

# Fund Update

## September 2025



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### AE Altius Short Duration Bond Fund (Retail)

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 AE Altius Short Duration Bond Fund is an Australian fixed interest fund that invests in companies which conduct their business and apply capital responsibly, giving consideration to a range of environmental, social and governance (ESG) issues.

#### Performance as at September 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception %
Gross total return	0.42	1.35	5.68	5.86	2.13	2.50	2.89
Net total return	0.38	1.23	5.17	5.34	1.60	1.91	2.26
Benchmark	0.20	0.66	4.08	4.11	1.14	1.93	2.20
Excess to benchmark	0.18	0.57	1.09	1.23	0.46	-0.02	0.06

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.

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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

September saw a divergence between Australia and several major economies. The RBA held the cash rate at 3.60% in a unanimous decision, as expected by the market, emphasizing caution as the recovery gains traction, but two consecutive upside CPI surprises (July 2.8% YoY vs. 2.3% expected followed by an August 3.0% YoY vs. 2.9% expected) removed the RBA's earlier leeway for cuts. Short-dated Australian bond yields repriced higher off the back of these upside inflation surprises with the 3y bond yield up 0.15% to 3.55% at the end of the month while the 10y bond yield was relatively flat, rising by 0.02% to 4.30%. There was a notable hawkish tone in the RBA statement, acknowledging a stronger consumer, the resilient labour market and the increase in some of the sticky services components in the monthly CPI reports with "recent data, while partial and volatile, suggest that inflation in the September quarter may be higher than expected at the time of the August Statement on Monetary Policy". By contrast, the Fed cut cash rates in the US in September by 0.25%, which supported risk assets and pushed US bond yields lower in the long end despite a worsening fiscal position, increasing concern on the Fed's independence and an imminent US government shutdown. The risk on tone was established early in the

month, supported by rising expectations of a September rate cut from the US Fed, spurred by a string of evidence of a softer labour market. First, US job openings were weaker than expected, the ADP employment report missed expectations, and the Non-Farm Payrolls number was significantly weaker than expectations. At the same time as these indicators of jobs growth showed a slowing of hiring by US firms, it was notable that the unemployment rate itself remained relatively contained, rising only 0.1%. Mid-month, the Fed delivered a well anticipated rate cut, but did not support market conviction around additional cuts to follow, balancing an acknowledgement of signs of weakness in labour markets with ongoing caution on the outlook for inflation in the wake of tariffs, flagging data dependence.

Risk assets were well supported by the Fed interest rate cut and the fall in US longer dated bond yields and credit markets were no exception, with investment grade credit spreads moving tighter and strong supply of issuance continuing apace in US, Europe and Australia. The first week of September saw strong issuance of \$3.9b in AUD, \$67b in the US and EUR 76b. The Australian major banks chose offshore markets for funding, with NAB issuing a 5y senior deal in Japan at ASW +93 equivalent. Credit supply continued offshore with \$35b in the US and EUR 39b. In spite of the strong

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supply US IG spreads tightened 4.7bps and EUR IG spreads -4.3bps over the first two weeks of September, with Australian Corporate IG spreads flat by comparison tightening only 1.4bps. In the last week of the month, another Australian Major Bank chose to issue offshore instead of into the domestic market, with CBA issuing in USD at ASW +84 equivalent. US markets in that week saw \$56b of new issuance, and EUR 49b. Despite the strong issuance, US investment grade spreads closed the month 8.8bps tighter, with the strong support evident with high yield spreads also moving 12.2bps tighter. Domestically, spreads were only 4bps tighter for the month, with major bank spreads well supported, tightening 4.4bps over the month.

With the Australian Major Banks absent from domestic issuance, there were a number of notable offshore financials issuing in AUD instead, with a \$1.5b 6 year Senior Unsecured issue from RBC, \$1b 5y Senior Unsecured issue from Sumitomo Mitsui pricing early in the month at +78, followed by a \$750m 5 year Fixed and Floating Senior Unsecured issue from Toronto Dominion at +115 for the A- rated issuer. There was also a \$550m 5 year issue from Kiwibank at +95, with participation across our funds, and a 3 year \$500m deal at +63 from Mizuho. Domestic financial issuance came from Teachers Mutual with a \$375m 3 year senior unsecured transaction, with participation across our funds, while SME lender Judo Bank tested market appetite for a subordinated transaction late in the month, issuing only \$150m at a below investment grade rating. Domestic corporate issuance saw healthy appetite for longer tenor transactions from Western Sydney with a \$300m 7y deal, AGL issuing \$500m split over 7y and 10y tenors, and Scentre with a \$1b 10y transaction.

## Socially Responsible Investments in Focus

September marked a pivotal month for climate policy development in Australia, with the release of the country's first National Climate Risk Assessment (NCRA), a new 2035 emissions reduction target and an updated Net Zero plan. The NCRA provides a comprehensive evaluation of climate-related risks across eight key systems and informs the National Adaptation plan, which guides future strategies for infrastructure, health and emergency response.

The NCRA identified 63 nationally significant risks, of which 11 were deemed priority risks. This included threats to coastal communities, critical infrastructure, water security, supply chains, natural ecosystems,

health, indigenous cultural heritage and national security. The report assessed risks under three scenarios: 1.5°C, 2°C, and 3°C of global warming above pre-industrial levels. Based on current global policies, the world is tracking towards 2.7°C by 2100, making the 3°C scenario the most likely outcome.

One of the starker findings was that up to 1.5 million Australians could be exposed to coastal inundation by 2050 under high-emissions scenarios. Physical risks to infrastructure and critical assets are expected to rise, with projected property value losses of \$571 billion by 2030, \$611 billion by 2050 and \$770 billion by 2100. Heat-related mortality would rise dramatically, especially in northern regions. Cities like Sydney and Darwin could see a 400% increase in heat-related deaths under a 3°C scenario. The increased frequency and severity of natural hazards will have major implications for agriculture, health and social support, primary industries and infrastructure, and are estimated to cost Australia \$40.3 billion annually by 2050. At the same time, climate change will reduce productivity and exacerbate social inequality. Supply chains are vulnerable to disruption from extreme events, and some communities may face displacement or become uninsurable. Up to 70% of native plant species could face climate conditions outside their current range by 2050, threatening biodiversity and ecosystem services. Marine ecosystems are also at risk from warming and acidification. First Nations communities were identified as among the most climate vulnerable.

Following the NCRA, the Australian government announced a new 2035 climate target of reducing greenhouse gas emissions by 62-70% below 2005 levels. The target is intended to guide Australia's path to net zero by 2050 and will be included in the Nationally Determined Contribution (NDC). It follows advice from the Climate Change Authority and aligns with climate science, as well as the Paris Agreement goal of limiting global warming below 2°C, while pursuing efforts to limit warming to 1.5°C. It represents an increase in climate ambition and is believed to be achievable with existing technologies and practices. The emissions reduction pathway from 2036 to 2050 however, will be more challenging and is largely dependent on several new technologies and innovation becoming more cost-effective and scalable.

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The 2035 target will be supported by cornerstone policies - 82% renewable electricity target by 2030 target, Safeguard Mechanism, Capacity Investment Scheme, Future Made in Australia agenda, and New Vehicle Efficiency Standard. Beyond these existing policies, the government has outlined five decarbonization priorities: Clean Electricity; Electrification and Energy Efficiency; Clean Fuels and Hydrogen; Innovation and Emerging Technologies; and Scaling Carbon Removals and Offsets. These form the foundation of the government's climate strategy and guide investments, policy design, and sectoral transition planning.

To support these goals, the government announced over \$8 billion in new funding, including: a \$5 billion Net Zero Fund for industrial decarbonisation, \$2 billion for the Clean Energy Finance Corporation to accelerate the roll-out of renewable projects, \$1.1 billion for clean fuel production, \$40 million for electric vehicles charging infrastructure, \$85 million for household and business energy performance tools and \$50 million for community climate initiatives.

In another climate development, the North West Shelf (NWS) Project, Australia's largest and oldest LNG operation, received final environmental approval from the Federal government to continue operating until 2070. This is subject to 48 environmental conditions, including a 60% reduction of certain gases, such as nitrogen oxide and volatile organic compounds by 2030, and 90% by 2060. The facility must adhere to Australia's Safeguard Mechanism and demonstrate a clear pathway to achieving net zero by 2050. Additionally, the project must avoid and mitigate any significant impacts on the Murujuga Cultural Landscape, including through air emissions monitoring and restrictions.

The move cements the role of gas in Australia's energy mix and is projected to generate significant emissions of an estimated 87.9 million tonnes of CO2-e, equivalent to about 20% of Australia's current annual carbon footprint, or 4 billion tonnes of CO2-e over its extended lifetime. This raises questions about how the government will navigate the complex balancing act between positioning Australia as a climate leader and meeting its climate targets, while continuing to support the natural gas industry.

During the month, the Queensland Government also signalled that coal generation will remain central to its

energy strategy and will be outlined in its upcoming five-year energy roadmap. The state intends to keep coal-fired power stations operational through at least the 2040s, and would operate for as long as they remain economically sensible and systematically needed. The government is reviewing the state's renewable energy and emissions reduction targets, but these developments create a tension with Queensland's commitment to net zero by 2050.

## Outlook

Global inflation patterns show considerable variation. China is experiencing disinflation and occasional deflation, while US services inflation has increased due to the impact of tariff passthrough. In the UK, regulated price adjustments are contributing to inflation, and in Australia, headline inflation has declined, with government subsidies leading to measured price fluctuations. As a result, central bank monetary policy settings and sovereign bond markets are exhibiting greater individual differences.

Oil prices have been under sustained downward pressure, declining for four consecutive months. This is due to ongoing reductions in global oil demand and significant growth in OPEC oil production, contributing to real-time global disinflationary pressure.

Economic activity increased in advance of the implementation of tariffs. A portion of this year's unexpected resilience can be attributed to delays in tariff escalation, as increases have been more gradual and inconsistent than anticipated, manifesting in a more prolonged front-loading of US goods spending on items facing potential but not yet enacted tariffs. The robust performance of the US technology sector, driven by AI-related capex activity, has lifted exports from Taiwan and ASEAN countries. However, these exports are now decelerating significantly; Taiwan's technology exports declined by 6% in August, while exports to the US dropped by 26%. These developments suggest that the period of front-loading is coming to an end.

US inflation is rising similarly to the effects of a consumption tax, with American companies gradually passing these increased costs to consumers, with the passthrough is expected to peak by end October.

US job growth has slowed significantly, from over 200,000 per month in late 2024 to 21,000 this quarter.

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Outside of health and education, employment has declined for most of 2025. Recent data revisions show a weaker starting point than previously thought. Immigration policy has reduced labour supply, preventing a rise in unemployment. However, the decrease in both labour demand and supply indicates slower growth.

US government shutdowns are reasonably frequent and historically not long lasting in their impact. The current shutdown is more elongated, and likely to dampen consumer activity over the short term, with GDP up to 0.5% weaker. Any sacking of furloughed workers would weaken the corrective bounce.

The US Fed's attention is on the weakened labour market, but still somewhat constrained by the unclear inflation backdrop.

The RBA describes current monetary settings as restrictive. In the absence of a lift in unemployment, the RBA is likely to maintain the current level of restriction by easing cash rates in line with inflation successes; gradually tracking lower. Predicated on an inflation rate of 2.5%, cash rates can be eased toward 3.1% and retain appropriate restriction.

Globally, term risk premiums have been elevated. This has largely been driven by erratic changes in US trade and foreign policy, with significant influence from the unwinding of quantitative easing programs by central banks, the cessation of Japanese yield curve control, reductions in foreign exchange reserves, and increased bond issuance requirements stemming from expanding fiscal deficits in major economies.

We continue to look for a reduction in term risk premiums, as global markets become used to policy shifts and headline news cycles. Moreover, the concern that has underpinned elevated term risk premiums are quite specific to other countries and not necessarily as relevant to Australia.

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 falling term premium is somewhat being offset by a lift in market inflation expectations ahead of Q3 inflation release, where year on year rates are forecast to lift to around 2.6%.

The Australian yield curve currently exhibits a notable degree of steepness, observed only three times in the past 25 years. 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 within the corporate sector, 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 September 2025

Asset Class	Portfolio %	Benchmark %
Agencies	6.43	0.85
Asset Backed	8.65	--
Cash at Bank	3.70	--
Financials	36.61	2.59
Industrials	13.43	2.19
RBA Cash	--	50.00
Semi Government	25.01	16.81
Sovereigns	2.93	23.96
Supranationals	3.24	3.60

## Ratings Exposure

Rating	Portfolio %	Benchmark %
A	21.38	1.35
AA	30.03	14.05
AAA	31.05	33.01
BBB	17.54	1.59
RBA Cash	--	50.00

## Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	8.57	55.54

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1 - 3 Years	29.32	9.11
3 - 5 Years	19.99	10.40
5 - 7 Year	13.20	8.13
7+ Years	28.92	16.82

Ratings / Awards



RECOMMENDED

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SUSTAINABLE

— CERTIFIED BY RIAA —

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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**Top 20 Issuers**

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	9.95	4.72
Treasury Corporation of Victoria	6.79	4.88
NAB 11 AM CALL ACCOUNT	4.59	--
Queensland Treasury Corp.	4.49	3.51
NBN Co Limited	3.43	0.17
Government of Australia	3.27	23.92
Commonwealth Bank of Australia	3.26	0.20
Housing Australia	3.20	0.07
Cooperatieve Rabobank U.A.	2.88	--
Western Australian Treasury Corp.	2.49	0.99
Wesfarmers Limited	2.23	0.03
Oversea-Chinese Banking Corp. Ltd. /Sydney Branch/	2.22	--
Tasmanian Public Finance Corp.	2.04	0.38
Airservices Australia	2.02	0.06
Bank Australia Limited	1.91	--
Australian Dollar	1.90	--
Teachers Mutual Bank Limited	1.82	--
Woolworths Group Limited	1.74	0.08
BNP Paribas SA	1.70	0.02
Great Southern Bank (Australia)	1.65	--

**Portfolio Summary Statistics**

	Portfolio %	Benchmark %
Yield to maturity (%)	4.51	3.85
Modified duration (years)	3.20	2.42

**Fund Snapshot**

APIR code	AUS0071AU
Inception Date	21 Nov 2014
Distribution frequency	Quarterly
Minimum initial investment	\$5,000
Fund size (net asset value)	\$171.2m
Management fee*	0.37% p.a
Buy/Sell spread	0.05%/0.05%
Advice fee	Available

\*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.

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