

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 August 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	Since inception %
Gross total return	0.54	1.66	5.93	5.60	3.94
Net total return	0.51	1.58	5.61	5.29	3.63
Benchmark	0.32	0.94	4.25	4.00	2.95
Excess to benchmark	0.19	0.64	1.36	1.29	0.69

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

August credit markets were marked by fluctuations tied to equity sentiment, central bank expectations, and thinned trading due to US and European holidays. Early in the month, a “risk-on” tone prevailed. US, European, and Australian spreads tightening alongside stronger equity performance. US IG cash spreads outperformed by 5.4bps, while Australian IG spreads compressed by 3bps. Domestic demand was supported by CBA’s large A\$5bn senior multi-tranche three- and five-year deal, helping major bank curves tightening a further 1-2bps to 64bpts and 77bpts respectively. Offshore, Australian banks’ bonds moved broadly in line with global peers, tightening marginally in USD and EUR markets.

Corporate spreads, particularly in the consumer sector, outperformed on strong demand for supermarket names, while regional bank paper benefitted from the ongoing demand for majors’ banks.

Mid-month, spreads softened as global equity markets rotated out of Technology and waited for Jackson Hole. Although Powell’s Jackson Hole commentary was dovish in tone and initially provided support for credit markets, it weakened later in the week. US and European spreads finished wider (+1.4bps and +4bps respectively), while

Australian spreads continued to grind tighter. Domestic banks’ outperformed, particularly in the belly of the curve, and offshore bank issuance led to a strong tightening in French and UK names.

Global credit indices widened into month-end, with US IG spreads and European spreads widening +5bps and +4bps respectively, reflecting fragile sentiment.

Australian markets diverged, with spreads flat to modestly tighter, supported by subdued issuance. Corporate paper continued to attract demand, tightening 1–3bps across sectors in the final week, while French bank paper came under selective pressure due to ongoing political risks. Overall, August highlighted resilience in Australian credit markets compared with softer offshore performance, underpinned by strong local demand, cautious dealer inventory management, and a shortage of supply. Over August, Major bank three- and five-year spreads contracted 3bpt and 5bpts to finish at 62bpt and 73bpts respectively while 10NC5 major bank subordinated debt finished 5bps tighter at 138bpts. On the corporate front the single A sector contracted 7bpts to 86bpts while BBB’s finished 10bpts tighter at 108bpts.

Primary market activity was steady over August. OCBC kicked off with a \$1bn green three FRN at 70bpts receiving strong demand of \$2.3bn, with participation across our funds. CBA’s followed with a multi-tranche

A\$5bn senior unsecured deal (see above). Other notable deals included \$1.5bn five year from Credit Agricole at 100bpts, HSBC five- and ten-year senior preferred deal at 125bpts and 160bpts respectively and Svenksa Handelsbanken five year senior deal at 82bpt. The only notable corporate deal was Vonovia, a German real estate company that issued \$300m for 7 years 150bps and \$550m for 10-years at 167bps. Overall order books remained strong with tight concessions and a sustained appetite for financials and corporates. Australia's issuance stood out as resilient, with sizeable deals well covered, while offshore markets showed capacity to re-accelerate once holiday effects passed.

Socially Responsible Investments in Focus

In early August, we saw another large bank depart from the net zero banking alliance (NZBA). UBS announced its exit, recognising NZBA's role in helping to establish initial target-setting frameworks, but believing that its in-house capabilities are now strong enough to guide its climate strategy independently. Whilst the bank retained its commitment to net zero by 2050, it had delayed its net zero operational emissions (scopes 1 and 2) target from 2025 to 2035 earlier this year. Without a standardised guidance to align banks' climate targets, we risk seeing further weakening in their discipline in executing climate strategies.

Following the wave of high-profile exits, the NZBA Steering Group launched a member vote on a structural shift: moving from a membership-based model to a framework initiative, which would see its role focused on providing guidance and tools rather than maintaining formal memberships. The proposed framework model would transform mandatory climate obligations – like setting interim targets and reporting emissions – into non-binding guidance. This model would see NZBA transition to a soft advocacy group, which would undermine the urgent need for strong climate action as it would allow for reduced accountability and reporting. This reinforces the need for strong government policy which is now more important than ever to drive

urgent climate action. NZBA's operations were paused to allow members to cast their votes, and the outcome of this vote is expected by the end of September 2025.

In a notable development, former UN climate chief Christiana Figueres urged Australia to adopt a more ambitious greenhouse gas reduction target of cutting emissions by at least 75% below 2005 levels by 2035. This is backed by a group of more than 350 businesses advocating that this would be much better for the economy. They estimate that achieving such ambition could inject approximately \$370 billion into Australia's GDP by 2035.

The Climate Change Authority (CCA) is preparing formal advice to the Australian Government, which will inform the target Australia submits to the UN in September 2025. Previously, the CCA proposed that a 65-75% reduction in emissions below 2005 levels by 2035 target could be ambitious and achievable, while Climate Analytics had suggested that a target of 81% would align with the Paris 1.5C goal.

The Australian Office of Financial Management (AOFM) highlighted investors are applying greater scrutiny of the Labour Government's \$7 billion green bond issuance to assess their environmental impact and alignment with the party's objectives. While \$5.4 billion has already been allocated toward transport, climate, and conservation projects, investors are raising concerns around greenwashing, requesting for more transparency and demonstrated environmental outcomes. Investors are increasingly paying attention to the credibility and robustness of the green bond framework and want to understand how that supports Australia's net zero climate ambition.

During the month, the Federal Government also announced plans to fast-track reforms to the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act), with legislation proposed for introduction to Parliament before the

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end of 2025, moving up the timeline from mid-2026. The reforms aim to strengthen environmental protection, improve project assessment efficiency, and increase decision-making accountability. The government is also looking to remove duplication within the approvals and assessment system to help speed up housing, renewable energy and critical minerals projects.

A report by the Australian Conservation Foundation (ACF) revealed that the cattle industry, particularly beef production, was the largest driver of deforestation in Australia. This is having devastating consequences for biodiversity and climate. In response, Coles established a commitment to source only deforestation-free beef for its own-brand products by the end of 2025, aligning with the Science-Based Targets Initiative (SBTi). In contrast however, Woolworths who had initially pledged to stop selling deforestation-free beef by December 2025 downgraded the deforestation risk of Australian beef to “low”, thus shifting its priorities away from it. The move essentially demonstrates a roll-back of its prior commitment and raises concerns about the consistency and credibility of its sustainability commitments.

Outlook

Global trade policy changes are resulting in varied regional inflation trends, with economic activity adapting to new trade routes and schedules. Economic activity has increased ahead of tariff implementation, but it is unclear when this effect will subside or when related inflationary pressures in the US will conclude.

US job growth has dropped from over 200,000 per month in late 2024 to 35,000 this quarter, and recent data revisions reveal a weaker starting point than previously thought. While jobs aren't being lost, signs of labour market weakness are likely to draw the Fed's attention, especially as inflation trends become clearer.

US inflation is currently rising in a manner comparable to the implementation of a consumption tax. American companies are gradually transferring these increased

costs to consumers. Completion of the passthrough is anticipated by October. Given the flexible wage structure and a relatively subdued labour market, it is anticipated that this inflationary trend will be transitory.

Oil prices have faced sustained downward pressure, declining for three consecutive months. Ongoing reductions in global oil demand, coupled with significant growth in OPEC oil production, are contributing to a real-time, global disinflationary pressure.

The methodology used to measure inflation is also of significant importance. In the United States, housing constitutes 42% of the Consumer Price Index (CPI) basket, compared to 30% in Australia. In both countries, the contribution of rents to overall inflation has been declining, a trend unlikely to be affected by tariff changes. Food and beverages account for 16% of the CPI basket and are expected to benefit from reduced transportation costs

The Reserve Bank of Australia (RBA) remains attentive to potential growth challenges arising from uncertainty in US trade policy, particularly as it affects cautious consumer and business sentiment, despite an improved outlook for real wages. The lack of deterioration in domestic labour market conditions and slightly stronger-than-expected GDP growth suggest that the RBA will adjust cash rate to prevent excessive monetary tightness, in light of moderating inflation data.

We anticipate a 25 basis point rate cut at the November RBA meeting, following the release of October CPI data. Current implied cash rate expectations reflect two 25 basis point reductions over the next 12 months. A more significant-than-anticipated slowdown in economic growth would be required to move cash rate expectations below 3.1% and to sustain short-term bond yields below 3.30%.

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

Globally, term risk premiums have risen. This trend is linked to factors such as changes in US trade policy, the unwinding of quantitative easing programs by central banks, reductions in foreign exchange reserves, and

increased bond issuance requirements stemming from expanding fiscal deficits in major economies.

While these concerns are predominantly specific to other countries and may not be relevant to Australia, it is worth noting that Australia's 10-year real interest rates currently exceed 2%, approaching multi-decade highs. Consequently, we anticipate that the term risk premium will gradually decline over time.

We anticipate that the yield on long-dated Australian government bonds will fluctuate around a midpoint of 4.15% for 10-year sovereign bonds over the medium term.

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

The Australian yield curve currently exhibits a notable degree of steepness, observed only three times in the past 25 years.

While the sovereign yield curve is elevated, the state government bond curve demonstrates an even greater level of steepness, rendering it particularly attractive. Should bond markets remain unchanged, there is further potential for capital gains as yields converge towards the cash rate (roll down), supplementing accrual income. This dynamic is especially pronounced for maturities in the five to seven-year range.

Contained volatility continues to serve as a positive factor for credit markets, due to the strong relationship between volatility and credit spreads. In addition, near full employment is beneficial for bank financials and residential mortgage-backed segments, as it contributes to low arrears rates. Looking ahead, fundamental conditions are expected to strengthen further with the anticipated reduction in the RBA cash rate.

In the event of a marked slowdown in global growth accompanied by more pronounced disinflation than anticipated, bond prices would be expected to appreciate. The defensive attributes of fixed-rate bonds thereby enhance their accrual and roll-down benefits within such conditions

Sector Profile as at August 2025

Asset Class	Portfolio %
Industrials	4.66
Financials	69.75
Asset Backed	20.83
11AM	6.13
Cash at Bank	-1.38

Ratings Exposure

Rating	Portfolio %
A	31.78
AA	15.14
AAA	23.04
BBB	30.04

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	38.40
1 - 3 Years	2.23
3 + Years	0.91
30 - 90 Days	51.63
90 Days - 1 Year	2.06
Cash	4.76

Top 10 Holdings

Issuer	Portfolio %
Westpac Banking Corporation	6.66
National Australia Bank Limited	6.08
Great Southern Bank (Australia)	5.58
Bendigo and Adelaide Bank Limited	5.49
Commonwealth Bank of Australia	5.20
Australian Dollar	4.63
Bank Australia Limited	4.59
Bank of Queensland Limited	4.32
NAB 11 AM CALL ACCOUNT	3.51

Portfolio Summary Statistics

	Portfolio
Yield to maturity (%)	4.44
Credit duration (years)	2.40
Modified duration (days)	42.15

Fund snapshot

APIR code	AUS0079AU
Inception date	13 Jun 2017
Distribution frequency	Monthly

Minimum initial investment	\$100,000
Fund size (net asset value)	670.4m
Management fee*	0.20% p.a.
Buy/Sell spread	
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. 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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