Fund Update
31 May 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 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	0.67	1.18	5.67	5.18	3.30	2.99	2.95
Net total return	0.65	1.13	5.46	4.97	3.10	2.78	2.74
Benchmark	0.34	1.05	4.42	3.79	2.28	2.05	2.02
Excess to benchmark	0.31	0.08	1.04	1.18	0.82	0.73	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.
Gross total returns are calculated before fees and expenses and assume the reinvestment of distributions.
The benchmark is the Bloomberg AusBond Bank Bill Index
Excess to benchmark is calculated on Net total return.
Inception date for performance calculations is 13 June 2017.

Portfolio Performance and Activity

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 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 tightening 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 investor cash levels high. Issuance only began to resume later in the month with Westpac bringing a Tier 2 callable (15NC10) deals 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

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 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 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 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.

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 is 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 pushing prices down. Indeed European policy makers 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 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 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 %
Industrials	4.16
Financials	67.67
Asset Backed	25.40
Money Market	0.00
Cash at Bank	2.78

Ratings Exposure

Rating	Portfolio %
A	32.06
AA	15.72
AAA	24.87
BBB	27.35

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	49.00
1 - 3 Years	6.01
3 - 5 Years	3.54
30 - 90 Days	37.11
90 Days - 1 Year	1.56

Top 20 Holdings

Issuer	Portfolio %
Commonwealth Bank of Australia	8.15
National Australia Bank Limited	7.86
Norfina Limited	6.81
ING Bank (Australia) Limited	6.45
Bank Australia Limited	5.53
Australian Dollar	5.49
WESTPAC 11AM CALL ACCOUNT	4.89

Teachers Mutual Bank Limited	3.79
Westpac Banking Corporation	3.46
Bendigo and Adelaide Bank Limited	3.44
Great Southern Bank (Australia)	2.96
NBN Co Limited	2.47
BNP Paribas SA	2.29
APOLLO Series 2023-1 Trust	2.18
Newcastle Greater Mutual Group Ltd	1.92
Beyond Bank Australia Limited	1.65
NatWest Markets Plc	1.56
Credit Agricole S.A.	1.41
Telstra Group Limited	1.38
Bank of Queensland Limited	1.34

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.69	3.58
Credit duration (years)	2.07	
Modified duration (days)	42.7	43.8

Fund snapshot

APIR code	AUS0079AU
Inception date	13 Jun 2017
Distribution frequency	Monthly
Minimum initial investment	$100,000
Fund size (net asset value)	$343.70m
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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