

## 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 June 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	Since inception % p.a.
Gross total return	0.47	1.29	5.71	5.36	3.81
Net total return	0.44	1.21	5.40	5.05	3.50
Benchmark	0.32	1.02	4.39	3.88	2.92
Excess to benchmark	0.12	0.20	1.01	1.17	0.58

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

Credit markets closed out June on a positive note, recovering from a combination of risks such as trade issues, tariffs, and geopolitical concerns that dominated the first half of 2025. Equities provided strong momentum for global credit with US spreads returning to Pre-Liberation Day lows, however still wide of February tightness. While European and Australian credit closed on YTD tightness. AUD major bank 5 years closed at 78 basis points, 4 basis points tighter, AAA residential mortgages finished 5 tighter at 88 basis points, while major bank subordinated 10NC5 securities were unchanged at 1.61%.

Global issuance volumes remained strong with US investment grade closing with US\$109bn of supply bringing the YTD number to US\$897.6bn, up 3% on 2024 levels. In Europe, YTD supply is up 9% to EUR602m. Both markets experience strong levels of over-subscription on primary deals with new issue concessions (NIC) reaching as low as 2 basis points. Domestically, the market saw strong issuance volumes in the first half of the month before easing into the second half. Early June saw ING Bank issue a multi-tranche \$1.25bn 3 and \$500m 5-year deals at 80 and 90 basis points, respectively. This was followed by a Barclays dual-tranche senior preferred deal, \$750m of 6nc5 at a margin of 1.65% and \$400m of 11nc10 debt at 2.20%. Major bank primary issuance remained scarce with no activity until Westpac entered the with a 5-year deal, the first since the NAB's transaction in March. The deal was launched at 87 basis points and generated \$4.8bn of interest before printing \$2.6bn at 83 basis

points. The strong demand resulted in a very low new issue concession of just 1 basis point. Over the month, the fund participated in both the ING and Westpac transactions.

### Socially Responsible Investments in Focus

The recent developments in sustainable finance in Australia highlight significant strides towards aligning investment with the nation's net-zero ambitions. The Australian sustainable finance taxonomy, released for voluntary use and piloting with financial institutions, marks a crucial step in this direction. This taxonomy, a joint initiative between the Australian Government and the finance sector, provides common definitions for sustainable economic activities. It is a key component of the Government's Sustainable Finance Roadmap and is led by the Australian Sustainable Finance Institute (ASFI).

The taxonomy aims to create a common language for investors, issuers, and regulators to identify and label green and transition finance assets and activities. This clarity is essential for mobilizing capital to enable Australia's transition to net zero. By providing common definitions, the taxonomy strengthens investor confidence in low-emissions investment claims, reduces the risk of greenwashing, and improves the comparability of investment products and sustainability disclosures. A key focus for Altius in our collaboration with the research Lab at UNSW Institute for Climate Risk & Response (ICRR) is the related reporting for green

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bonds as we seek to expand and improve portfolio reporting for our clients

Among the financial institutions participating in the Australian taxonomy implementation pilot are ANZ, NAB and Westpac as well as the CEFC. This pilot will explore the practical applications of the taxonomy, inform additional market guidance, and provide an evidence base for refinement.

Internationally, the Basel Committee on Banking Supervision (BCBS) has released a voluntary framework for the disclosure of material climate-related financial risks. This framework aims to improve transparency and support risk management of climate-related exposures in the banking sector. It includes both qualitative and quantitative disclosure elements, covering governance, strategy, risk management, and metrics and targets.

These initiatives are part of a broader effort to ensure that financial activities contribute to positive sustainability outcomes across climate, environmental, and social objectives. They provide a structured approach for financial institutions to assess, monitor, measure, and report on sustainable lending and bond facilitation, thereby supporting the transition to a low-carbon economy.

The Australian Government has also committed to building 1.2 million homes by mid-2029, presenting a significant opportunity to review and potentially improve construction methods to reduce upfront carbon emissions. A recent report by the Green Building Council of Australia and TSA Riley, supported by the CEFC, highlights that the upfront carbon intensity of Australian single-family detached dwellings outweighs their operating emissions over a 60-year lifespan. The report quantifies upfront carbon at around 1 tonne of CO<sub>2</sub> equivalent per square metre for conditioned floor area (CFA), equating to an average total of 185 tonnes of CO<sub>2</sub> equivalent per house. In contrast, operational emissions are estimated at 24 tonnes of CO<sub>2</sub> equivalent over the house's lifetime, which can be further reduced with on-site solar and battery storage.

The report recommends that the government commit to upfront carbon reduction benchmarks, provide funding support for innovative low-carbon and circular materials, and champion medium-density planning for smaller homes. It also encourages the industry to reduce the size of new homes, simplify designs, employ innovative construction techniques such as modular elements, and choose low-carbon and circular products. This focus on reducing upfront carbon is crucial as it is the single largest source of emissions in a typical new family home and is locked in at construction, with its intensity being more than seven times greater than operational emissions.

## Outlook

A key attraction of high-grade, particularly sovereign-fixed income, is the defensive properties of bonds where duration and liquidity play an important role in a balanced portfolio or on a stand-alone basis. Elevated cash rates and steep yield curves underpin income and capital gain strategies.

We expect central banks to continue with a modest easing cycle, where cash rates are adjusted to neutral levels.

We expect a 25 basis point rate cut at the August meeting with the RBA adjusting cash rates to remove excessive tightness when the inflation data is supportive. We believe the quarterly inflation data to be supportive.

The RBA expressed concern with the headwinds to growth associated with the uncertainty created by the US trade policy reset. RBA concerns have somewhat reduced given the walking back of the magnitude of tariffs, frequent postponements to the date of effect, and absence of corroborating data pointing to deterioration in activity data or labour market conditions.

Implied cash rates expectations factor in three 25bp easings over the next 12 months.

Likely a larger than already expected step down in growth would be needed to lower cash rate expectations below 3.1% and short end bonds sustainably below 3.30%.

## Growth

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

The 20% increase is the largest rise in 200 years. 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.

Australian growth over the last year has largely been due to state government infrastructure projects and federal government consumption. Infrastructure project

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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.

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

### Inflation

Despite the recent correction higher, oil prices have fallen 10% below the average price of the first quarter. Further falls in demand, but more particularly an OPEC led increase in supply, provides a real-time 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, pushing prices down. Record Chinese exports that have less penetration into the US market are a likely source of global goods disinflation. Electric vehicles, pharmaceuticals, and technology goods may be “dumped” into non-US markets.

For the US, the Fed will need to be able to assess the inflationary impact of tariffs. Retaining some tension to financial conditions is intended to make certain that a one-time increase in the price level does not become an ongoing inflation problem”. Clarity will take some months.

A more recent complication is the fiscal expansion and possible lift in activity from the One Big Beautiful Bill. The market has factored in a degree of the required lift in US Treasury issuance, though not necessarily any lift in activity. The lift in long-dated US bond yields is a tightening of financial conditions.

Importantly, a not insignificant probability remains that global growth slows considerably while a larger than expected disinflationary effect is reinforced, creating a scenario with a bullish bias for long-dated bonds. This will particularly advantage the defensive duration settings of our fixed interest funds.

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

Australia's 10-year real interest rates are above 2.2%, multi-decade highs. Reflecting market risk premium associated with US trade policy, central bank's unwinding of central bank QE programs, and FX reserve activities. Perversely, these are largely country specific issues that don't necessarily apply to Australia. As such, we believe this term risk 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.

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

Australian yield curves are unusually steep. Only three times over the last 25 years has it been this steep, the European sovereign crisis, 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 in addition to accrual. This is particularly true of maturities beyond 6 years.

Contained volatility is a tailwind for credit. Near full employment conditions and low arrears are supportive of the bank's financials and residential mortgage-backed sectors. Fundamental conditions improve with the delivery of additional RBA cash rate cuts.

### Sector Profile as at June 2025

Asset Class	Portfolio %
Industrials	4.17
Financials	71.29
Asset Backed	24.77
Money Market	0.00
11AM	0.66
Cash at Bank	-1.30

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## Ratings Exposure

Rating	Portfolio %
A	39.48
AA	12.01
AAA	24.25
BBB	24.26

## Interest Rate Profile

Term	Portfolio %
0 - 30 Days	37.36
1 - 3 Years	6.02
3 - 5 Years	3.57
30 - 90 Days	51.43
90 Days - 1 Year	1.63

## Top 10 Holdings

Issuer	Portfolio %
ING Bank (Australia) Limited	9.96
Commonwealth Bank of Australia	9.23
National Australia Bank Limited	6.54
Bank Australia Limited	5.54
Westpac Banking Corporation	4.75
Teachers Mutual Bank Limited	3.76
Bendigo and Adelaide Bank Limited	3.45
Great Southern Bank (Australia)	2.96
NBN Co Limited	2.48
Banque Federative du Credit Mutuel Societe anonyme	2.28

## Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.52	3.65
Credit duration (years)	2.25	
Modified duration (days)	43.84	42.95

## Fund snapshot

APIR code	AUS0079AU
Inception date	13 Jun 2017
Distribution frequency	Monthly
Minimum initial investment	\$100,000
Fund size (net asset value)	\$311.2m
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](http://altiusam.com). Past performance is no indicator of future performance.

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