Fund Update
November 2025

AE Altius Short Duration Fund (Institutional)

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 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 of November 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	-0.33	0.52	5.60	5.30	2.07	2.45	2.82
Net total return	-0.37	0.39	5.09	4.79	1.55	1.87	2.19
Benchmark	-0.29	0.23	4.15	3.62	1.13	1.87	2.13
Excess to benchmark	-0.07	0.16	0.94	1.17	0.42	0.00	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

Australian rates rose significantly over November as economic data pointed to sticky inflation, a rebound in employment, and continued hawkish commentary from the RBA Governor and Board members. Three- and ten-year yields rose 29bps and 21bps to close at 3.91% and 4.54% respectively. Three-year yields recorded their largest monthly sell-off since 2017, excluding the Covid period. The market also priced out most of the expected cash-rate easing, with only 8bps of cuts priced by November 2026.

The first major catalyst was the release of the October employment report on 13 November. After a soft September print that saw unemployment jump to 4.5%, markets were watching closely to determine whether this was a data aberration or the start of a genuine weakening in the labour market. The former proved correct, with unemployment falling back to 4.3% and 55.3k new full-time jobs created. Together with other labour-market indicators such as job ads, the data reaffirmed the tightness of the employment landscape. Bond markets sold off 10bps on the release, marking a turning point for yields in November.

The other major catalyst was the release of the inaugural full monthly CPI print. Headline inflation came in above consensus at 3.8% YoY, while the trimmed mean rose to 3.3% YoY versus expectations of 3%. With limited history for the monthly series, the RBA may treat the data cautiously, but it is clear inflation is not easing sufficiently and remains stickier than expected. Yields rose sharply following the release, with three-year bonds climbing 15bps to 3.91% and easing expectations further reduced. The data prompted several economists to call an end to the easing cycle, and some even projected potential hikes in 2026.

In the US, the Federal Reserve was the dominant driver of market sentiment in November. The month opened with a 68% probability of a December rate cut, but this fell after a strong ISM Services report. Optimism then improved following the resolution of the US government shutdown and the release of the Fed's October minutes, which noted that "many participants suggested that under their economic outlook, it would likely be appropriate to keep the target range unchanged for the rest of the year." This pushed the probability of a December cut down to 30%. However, sentiment shifted again when the delayed September employment report showed the unemployment rate rising to 4.4%, the highest since 2021. Comments from New York Fed President Williams, suggesting room for another cut in the short term, helped drive market expectations back toward an 80% probability of a December cut by month-end.

Global credit markets experienced a mixed month as equity volatility and heavier-than-expected primary issuance weighed on spreads. A late-month rally in equities helped partially retrace the widening seen in late October and early November. By month-end, local major-bank senior spreads had drifted 2bps wider to 72bps for five-year paper, while subordinated bank spreads widened 10bps to 132bps.

November saw strong activity in the AUD bank-capital market, with three notable transactions. Westpac issued the second-ever 20-year bullet Tier 2, printing $1bn at a margin of 160bps and tightening a further 10bps in secondary. NAB issued a $2bn dual-tranche fixed/floating 10NC5 deal, which struggled in secondary trading and highlighted investor concerns around tight valuations. BNP completed the second AT1 Kangaroo deal since APRA announced the phase-out of Australian bank AT1 securities, issuing $750m at swap plus 305bps — around 50bps inside the USD equivalent — demonstrating strong demand for high-yielding AUD paper.

Other transactions included three-year senior deals from Bank Australia and Bank of Queensland, as well as Transgrid's $300m hybrid 30NC5.25 issue at a margin of 180bps. The corporate hybrid market has continued to build momentum since late 2024 following a Moody's methodology change. In 2025, hybrid issuance has reached $7bn, with similar trends observed in Europe and the US.

A growing theme in primary markets is the increased funding requirement from hyperscalers (Meta, Google, and Amazon), which issued $62bn in November alone. With AI-related investment expected to reach $3tn in coming years, markets are increasingly questioning how these funding needs will be met without putting upward pressure on spreads. Hyperscaler issuance volumes now exceed those of the US banking sector and represent a growing share of major US corporate indices. Australian markets have also been affected, with growing speculation that Meta is considering an AUD-denominated transaction.

Socially Responsible Investments in Focus

In November, the Federal Labour government reached a landmark agreement with the Greens to overhaul the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act), marking the most significant reform in more than 25 years. As part of the deal, seven reform bills —including the Environment Protection Reform Bill, the NEPA Bill, the Environment Information Australia Bill, the EPBC Restoration-Charge Bill, and three additional bills covering general, customs, and excise charges—were passed by Parliament and received Royal Assent, with key provisions now in force. The reform sees the creation of a National Environmental Protection Agency (EPA) and the introduction of National Environmental Standards, strengthening federal oversight and ensuring stricter compliance and enforcement. They also impose greater penalties, require large emitting projects to disclose their greenhouse gas emissions and reduction plans, and maintain federal approval of 'water trigger' coal and gas projects.

Under the new rules, projects that risk "unacceptable impacts" to protected environments, species or heritage areas must be refused outright, with no option to offset the harm. For projects with residual unavoidable damage, proponents must offset the damage in a way that aims for a "net gain" outcome – either by undertaking direct restoration, contributing to a government-administered restoration fund, or through the newly introduced Nature Repair Market.

The reforms would also streamline the approval process for many development projects, improve state-federal coordination, and set regional planning frameworks to boost certainty. These changes aim to protect Australia's environment and is expected to unlock up to $7 billion in economic benefits.

On the topic of nature, the International Sustainability Standards board (ISSB) said it is considering expanding its disclosure framework to include additional requirements for nature-related risks and opportunities beyond IFRS S1 and IFRS S2. This represents a significant step toward embedding nature considerations into global corporate reporting and will improve visibility for investors and lenders.

During the month, Western Australia announced a significant policy shift to preference locally produced green steel in major government projects, such as railways, roads, transmission lines and future hospital buildings. This move aligns with the state's Made in WA ambition to decarbonise the construction supply chain, position WA as a renewable energy and green metals powerhouse, create new manufacturing jobs and diversify the state's economy. An open-market Expression of Interest was launched for suppliers, while agencies like Western Power, Synergy and Horizon Power were directed to prioritise green steel procurement.

The policy introduces an "if not, why not" mandate, requiring government agencies to justify any decision not to use WA-made green steel. It also includes an addendum to the WA Industry Participation Strategy, which sets stronger expectations for local sourcing and mandates lifecycle carbon footprint analysis and value-for-money assessments that incorporate environmental benefits. The government hopes this will encourage the development of a locally manufactured green steel industry that incorporates recycled feedstock, potentially sourced from decommissioned mining and offshore oil and gas plants.

The Federal Government's independent advisory body Climate Change Authority (CCA) released its 2025 Annual Progress Report which assessed Australia's progress towards its emission reduction target. The report found that while current emissions are falling, the current rate of reduction is around 8 Mt per year and is far too slow. To meet the national target of a 43% reduction in emissions by 2030, the rate must more than double to 18 Mt per year, and to achieve the 2035 target, it must triple to 20-25 Mt per year.

Central to this is electricity decarbonisation, with renewables currently supplying around 40% of grid generation and needing to reach the target of 82% renewable electricity generation in the National Electricity Market by 2030. Given current policies are insufficient to meet this target, the CCA made seven key policy recommendations.

First, streamline approvals for renewable energy projects through legislative reform and regional planning. Second, extend the Capacity Investment Scheme beyond 2027 to provide long-term investment certainty. Third, maintain grid stability by deploying stabilising technologies as coal plants retire. Fourth, build community support by introducing national engagement and benefit-sharing programs for regional area. Fifth, cut fossil methane emissions from coal and gas operations. Sixth, integrate climate risk into land-use planning and support planned relocations. Finally, mobilise adaptation finance by unlocking private capital through tax reform and expanding the Clean Energy Finance Corporation's mandate.

November also marked an important development in sustainable finance, with the International Capital Market Association (ICMA) launching its first Climate Transition Bond Guidelines, establishing a new bond label – the Climate Transition Bond (CTB). These guidelines provide a common framework for issuers to fund transition -oriented projects, particularly in high-emission sectors such as energy, steel, and cement, which have historically had limited access to labelled sustainable finance. The framework mirrors the Green Bond Principles and adoption is voluntary.

The guidelines set out a definition, safeguards and a non-exhaustive list of "Climate Transition Projects", including carbon capture, fuel switching, high-emission asset retirement and methane-abatement initiatives, all underpinned by credible transition plans and robust reporting requirements. Issuers must demonstrate that projects deliver substantial, quantifiable emissions reductions beyond business-as-usual. They are required to have a transition strategy that align with sector and market-based taxonomies, decarbonisation pathways and roadmaps, and provide analysis of the unfeasibility of low-carbon alternatives for projects and carbon lock-in risks.

ICMA hopes this would address financing gaps in hard-to-abate industries and mobilise capital toward the estimated US$30 trillion required to decarbonise the eight high-emission sectors responsible for 40% of global GHG emissions by 2050.

The Taskforce on Nature-related Financial Disclosures (TNFD) also published guidance on integrating nature into transition plans for corporates and financial institutions. The guidance aims to align business strategies with the Kunming-Montreal Global Biodiversity Framework, which seeks to halt and reverse biodiversity loss by 2030 and achieve harmony with nature by 2050.

The TNFD encourages companies to either integrate nature into existing climate transition plans or develop standalone nature plans, depending on their starting point and risk profile. Nature transition plans should be embedded within an organisation's overall strategy and includes goals, targets, actions, accountability and resource allocation. TNFD recommends structuring these plans around five core themes: (i) Foundations set scope, ambition, priorities, and financing; (ii) Implementation drives operational and policy changes; (iii) Engagement builds collaboration across value chains and communities; (iv) Metrics & Targets define science-based, time-bound indicators; and (v) Governance ensures oversight, clear roles, and accountability.

The guidance also outlines disclosure expectations, recommending that organisations publish a standalone transition plan or integrate updates into annual TNFD-aligned reporting. It reflects a growing recognition that nature-related risks and dependencies are material for businesses. Biodiversity, ecosystem services (water, pollination, soil, carbon sequestration etc.) and natural capital underlie many business operations.

Outlook

Global inflation trends continue to diverge. China is experiencing disinflation and periods of outright deflation, while in the United States, services inflation has increased due to tariff passthrough effects. In the United Kingdom, changes to regulated prices are adding to inflation, and in Australia the expiration of government subsidies has pushed inflation higher. As a result, central bank policy paths and sovereign bond market behaviour are becoming increasingly differentiated across regions.

Artificial intelligence–related capital expenditure has surged, propelling the US equity market to record highs. Outside of the technology sector, however, economic activity has been more subdued, with tariffs weighing on manufacturing and elevated interest rates slowing construction. US GDP growth is currently tracking at around 1.2% annualised for the third quarter.

Employment growth has slowed in both the United States and Australia, although the deceleration has been more pronounced in the US. Labour force participation has also declined in both economies. Earlier estimates of remaining labour market capacity appear to have been overly optimistic, resulting in tighter labour market conditions than expected. In Australia, unemployment has risen only modestly—up 0.2% over the year—while underemployment has fallen to its lowest level in 35 years.

The softer US employment profile, combined with lower-than-expected inflation outcomes (once tariff effects are accounted for), has enabled the Federal Reserve to resume its rate-cutting cycle. Although inflation has moderated, it remains above the Fed's target, with core PCE currently annualising at around 2.6%.

It is unusual for the US to be easing monetary policy while Australia is tightening, given the typically common global economic impulses affecting both countries. However, Australia's inflation dynamics have become increasingly domestic in nature. The Reserve Bank of Australia (RBA) has therefore focused primarily on local conditions when setting the cash rate, giving these factors greater weight than international considerations.

Australian inflation has recently increased to 3.8% year-on-year in headline terms, with the trimmed mean at 3.3%. While seasonal influences and statistical effects may have overstated inflation in the new series, both measures remain above the RBA's 2–3% target band.

The RBA expects that some recent price increases will prove temporary and could unwind. Nevertheless, several mechanical factors are likely to place upward pressure on headline inflation. The expiry of electricity rebates—against a backdrop of rising wholesale prices—will lift inflation, as will the end of the rental assistance program. Early next year, annual resets such as education fees (which are expected to grow faster than current inflation), local council rates, and other taxes are also likely to contribute to headline inflation.

Minimum and award wages—affecting roughly 30% of the workforce—tend to be indexed to recent headline inflation. Should inflation remain near 3.5%, wage increases are likely to be set at similar levels, which would reinforce inflation pressures.

Given this backdrop, and absent a sharp increase in unemployment, rate cuts are unlikely. If the RBA determines further tightening is necessary, it seldom acts only once; two 25-basis-point increases over time would be a plausible scenario.

We do not expect a rate hike at the next two RBA meetings; however, the RBA's communication is likely to become more hawkish, functioning as a policy tool in lieu of reversing the recent series of rate cuts. We expect the market to price one to two further hikes. Any expectation of more than two would likely be excessive, given the RBA's reluctance to jeopardise labour market strength.

Globally, term premia remain elevated, largely due to volatile US trade and foreign policy developments, the unwinding of quantitative easing across major central banks, the end of Japan's yield-curve control framework, reductions in foreign exchange reserve holdings, and increased bond issuance to fund expanding fiscal deficits. While the US Federal Reserve has announced an end to quantitative tightening, substantial funding requirements remain in place.

We expect long-dated Australian government bond yields to trade around 4.65% for the 10-year maturity over the medium term. The 3-year yield is expected to trade around 4.15%, reflecting the assumption of two 25-basis-point rate hikes. Yields materially above these levels would offer value.

Contained volatility continues to support credit markets, given the inverse relationship between volatility and credit spreads. Near-full employment remains favourable for bank credit quality and for residential mortgage-backed securities, where arrears rates remain low.

Sector Profile

Asset Class	Portfolio %	Benchmark %
Agencies	5.35	0.88
Asset Backed	8.19	--
Cash at Bank	4.19	--
Financials	35.63	2.69
Industrials	15.81	2.31
RBA Cash	--	50.00
Semi Government	23.37	17.17
Sovereigns	2.18	23.28
Supranationals	5.27	3.67

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	25.52	1.48
AA	37.29	13.77
AAA	24.04	33.10
BBB	13.14	1.66
A	25.52	1.48

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	0.10	54.71
1 - 3 Years	37.03	10.49
3 - 5 Years	19.78	9.44
5 - 7 Year	15.42	8.68
7+ Years	27.67	16.68

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	7.70	4.89
Treasury Corporation of Victoria	6.45	4.80
Queensland Treasury Corp.	5.53	3.70
Commonwealth Bank of Australia	3.10	0.21
NBN Co Limited	3.03	0.17
Cooperatieve Rabobank U.A.	2.92	--
Housing Australia	2.83	0.07
NAB 11 AM CALL ACCOUNT	2.83	--
Government of Australia	2.34	23.25
Western Australian Treasury Corp.	2.33	1.04
Wesfarmers Limited	2.30	0.03
ETSA Utilities Finance Pty Ltd.	2.12	0.03
Tasmanian Public Finance Corp.	2.06	0.40
Bank Australia Limited	2.02	--
Airservices Australia	2.00	0.06
Oversea-Chinese Banking Corp. Ltd. /Sydney Branch/	1.94	--
Teachers Mutual Bank Limited	1.87	--
Australian Dollar	1.78	--
BNP Paribas SA	1.75	0.02
Cooperatieve Rabobank U.A. (Australia Branch)	1.67	0.05

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.67	4.00
Modified duration (years)	2.68	2.44

Ratings / Awards

RIAA - Certified Responsible Investment

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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 AE Altius Short Duration Bond Fund, please contact your financial adviser or our Investor Services Team.

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