# Fund Update
December 2025

## AE Altius Credit 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 of December 2025

| | 1 mth % | 3 mths % | 1 yr % | 3 yrs % p.a. | Since inception % p |
|---|---|---|---|---|---|
| Gross total return | 0.41 | 1.14 | 5.53 | 5.76 | 4.04 |
| Net total return | 0.38 | 1.06 | 5.21 | 5.44 | 3.71 |
| Benchmark | 0.31 | 0.90 | 3.97 | 4.11 | 3.00 |
| Excess to benchmark | 0.07 | 0.16 | 1.24 | 1.34 | 0.70 |

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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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

Local credit markets ended 2025 quietly, with spreads unchanged to slightly tighter, and the primary market effectively closing after 17 December following a $300m CBA 10-year deal. Three- and five-year major bank spreads were unchanged at 60bps and 72bps, close to their tightest levels of the year, while the Industrials index tightened by 2bps to 95bps. Credit delivered another very strong year in 2025, with all sectors posting solid gains. The Bloomberg Fixed Rate Credit Index returned 4.34% and the Floating Credit Index returned 4.97%, both outperforming the Treasury Index's 2.51%.

Primary activity in December was limited to three deals:

- **NatWest**: $1bn 3.5-year fixed/floating at 97bps, supported by a $2.5bn order book.
- **Ausgrid**: $750m dual five- and ten-year transaction at 110bps and 140bps, with a $1.94bn book.
- **Dexus Finance hybrid**: $500m dual-tranche (30NC5.5 and 30NC8.25) launched at 190–195bps and 200–205bps. Both tranches attracted exceptionally strong demand, with the final book exceeding $3.3bn and pricing tightening to 175bps and 185bps.

Looking back across 2025, it was a record year for corporate issuance and just shy of peak volumes in securitisation. Total supply reached $106bn, with corporate issuance at $30.3bn—well above the $28bn in 2024 and $11.3bn in 2023. The standout sectors were Kangaroo corporates and hybrids. Kangaroo corporate issuance rose to $6.1bn (from $3.5bn in 2024), and the hybrid market surged to $6.75bn (from $2bn in 2024 and zero in 2023). Much of the global growth in hybrids has been driven by Moody's late-2024 methodology change, which allows qualifying structures to receive 50% equity credit, supporting issuers' credit-metric management.

## Socially Responsible Investments in Focus

In December, QLD's LNP government announced a major policy shift, scrapping its legislated renewable energy targets of 50% renewables by 2030 and 80% by 2035. Funding priorities also changed significantly with $1.6 billion allocated to coal projects and just $400 million for renewables storage, and gas combined. Coal-fired power stations will continue operating until at least 2031, with some plants extended as far as 2049.

The government claims that maintaining coal will save taxpayers $26 billion by 2035 through lower system investment costs. However, this stance contrasts with warnings from the Australian Energy Market Operator (AEMO), which notes that baseload coal is becoming increasingly obsolete and will require flexible operations like "two-shifting" - ability to shut down and restart within the same day - to remain viable.

The move represents a setback in climate commitments and poses challenges for Australia's national goal of reaching 82% renewable electricity by 2030.

Separately, the AEMO cautioned that the energy grid in NSW is not adequately prepared for the scheduled closure of the Eraring coal-fired power station in 2027. While renewable generation is building, the grid lacks critical supporting infrastructure to keep the grid stable when Eraring shuts down.

Coal plants have been vital for grid stability because their turbines provide inertia and system strength, helping keep frequency and voltage in balance. If synchronous condensers, large-scale batteries, and better rooftop solar management technologies aren't accelerated before Eraring closes in 2028, the risk of widespread outages will rise.

This would likely result in frequent and costly government intervention, ultimately driving up costs for consumers. The prospect of sustained intervention will add pressure on the NSW government and Origin Energy to keep Eraring operational, with Origin retaining the option of running the plant through to 2029 if profitable.

Beyond Eraring, system reliability risks are emerging across the entire National Electricity Market, with VIC's Yallourn plant scheduled to close in 2028-29 and QLD's Gladstone coal station in 2029.

During the month, the AEMO also released its 2026 Draft Integrated System Plan (ISP) for consultation, with the final version to be released in June 2026. The ISP outlines an 'optimal development path' for generation, storage and network investments to meet consumer needs and government policies, at least cost, for at least the next 20 years.

While the 2026 Draft ISP and the last published 2024 ISP share the same overarching goal of guiding Australia's electricity system toward net zero by 2050, there are notable differences in timing, scale, and priorities.

One of the most notable differences is in coal retirement timelines. The 2024 ISP assumed all coal would exit by 2038 with 90% phased-out by 2035, but the 2026 Draft ISP projects two-thirds of coal capacity to exit by 2035 and the rest to remain operational acting as flexible dispatchable assets until 2049 because of QLD's change in policy.

Gas-powered generation is assumed to remain the same at 15GW to 2050, but this will entail new builds of flexible gas generators to replace current 'mid-merit' and peaking gas-powered generation. Solar and hydro generation assumptions remained unchanged, but wind generation growth is reduced due to rising costs of transmission infrastructures and development bottlenecks.

The 2026 Draft ISP also forecasts an even higher amount of required storage capacity as electricity consumption steps up – driven by increased electrification in transport, industry and data centres. Electricity consumption is projected at 389TWh and storage capacity at 49GW, compared to 313TWh and 49GW in the 2024 ISP.

Overall investment requirements rise to $128 billion in the 2026 Draft ISP, up from $122 billion in the 2024 ISP. Both plans reaffirm that renewables, storage, and flexible gas provide the least-cost pathway, but the 2026 Draft ISP emphasizes the urgency of utility-scale storage and growing importance of consumer energy resource.

Finally, the SBTi has introduced new pathways and supporting criteria for the chemicals sector to guide companies in setting climate targets aligned with global net-zero ambitions. As the third-largest industrial source of $CO_2$ emissions —with chemicals underpinning 95% of manufactured products—the sector plays a critical role in global decarbonization efforts.

The framework is designed to help chemical manufacturers reduce their emissions by providing activity-specific pathways and calculation criteria. There are in total eight pathways: (i) a mandatory pathway for Scope 1 for nitrous oxide ($N_2O$) emissions from nitric acid production; (ii) four optional pathways covering ammonia, methanol and high-value chemicals; and (iii) three additional pathways that provide requirements for absolute emissions reductions across non-primary chemical production, Scope 3 $N_2O$ emissions from sold nitrogen fertilizers, and alternative feedstock sourcing.

Additionally, the guidance encourages companies to increase the share of bio-based, recycled, or captured carbon feedstocks over time, aiming for 42–55% by 2050.

## Outlook

Through much of 2025 the RBA characterised current monetary settings as restrictive, allowing a loosening of policy (interest rate cuts) as inflation moved back toward target. At the latter meetings for the year the RBA began to express uncertainty in that view, and guided that risks to inflation have tilted to the upside. Australia's inflation pulse, lagging the US by ~6 months and clouded by policy changes impacting electricity prices, showed inflation above the RBA target band, and the RBA forecasts indicate trimmed mean inflation is expected to remain so through the first half of 2026. A cut to the RBA Cash Rate of 3.6% can likely be ruled out while the risk of higher or ongoing inflation overruns persists. We expect the cash rate to remain on hold in the first half of 2026 as the RBA waits for further data to inform their forecast.

2025 saw a number of policy shifts from major economies that drove headline news cycles, such as US trade policy, which saw widening of term risk premiums. We continue to look for a reduction in term risk premiums and slightly lower longer bond yields as a result. We anticipate the yield on 10 year Australian government bonds will trade around 4.6% over the medium term, however further declines would depend on inflation showing signs of following a path consistent with the RBA forecast.

While some of the steepness of the Australian yield curve has decreased over the last three months as expectations of near-term rate cuts were unwound, state government bond curves still demonstrate a greater level of steepness, rendering them attractive, given the potential for capital gains as yields roll down towards the cash rate. Indeed, Altius funds have been successful in generating outperformance from this dynamic in 2025.

We retained our overweight credit position entering 2026 but remain cautious about further spread

tightening, given the strong performance in 2025 and the already tight spread levels at the start of the year.

## Sector Profile

| Asset Class | Portfolio % |
|---|---|
| Asset Backed | 17.40 |
| Cash at Bank | 0.67 |
| Financials | 77.32 |
| Industrials | 4.61 |
| Asset Backed | 17.40 |

## Ratings Exposure

| Rating | Portfolio % |
|---|---|
| A | 27.98 |
| AA | 15.14 |
| AAA | 18.61 |
| BBB | 38.27 |

## Interest Rate Profile

| Term | Portfolio % |
|---|---|
| 0 - 30 Days | 45.03 |
| 1 - 3 Years | 2.71 |
| 3+ Years | 0.51 |
| 30 - 90 Days | 51.09 |
| [Cash] | 0.67 |
| 0 - 30 Days | 45.03 |

## Top 10 Holdings

| Issuer | Portfolio % |
|---|---|
| Great Southern Bank (Australia) | 10.29 |
| Commonwealth Bank of Australia | 9.68 |
| Teachers Mutual Bank Limited | 8.33 |
| Westpac Banking Corporation | 6.56 |
| Bank of Queensland Limited | 5.34 |
| Bank Australia Limited | 4.99 |
| National Australia Bank Limited | 4.73 |
| Newcastle Greater Mutual Group Ltd. | 3.34 |
| Bendigo and Adelaide Bank Limited | 3.22 |

## Portfolio Summary Statistics

| | Portfolio |
|---|---|
| Yield to maturity (%) | 4.98 |
| Credit duration (years) | 1.92 |
| Modified duration (days) | 30.40 |

## Fund snapshot

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

Zenith RECOMMENDED

## 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 AE Altius Credit 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.

The Zenith Investment Partners (ABN 27 103 132 672, AFS Licence 226872) ("Zenith") rating (AUS1392AU (AE Altius Credit Income Fund) assigned 30 June 2025) referred to in this piece is limited to "General Advice" (s766B Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual, including target markets of financial products, where applicable, and is subject to change at any time without prior notice. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Past performance is not an indication of future performance. Zenith usually charges the product issuer, fund manager or related party to conduct Product Assessments. Full details regarding Zenith's methodology, ratings definitions and regulatory compliance are available on our Product Assessments and at Fund Research Regulatory Guidelines