

Fund Update

31 May 2025

ALTIUS
ASSET MANAGEMENT

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Altius Sustainable Bond Fund (Insto)

Altius Asset Management employs a diversified strategy to fixed interest funds management that aims to take advantage of the mispricing of bonds in all market conditions. The Altius Sustainable Bond Fund is an Australian fixed interest fund that invests in companies which conduct their business and apply capital responsibly, giving full consideration to a range of environmental, social and governance (ESG) issues.

Performance as at 31 May 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	0.37	1.58	6.97	4.89	2.04	2.33	2.79
Net total return	0.33	1.46	6.45	4.38	1.50	1.74	2.16
Benchmark	0.25	1.53	5.56	3.41	1.04	1.87	2.16
Excess to benchmark	0.08	-0.07	0.89	0.97	0.46	-0.13	0.00

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.

Effective 1 July 2016, Benchmark is 50% Reserve Bank of Australia Cash Rate and 50% Bloomberg AusBond Composite 0+Yr Index and applied retrospectively for all periods. Excess to benchmark is calculated on Net total return.

Inception date for performance calculations is 21 November 2014.

Portfolio Performance and Activity

May was a tail of two halves for global bond markets. The month started positively with a solid US jobs report, the first piece of hard data post-Liberation Day, followed by a surprising increase in the ISM services index. Both helped reassure investors that the US economy was performing well which lowered rate cut expectations. Separately, long-end yields came under pressure due to mounting fiscal concerns in the U.S with the 30-year U.S. Treasury yield rising to 5.15% following a downgrade by Moody's from Aaa to Aa1 on May 16th, sparking renewed anxiety over the federal deficit, which has remained above 6% of GDP. Additionally, a proposed extension of Trump-era tax cuts fuelled worries about long-term fiscal sustainability.

Meanwhile, the uncertainty around U.S. fiscal policy and potential tariff hikes, including a threatened 50% levy on EU goods, reinforced the volatility in sovereign debt markets. Legal challenges to tariff authority provided temporary relief but were insufficient to fully stabilize long-end yields. As a result, May underscored the widening gap between equity exuberance and fixed-income caution, with duration-sensitive instruments particularly vulnerable to policy-driven rate shocks. Yields regained some early month losses towards the end of the month with US 10 years closing at 4.93%, 25bps high versus Australian 10-year yields, closing 9bps higher at 4.24%. This marked a challenging month for US treasuries, delivering a -1.1% total return, the first monthly loss of 2025 while domestic treasuries managed a very small gain of 2bps. The pressure was not limited to the U.S.; long-end bond yields rose globally, with Japan's

30-year yield hitting a record high of 3.16% and Germany's reaching 2.98%.

Closer to home the RBA delivered a much anticipated and fully priced 25 bp rate cut, taking the cash rate to 3.85% but the accompanying commentary was more dovish than expected. The board noted increased confidence in inflation progress and a refocus on growth and employment downside. The forecasts contained in the Statement of Monetary Policy showed a slightly lower endpoint for inflation of 2.6% a slightly weaker growth outcome of 2.2% and higher unemployment of 4.3%. The dovish tone saw a strong rally response by markets with 3-year bonds falling 17bps to 3.48% on the day and the implied cash rate moving lower to 3.16% from 3.33% for December 2025. The fund finishing the month with 2.70 years of interest rate duration slightly lower than the 2.84 years we held at the started the month

In May, credit spreads generally tightened across Australian, US, and European markets, underpinned by improving investor sentiment, strong equity market performance, and constrained supply dynamics. Australian credit spreads outperformed for much of the month, supported by a persistent shortage of primary issuance and thin dealer inventories. Senior unsecured spreads for the major Australian banks tightened notably, particularly in the 2026 and 2027 maturities, while the subordinated (Tier 2) segment saw even greater compression across both FRN and fixed lines, especially at the longer end of the curve. Non-financial corporates and REITs also saw tightening, with the latter leading sectoral gains. Offshore, the US IG market saw periods of both outperformance and retracement. For example, US IG cash spreads initially tightened by up to

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10bps but later gave back some gains, widening by 5bps in the final week. European spreads were generally tighter, with the Euro Main index improving and primary market volumes reaching record May highs. By month end local spreads had recovered April losses. Major bank spreads tightened 10bps with five years closing at 79bps while single A and BBB corporates contracted by around 15bps to 121 and 145bps respectively.

The key drivers of spread performance included a broadly positive risk backdrop, reduced macroeconomic uncertainty—especially around US-China tariffs—and strong earnings from the US technology sector. Optimism around trade agreements, such as the US-UK deal, and falling equity volatility also helped bolster demand for credit. Meanwhile, technical factors remained strongly supportive. In Australia, the supply/demand imbalance was acute, with extremely limited primary issuance for much of the month and high investor cash levels. Issuance only began to resume later in the month with Westpac bringing a Tier 2 callable (15NC10) deal which priced 17bps inside initial guidance of 195bps. This was followed by a five-year fixed/FRN \$1bn deal at 130bps from Natwest Markets and a \$500m five-year transaction from Goodman Australia Industrial Partnership at 120bps. Despite this, aggregate Australian primary issuance remained modest compared to global peers. In Europe and the US, primary markets were much more active. Europe saw record May issuance volumes of around \$70bn—led by SSAs, corporates, and Financials—while US IG supply repeatedly exceeded expectations, especially in early May, with \$155bn of primary issuance, the heaviest May since 2020. However, this heavy supply did not materially hinder secondary spread performance, suggesting robust investor appetite. Overall, the interplay of positive sentiment, strong equity market correlation, limited local supply, and supportive global issuance dynamics underpinned a strong month for credit markets.

Socially Responsible Investments in

Focus During May the AEMO and AEMC were moved to consider the need for new rules for data centres to ensure grid can cope following an incident that occurred in the US due to the rise of AI. Last July, 60 data centres near Washington simultaneously dropped off the grid after a safety mechanism designed to protect computer chips from damage was triggered, causing a huge surge in excess electricity.

The lack of visibility over the energy use of data centres and the rapid rise in number of data centres can increase unpredictability and a mass disconnection event can exacerbate grid instability. Data centres in Australia currently consume around 5% of Australia's total available electricity, and this is estimated to reach 8% by 2030 (or 15% under a bullish case). Energy analysts believe that anything above 8% could constrain the grid.

The AEMC had noted that it would only take a “large load of approximately >100MW ... to disconnect from the power system in response to a high-frequency event to further destabilise system frequency, thereby worsening the disturbance and risking broader impacts on electricity supply.”

Ideally, more renewable power will be developed along with faster connections to the grid, with more battery storage projects in support. Transmission company AusNet recently disclosed that it had received load enquiries for more than 8GW of data centre capacity, some proposing loads bigger than the country's aluminium smelters – the current largest energy users in Australia.

Internationally, the ECB is increasing its focus on nature-related risks in its stress tests of banks. This includes incorporating the effects of nature degradation on banks' balance sheets, considering how such degradation can impact companies' production processes and potentially weaken their creditworthiness, ultimately affecting bank loans.

Following another year of robust growth, global sales of electric cars are on track to account for over a quarter of cars sold worldwide, according to the new edition of the IEA's annual Global EV Outlook. Despite recent economic headwinds that have put pressure on the auto sector, global sales of electric cars have continued to break records as electric models become increasingly affordable. China maintains its position as the EV market leader, with electric cars accounting for almost half of all car sales in 2024. Emerging markets in Asia and Latin America have also become new centres of growth, with total electric car sales across these regions surging by more than 60% in 2024 and EV cars' market share is set to exceed 40% by 2030 as they become increasingly affordable in more markets. Interestingly, global sales for electric trucks rose 80% in 2024 and now account for around 2% of truck sales worldwide.

NGFS publishes short-term climate scenarios to guide in assessing potential near-term impacts of climate policies and climate change on financial stability. The short-term climate scenarios were primarily developed as an input for climate stress-testing and macroeconomic risk assessment. The scenarios explored were selected to illustrate the potential impacts of adverse climate tail risks, to shed light on their likely effects on the economy and financial system. These results are also particularly useful in understanding the implications of climate risks for monetary policy, macroprudential policy and financial stability.

Outlook

Growth

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Tariffs come at the expense of growth and have two phases. Uncertainty and implementation.

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 is punitive. The uncertainty alone creates the potential to delay existing projects, investment, and consumption decisions, all with negative growth effects.

Irrespective of last-minute “reprieves”, the implementation announced timeline has led companies to pull forward existing import/export activity in order to get ahead of the lift in costs. Surveys of US manufacturers (US NAPM index) suggest that activity has largely been completed.

The lack of a pickup in consumption has surprised the RBA, with the global trade uncertainty creating further delays.

Australian growth over the last year has largely been due to state government infrastructure projects and federal government consumption. Infrastructure project activity has peaked. Household consumption, particularly discretionary spending, has been squeezed by the cost of living escalation and the earlier 8% fall in real wages. To that end, approximately 80% of the personal income tax cuts have been saved. Consumption contributed less than 0.1% to Q1 2025 GDP.

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 of tariffs from 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.

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. 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 falling in both countries, and this will not be interrupted by tariffs. Food and beverages are 16% of the basket and will see lower transportation costs flow through.

Importantly, goods 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 – particularly electric vehicles are likely to be “dumped” into the European market.

Markets will reflect the settings before the real economy.

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 whilst the economy is in the meantime weakening somewhat. The lift in long-dated US bond yields is a tightening of financial conditions.

The RBA will be able to reduce modestly restrictive monetary settings along with inflation easing. Quarterly inflation data over the next two quarters should allow this to be the case, though the expressed concern at the uncertainty US trade policy introduced to the outlook, increases the possibility of more swift action.

The US administration appears to be modifying its previous “strong dollar” policy. The US dollar is unlikely to lose reserve currency status but some amount of depreciation as a “reset” is possibly under way. This biases the Australian dollar higher.

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

The recent lift in Australian longer-dated bond yields, however, 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 10-year real interest rates are above 2.2%. These are multi-decade highs. We believe this premium will diminish over time.

Importantly, key disinflationary pulses are at work and coupled with the abatement of earlier sources of inflation, including wage pressure.

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.

Australian yield curves are unusually steep. Only three times over the last 25 years has it been this steep. The European sovereign crisis is the only time somewhat analogous to now (funding concerns).

Although the sovereign curve is steep, the state government bond curve is far steeper and thus more attractive. Even if bond markets remain static, the potential for capital gains through yields migrating toward the cash rate (roll down) is additional to accrual. This is particularly true of maturities beyond 6 years. The portfolio strategy is to actively manage duration settings; incrementally increasing long bond exposure above this point and vice versa.

Sector Profile as at 31 May 2025

Asset Class	Portfolio %	Benchmark %
Supranationals	4.29	3.82

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Industrials	13.91	2.19
Financials	30.02	2.62
Asset Backed	8.97	0.00
Agencies	6.61	0.86
11AM	0.00	0.00
Cash at Bank	3.48	0.00
RBA Cash	0.00	50.00
Sovereigns	8.43	23.55
Semi Government	24.48	16.96

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	17.00	1.36
AA	26.07	13.01
AAA	40.78	34.12
BBB	16.15	1.50
RBA Cash	0.00	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	8.58	54.61
1 - 3 Years	23.91	10.49
3 - 5 Years	18.11	10.68
5 - 7 Year	15.75	8.28
7+ Years	33.65	15.95

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	9.66	4.70
Government of Australia	7.33	23.53
Treasury Corporation of Victoria	5.76	4.91
Commonwealth Bank of Australia	5.26	0.21
Queensland Treasury Corp.	4.36	3.68
NBN Co Limited	3.31	0.18
Housing Australia	3.07	0.07
Cooperatieve Rabobank U.A.	2.80	--
Wesfarmers Limited	2.17	0.03
Tasmanian Public Finance Corp.	2.00	0.36
Australian Dollar	1.97	--
Airservices Australia	1.94	0.05
Bank Australia Limited	1.85	--
Teachers Mutual Bank Limited	1.80	--
Western Australian Treasury Corp.	1.78	1.09
Woolworths Group Limited	1.66	0.08
BNP Paribas SA	1.66	0.02
APOLLO Series 2023-1 Trust	1.58	--
NAB 11 AM CALL ACCOUNT	1.46	--
Transpower New Zealand Limited	1.44	0.02

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.27	3.93
Modified duration (days)	2.70	2.45

RIAA - Certified Responsible Investment

The Altius Sustainable Bond Fund has been certified by RIAA. According to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

Ratings / Awards



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The Altius Sustainable Bond Fund won the Lonsec Innovation Award 2016, which recognises the major innovators and industry leaders who are shaping the future of Australia's wealth creation sector. The Lonsec Awards go beyond the pure quantitative, looking at the people behind the investment decisions, the rigour of the investment process and philosophy, and the new thought and innovations that create real value for investors.

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