Fund Update
January 2026

AE Altius Green and Sustainable Bond Fund (Ordinary)

The AE Altius Green and Sustainable Bond Fund's purpose is to invest in green, sustainable and social bonds, with the primary aim of targeting investments that contribute to lowering carbon emissions.

Performance as of January 2026

	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	0.27	-1.27	4.04	3.57	0.03	-	0.22
Net total return	0.25	-1.35	3.73	3.26	-0.27	-	-0.07
Benchmark	0.21	-1.29	3.20	2.85	-0.31	-	-0.17
Excess to benchmark	0.04	-0.05	0.54	0.40	0.04	-	0.10

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.
Benchmark is the Bloomberg AusBond Composite 0+Yr Index.
Inception date for performance calculations is 18 June 2020.

Portfolio Performance and Activity

January was dominated by a series of geopolitical shocks that drove sharp moves across commodities, currencies, and risk assets. The month opened with the capture of Venezuelan President Nicolás Maduro by US forces, raising concerns over oil supply given Venezuela's vast reserves. Despite this, broader market impacts were initially limited. Tensions escalated more materially around Iran, where speculation of US military action pushed Brent crude up 16.2% to USD 70.69/bbl by month-end, marking its strongest monthly rise since January 2022.

A separate flashpoint emerged around Greenland. President Trump asserted US national security interests in the territory and threatened tariffs on European countries unless a purchase deal was reached. This triggered a brief risk-off move, with the S&P 500 falling 2.1%. Markets rebounded later in the month after Trump signalled progress in negotiations and withdrew the tariff threat, allowing US equities to recover and finish January higher.

Policy uncertainty also weighed on markets after the US Department of Justice opened a criminal investigation linked to the Federal Reserve, reviving concerns over central bank independence. This fuelled a surge in safe-haven demand: gold rose 13.3% over the month, briefly hitting a record intraday high, while the US dollar weakened before stabilising following reassurance from the Treasury. The Federal Reserve held the policy rate steady at 3.5%–3.75% at its January meeting, with Chair Powell signalling a "clear improvement" in the US outlook and labour market.

In Japan, the announcement of a snap election drove a sharp sell-off in government bonds, pushing long-dated yields to multi-decade highs alongside a more hawkish-leaning Bank of Japan outlook. Japanese 10- and 30-year yields climbed by 10bps and 25bps to 2.35% and 3.85% respectively, with the 30-year reaching its highest level since the maturity was first launched.

Locally, January proved to be a round trip for interest rates, with three- and 10-year bonds finishing largely unchanged at 4.26% and 4.82% respectively. This stability masked significant intramonth volatility and a shifting market view on monetary policy. The month began with a dovish ABC TV interview from Deputy Governor Hauser, leaving markets divided on whether the RBA would tighten policy at its February meeting. This uncertainty persisted until the release of December employment data. The unemployment rate fell to 4.1%, with 65,000 new jobs created, the majority of which were full-time. The strength of this release led a growing number of economists to predict a February rate hike, with market pricing rising from a 25% to a 60% probability.

The release of Q4 CPI removed any remaining doubt that the RBA would raise rates at its February meeting. The trimmed mean printed broadly in line with forecasts at 0.9%, but well above the RBA's November Statement on Monetary Policy forecast of 0.75%. On an annualised basis, trimmed mean inflation was 3.9%, materially above the RBA's 2.5% midpoint target. The fund increased it's long duration position during January to finish at 5.40 years.

Credit markets globally had a strong start to the year despite heightened geopolitical risks, elevated supply, and concerns around AI-related issuance volumes in 2026. Credit spreads contracted across most regions and sectors. US investment-grade spreads tightened by a further five basis points to finish January at 85bps, as measured by the JPM Corporate Index. A similar trend was evident domestically, with major bank five-year senior spreads tightening by 5bps to 66bps, while five-year subordinated debt tightened by 12bps to 122bps, both reaching five-year tights. In the corporate sector, BBB spreads contracted by 9bps to finish at 98bps. Strong local credit performance saw the sector generate a total return of 0.32%, compared with 0.04% for Treasuries, as measured by the Bloomberg AusBond indices.

Primary markets also roared back to life in January. In the US, strong technicals supported a record USD 217bn of issuance, well above the USD 193bn recorded in 2024. Robust fund inflows into year-end provided the technical backdrop needed to absorb the heavy supply. Domestically, January is traditionally a strong month for major bank issuance; however, this was not the case in 2026, with CBA the only major bank to access the market. As in 2025, 2026 appears set to be a neutral year for term funding, implying broadly unchanged issuance requirements for the major banks.

CBA issued dual-tranche three- and five-year transactions at margins of 60bps and 74bps respectively, attracting AUD 9.2bn of demand. The reduced issuance from major banks created opportunities for international banks, with OCBC and Mizuho issuing three-year deals, while Rabobank and UOB printed five-year transactions. Highlighting the strength of investor demand, new January five-year deals tightened by 10bps over the month. Newcastle Greater Mutual was the only other domestic financial issuer in January, printing a five-year FRN at 113bps, the tightest spread seen relative to the major banks.

There were three notable corporate deals during January. MTR (Hong Kong's rail network) opened the market with a dual-tranche five- and 12-year transaction at 53bps and 82bps respectively, printing AUD 2bn and ranking as the third-largest corporate deal on record. This was followed by AusNet, which kicked off the corporate hybrid market for 2026 with a AUD 1.1bn 30NC10 deal at 177bps, supported by an order book of AUD 9bn. Finally, Aroundtown SA, a European property group, issued AUD 600m across five- and 10-year tranches at margins of 167bps and 200bps, attracting just under AUD 2bn of investor interest.

Socially Responsible Investments in Focus

The start of the month marked the commencement of mandatory climate-related reporting requirements for large Australian entities entering reporting periods on or after 1 January 2025. Mandatory disclosures must be prepared in accordance with AASB S2 – Climate-related disclosures, which closely aligns to the International Sustainability Standards Board's (ISSB) IFRS S2 standard.

This represents a significant shift in the Australian ESG landscape, as sustainability disclosures will be published alongside financial statements, covering climate-related risks and opportunities, governance and board oversight, Scope 1 and 2 greenhouse gas emissions, strategy and resilience under different climate scenarios. While disclosures relating to Scope 3 emissions are required, entities have a one-year transition relief before it becomes mandatory in the second reporting period.

The Australian Securities and Investments Commission (ASIC) will be responsible for administering and enforcing the new reporting obligations. For investors, the imposition of a regulated, standardised and internationally aligned reporting obligation will materially improve data quality and consistency, and enhance the comparability of climate risk exposure and transition preparedness across companies. This will support more disciplined pricing of transition and physical risks. The new requirements may also prompt revisions to existing climate commitments and play an important role in strengthening stewardship, engagement and accountability discussions between companies and capital providers.

Australia also experienced one of its most severe heatwaves on record in south-eastern Australia in early January. Temperatures exceeded 40°C across major population centres including Melbourne and Sydney, triggering widespread and dangerous fire weather across VIC, NSW and other regions. Notably, analysis by international science group World Weather Attribution (WWA) found that the event occurred despite La Niña conditions, which would normally have moderated summer heat, reinforcing scientific assessments that extreme heatwaves will become increasingly frequent under continued global warming.

Using observed weather data and climate model simulations, they found that human-induced climate change increased the likelihood of heatwaves of this severity to a one-in-five-year event. The findings highlight that extreme heat in Australia is no longer an episodic hazard but a recurring climate-driven risk with growing implications for health systems, infrastructure resilience, fire management and economic stability. The analysis also found that climate change increased the intensity of the heatwaves, adding approximately 1.6°C to peak temperatures.

Looking ahead, the WWA expects that an additional 2.6°C of global warming – the level consistent with current policy trajectories by end of the century – would see such extreme heatwaves occur once every 2 years. This would suggest structurally higher disaster-related fiscal costs and significant adverse impact on economic resilience.

During the month, we saw Origin Energy confirm the 2-year extension of the Eraring power station in NSW to 30 April 2029 – marking the second deferral of its planned closure. The reason cited was energy security risks linked to slower-than-expected delivery of replacement renewable generation, storage and transmission infrastructure.

The extension underscores the tension between decarbonisation objectives and near-term system security requirements. It also highlights that supply-chain constraints, planning bottlenecks and broader market dynamics have slowed progress towards NSW's 80% renewables target. While the extension was framed as temporary, the recurrence of closure deferrals elevates transition risk considerations, particularly with respect to timing. Such developments may also dent the confidence of investors to back new energy projects.

Outlook

In our view, Australian sovereign yields have risen into our target zone. At these levels, they offer appropriate compensation for ongoing inflation and geopolitical risks, while also providing defensive characteristics within portfolios.

We expect the Reserve Bank of Australia (RBA) to increase the cash rate by a further 25 basis points over the next quarter. Australian inflation currently stands at 3.8%, materially above the RBA's expectations and above the 2–3% target range. Price pressures remain broad based, spanning housing, energy, services, food, and retail goods, rather than being confined to isolated categories.

The RBA has also assessed that monetary conditions are more accommodative than previously anticipated. Credit growth has accelerated faster than expected, supported by a stronger-than-forecast labour market, resilient household and business balance sheets, and increased credit activity across the economy.

In January 2026, rising Japanese Government Bond (JGB) yields placed significant upward pressure on longer-dated Australian bond yields, largely reflecting a reversal of the "yen carry trade." As JGB yields rise, Japanese life insurers and pension funds have less incentive to allocate capital to Australian and other foreign bonds. While domestic factors—particularly higher-than-expected Australian inflation—also contributed, the notable 19-basis-point increase in Japan's 10-year yield was a key driver of global bond market volatility and the subsequent rise in Australian yields. Looking ahead, we expect the direct influence of Japanese investment flows on Australian interest rates to diminish.

The defensive attributes of bonds have become increasingly attractive. Our outlook for U.S. equities, particularly those exposed to artificial intelligence (AI), has turned more cautious. Leading technology companies—including Microsoft, Alphabet, Amazon, and Meta—are projected to nearly double capital expenditure on AI, reaching approximately USD 700 billion by 2026. This scale of investment is likely to significantly reduce free cash flow, with Amazon potentially moving into negative territory, and to place pressure on profit margins. As a result, equity markets may become more vulnerable to share price declines if earnings fail to meet expectations.

The most significant systemic risk lies in the potential for an abrupt slowdown or cessation of AI-related investment. Historically, this type of outcome tends to occur during “growth at all costs” cycles, when capital expenditure becomes unsustainable. If major cloud providers were to simultaneously reduce spending—whether due to financial constraints, regulatory intervention, or slower-than-expected adoption—the U.S. economy, which is increasingly reliant on AI-driven investment, could face meaningful headwinds.

Globally, term risk premiums remain elevated. This reflects a combination of factors, including volatile U.S. trade and foreign policy settings, the ongoing unwind of quantitative easing programs, the end of Japanese yield-curve control, reductions in foreign exchange reserves, and increased bond issuance driven by expanding fiscal deficits in major economies. While the U.S. Federal Reserve has announced a cessation of quantitative tightening, substantial funding requirements remain.

We expect long-dated Australian government bond yields to fluctuate around a midpoint of approximately 4.70% for 10-year sovereign bonds over the medium term.

Three-year bond yields are expected to trade around 4.25%, reflecting two 25-basis-point rate increases—one already delivered and one likely over the next two RBA meetings. Yield levels above this range continue to offer value.

Contained market volatility remains supportive for credit markets, given the strong inverse relationship between volatility and credit spreads. In addition, near-full employment continues to underpin bank balance sheets and residential mortgage-backed securities, contributing to low arrears rates across these sectors.

Sector Profile

Asset Class	Portfolio %
Agencies	6.97
Asset Backed	3.14
Cash at Bank	1.17
Financials	17.15
Industrials	23.17
Semi Government	28.52
Sovereigns	5.19
Supranationals	14.69

Ratings Exposure

Rating	Portfolio %
A	16.77
AA	41.37
AAA	31.48
BBB	10.37

Interest Rate Profile

Term	Portfolio %
0 - 1 Year	4.25
1 - 3 Years	32.83
3 - 5 Years	13.34
5 - 7 Year	14.11
7+ Years	35.47

Top 10 Holdings

Issuer	Portfolio %
New South Wales Treasury Corp.	11.98
Treasury Corporation of Victoria	8.68
KfW	6.32
Government of Australia	5.19
Housing Australia	4.88
ETSA Utilities Finance Pty Ltd.	4.82
Western Australian Treasury Corp.	4.79
Commonwealth Bank of Australia	4.20
NBN Co Limited	4.02

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.03	3.32
Modified duration (years)	5.40	4.75

Fund snapshot

APIR code	AUS0084AU

Inception date	18 Jun 2020
Distribution frequency	Quarterly
Minimum initial investment	$100,000
Fund size (net asset value)	
Management fee*	0.30% p.a. expressed as a percentage of the net asset value of the Fund
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.

Ratings / Awards

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 Green and Sustainable Bond 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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