPI basket with a 42% weighting (Australia is 30%). The contribution to inflation from rents has been diminishing, and this will not be interrupted by tariffs. Food and beverages are 16% of the basket and will see lower transportation costs flow through.

Oil prices have fallen 20% below the average price of the first quarter. 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.

For the rest of the world, in addition to lower energy prices, what goods are produced that were to be consumed in the US are now likely to be rerouted. The lift in supply, in turn, pushes prices down. Indeed, European policymakers expressed concern that Chinese goods bound for the US could be “dumped” into the European market.

Markets will reflect the settings before the real economy.

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 uncertainty introduced from 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, which we expect to occur.

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 and energy prices, should provide the RBA with greater confidence that inflation is moving toward the target. We anticipate a 25 basis point rate cut at the May RBA meeting.

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Sector Profile as at 30 April 2025

Asset Class	Portfolio %
11AM	0.60
Asset Backed	25.51
Cash at Bank	0.10
Financials	69.61
Industrials	4.17
Money Market	0.00

Ratings Exposure

Rating	Portfolio %
A	34.39
AA	15.27
AAA	24.97
BBB	25.36

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	50.70
1 - 3 Years	6.22
3 - 5 Years	1.37
30 - 90 Days	41.01
90 Days - 1 Year	0.00

Top 10 Holdings

Issuer	Portfolio %
Commonwealth Bank of Australia	7.82
National Australia Bank Limited	6.94
ING Bank (Australia) Limited	6.45
Macquarie Bank Limited	6.34
Bank Australia Limited	5.60
Norfinia Limited	5.51
Teachers Mutual Bank Ltd.	5.43
NAB 11 AM CALL ACCOUNT	3.50
Westpac Banking Corporation	3.11
Great Southern Bank (Australia)	2.96

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.77	3.95
Credit duration (years)	2.00	
Modified duration (days)	21.33	47.45

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.

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