Fund Update
February 2026

AE Altius Short Duration Bond Fund (Ordinary)

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 of February 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	0.65	1.00	4.78	5.17	2.73	2.47	2.88
Net total return	0.61	0.88	4.27	4.65	2.22	1.90	2.26
Benchmark	0.58	0.68	3.47	3.84	1.70	1.71	2.19
Excess to benchmark	0.03						

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

The Reserve Bank of Australia (RBA) began February by delivering a 25-basis-point policy tightening, taking the cash rate to 3.85%. This marked the first increase since November 2023 and the first hike from a developed-market central bank in the current cycle. The move had been widely anticipated following the Q4 CPI release, which showed annualised trimmed mean inflation of 3.9%.
The accompanying statement highlighted a material pick-up in inflation through the second half of 2025, partly driven by renewed capacity pressures. Combined with supportive economic conditions—including strong consumer spending and a tight labour market—the RBA indicated it was difficult to see inflation returning to the midpoint of the target band in the medium term. Under this scenario, further policy tightening remains likely, with May the most plausible timing for the next move.
Domestic rates came under renewed downward pressure mid-month following the release of the RBA meeting minutes. In contrast to the more hawkish tone of the post-meeting statement, the minutes presented a more balanced assessment of risks. The Board emphasised the importance of assessing incoming data, noting it was necessary to "continue exploring what the incoming data reveal about their judgements." The RBA also reaffirmed its dual focus on inflation and employment, stating that the current strategy—returning inflation to target within a reasonable timeframe while preserving labour-market gains—remains appropriate.

The mid-month dovish shift reversed following stronger-than-expected labour market data and a firmer monthly inflation print. After the strong December employment report pushed the unemployment rate to 4.1%, markets had expected some moderation in January. Employment increased by 18,000—slightly below consensus—but a lower participation rate kept unemployment steady at 4.1%. With the RBA forecasting unemployment to average 4.25% through the first half of 2026, the data reinforced expectations that further policy tightening may be required. Monthly inflation also surprised modestly to the upside, with trimmed mean inflation printing at 3.8% year-on-year versus expectations of 3.7%, as the unwinding of electricity subsidies alongside persistent housing and rental costs continued to exert upward pressure on prices. Despite these developments, yields ended the month lower, with three-year government bond yields falling 10 basis points to 4.27% and ten-year yields declining 20 basis points to 4.83%.

In the United States, economic indicators continued to point to resilient activity. The January labour market report recorded payroll growth of 130,000—the strongest monthly increase since December 2024—while the ISM Manufacturing Index rose to its highest level since 2022. At the same time, inflation surprised to the upside, with the Personal Consumption Expenditures Price Index exceeding expectations. The combination of firm growth and persistent inflation prompted markets to reassess the policy outlook from the Federal Reserve. As a result, the market-implied probability of a rate cut by the June meeting declined from 87% at the start of the month to 64% by the end of February.

Outside the United States, bond markets also moved. In Japan, following the election victory of Sanae Takaichi, yields on ten-year Japanese government bonds declined by 13 basis points, marking their first monthly fall in eight months. Overall, February saw resilient global economic conditions push back expectations for the timing of policy easing.

Global credit markets experienced renewed volatility as US Q4 earnings shifted toward technology companies and rising CapEx expectations. Significant investment plans from hyperscalers such as Amazon and Google have highlighted a potential **$600bn+ funding requirement**, well above 2025 levels, raising questions about how much supply will reach public bond markets. Large transactions, including a **$25bn issuance from Oracle**, temporarily pressured spreads, though strong investor demand quickly absorbed supply. Primary markets remained active with $193bn of gross issuance in February, the second highest February on record with sizeable deals such as a **$20bn multi-tranche issuance from Abbott Laboratories and Alphabet Inc**, supported by robust inflows into US investment-grade funds—the largest weekly inflow since 2021. Despite heightened volatility in equities and a rotation away from large-cap tech toward small-cap stocks, IG credit spreads remained near recent tights. However, markets are increasingly sensitive to technical factors such as supply, private credit exposures, and sector-specific weakness in technology and software, with spreads widening in certain issuers following large issuance and broader concerns around leveraged private lending structures. Global bank credit spreads remained broadly stable despite a volatile macro backdrop that included geopolitical tensions, AI-related equity weakness and ongoing earnings announcements. Strong technical demand in investment-grade markets helped absorb supply. The main financial transaction was a **$4bn multi-tranche senior deal from Barclays**, which priced across several maturities and ultimately tightened 1–4bp in secondary despite minimal new issue concession. As we moved towards month end, softening US macro data and increasing corporate supply expectations were beginning to test demand technicals, particularly as issuance is expected to rise through the remainder of the earnings season.

Australian credit markets are transitioning from a slow start to the year toward a **much busier issuance environment**, supported by solid corporate earnings and strong demand for spread product. Bank capital supply has already accelerated, with **$5.85bn of AT1 and Tier-2 issuance**, compressing spreads earlier in the year before widening slightly in line with offshore moves. Corporate issuance is expected to build following the reporting season, with potential deals from issuers including NBN Co, Mineral Resources Limited, Santos Limited and Woodside Energy. Infrastructure, utilities, and REIT sectors have also been active, while hybrid markets have seen refinancing transactions such as the **$A1.1bn issue from AusNet Services**. Spreads in secondary corporates have widened modestly, reflecting global moves, but technicals remain supportive as investors are relatively underweight corporate exposure after the quiet December–January period. With several mandates pending and pricing in public bond markets currently attractive relative to bank loans, domestic corporate supply is expected to accelerate through the coming months.

Australian bank credit markets have remained resilient, with senior spreads on moving a few basis points wider firm even as global volatility picked up. Domestic funding activity has accelerated following the Chinese New Year pause, with issuance from the major banks including **Tier-2 and senior deals from Commonwealth Bank of Australia and a 3-year senior transaction from Westpac Banking Corporation**. High maturities - around **$7.5bn of senior and covered securities across March**—will help balance the technical backdrop, though the expected increase in supply may begin to challenge this support. Offshore pricing signals turned slightly weaker into month end, with US-dollar senior spreads for Australian banks trending wider, suggesting that the strong technical tailwinds supporting local bank spreads may begin to moderate as issuance increases. Major Bank five-year spreads finished 3 bps wider at 72 bps while subordinated debt was 10 bps wider at 125 bps. While wider over the month levels are still close to recent lows.

Socially Responsible Investments in Focus

February saw a further loss of momentum in net-zero efforts under the NZAM initiative, alongside a pivotal moment in Australia as the use of law to drive more responsible corporate climate behaviour took a disappointing turn.

The NZAM framework was relaunched during the month, to adopt a more flexible and less prescriptive approach, removing the requirement for members to align portfolios with net zero emissions by 2050, eliminating mandatory interim targets and dropping a key commitment to limit global warming to 1.5°C.

This easing of obligations marks a clear step back from the level of collective climate ambition and the stringent expectations that had previously applied to asset-manager signatories. Reports indicate that 31 asset managers withdrew from the initiative after the updated commitment statement was circulated on 25 October, while only three new firms joined during the same period.

When the initiative relaunched in 2026, just over 250 managers recommitted, a notable drop from the 325 signatories recorded in January 2025. The decline was especially pronounced in the United States, where participation fell from 44 firms to just 12, and an additional 45 managers opted for an extended review period before deciding whether to remain involved.

The development indicates a clear slowing in momentum behind coordinated net-zero action within the investment sector. These looser requirements reduce accountability and allow firms to claim climate alignment while doing less to achieve it.

At the same time, the Federal Court delivered its long-awaited judgment in *Australasian Centre for Corporate Responsibility v Santos Limited [2026] FCA 96*, dismissing all claims that Santos had made misleading or deceptive statements about its climate targets and transition roadmaps.

The Federal Court's dismissal of all greenwashing allegations against Santos was a setback for those aiming to hold fossil fuel companies legally accountable for their climate claims. The case, brought by the Australasian Centre for Corporate Responsibility (ACCR), alleged that Santos misled the public in corporate reports from 2020–21 by portraying natural gas as "clean energy," overstating the credibility of its emissions-reduction roadmap, and suggesting it could deliver zero-emissions hydrogen despite relying on fossil-gas-based blue hydrogen.

The court found that terms such as "clean energy" lacked a universally accepted industry definition at the time and could reasonably be interpreted as "cleaner than coal or diesel," rather than emissions free. Therefore, Santos had not misled consumers or shareholders, when it referred to natural gas as "clean energy" and blue hydrogen as "clean".

The Court also accepted that Santos' 2030 and 2040 emissions-reduction targets were forward-looking statements of intention supported by reasonable assumptions, despite a heavy reliance on carbon capture and storage (CCS) technology, offsets and undisclosed future emissions from hydrocarbon expansion. The Court found that long-term climate targets are not misleading if there are reasonable grounds for them. In addition, a reasonable person would understand that a 'clear and credible plan' that was 'realistic and doable' suggests that it is a plan that *can* be achieved, but not that it *will be* achieved. This outcome sets an important precedent: companies have considerable latitude in how they frame climate ambitions, provided they include contextual qualifiers and reasonable grounds.

The case served as a first-of-its-kind legal test of a fossil fuel company's climate transition plan, and it shows that ESG targets are allowed to be aspirational climate commitments, if companies document reasonable assumptions and disclose uncertainties, and will not be legally liable if outcomes change. The judgment thus underscores deeper systemic issues: Australian climate law still struggles to meaningfully confront the complexities of climate justice and the credibility of corporate transition strategies.

Outlook

The Reserve Bank of Australia (RBA) has indicated that monetary conditions are more accommodative than previously expected. Credit growth has accelerated, supported by a stronger-than-forecast labour market, resilient household and business balance sheets, and increasing borrowing activity. As a result, we expect the RBA to raise the cash rate by a further 25 basis points at its next meeting.

Inflation in Australia is currently running at 3.2%, above the RBA's expectations, with price pressures broad-based across housing, energy, services, food, and retail goods. The RBA is particularly concerned that rising oil prices could push inflation further from target at a time when policy settings are not sufficiently restrictive to return inflation to the target band within a reasonable timeframe. Our analysis suggests that petrol prices rising to around $2.00 per litre would add approximately 1.0%–1.25% to headline inflation over the following quarter, lifting the inflation rate to roughly 4.2%–4.45%.

In the near term, GDP growth is likely to moderate by around 0.5%, primarily due to weaker real consumption, although some recovery in activity is expected in subsequent quarters. Over a longer horizon, however, higher energy prices begin to act as a tax on economic activity. At oil prices above roughly US$95–$100 per barrel, the negative growth impact may become significant enough to force the RBA to balance its inflation objectives against employment considerations. The probability of three 25-basis-point rate increases rises if energy-driven inflation leads to second-round wage and price pressures, but diminishes if higher energy costs materially weaken growth.

In the United States, the Federal Reserve faces a different backdrop. Economic growth remains uneven but is supported by an expansionary fiscal stance and strong investment in AI-related infrastructure, including semiconductors, data centres, and digital networks. While markets continue to anticipate policy easing, these growth dynamics may delay rate cuts and keep short-dated Treasury yields elevated. At the same time, structurally lower immigration and demographic shifts have constrained labour supply, keeping unemployment low despite only modest employment growth outside healthcare.

Against this backdrop, we expect Australian government bond yields to remain elevated. Ten-year yields are likely to trade around 4.85%, while three-year yields are expected to fluctuate near 4.55%, reflecting market pricing for at least two additional rate increases and the possibility of a third should inflation remain persistent without materially weakening growth. Historically, three-year yields rarely peak significantly above the terminal policy rate.

Sector Profile

Asset Class	Portfolio %	Benchmark %
Agencies	5.16	0.89
Asset Backed	9.03	--
Cash at Bank	-3.56	--
Financials	40.30	2.82
Industrials	17.12	2.24
RBA Cash	--	50.00
Semi Government	25.24	16.96
Sovereigns	1.76	23.44
Supranationals	4.94	3.64

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	26.30	1.48
AA	36.38	14.04
AAA	21.98	32.82
BBB	15.34	1.66
RBA Cash	--	50.00

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Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	4.90	54.63
1 - 3 Years	35.55	10.19
3 - 5 Years	23.32	10.45
5 - 7 Year	17.14	8.00
7+ Years	19.09	16.72

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	10.12	4.79
NAB 11 AM CALL ACCOUNT	6.80	--
Treasury Corporation of Victoria	6.50	4.68
Queensland Treasury Corp.	4.12	3.71
NBN Co Limited	3.64	0.13
Cooperatieve Rabobank U.A.	3.42	--
Commonwealth Bank of Australia	2.95	0.26
Housing Australia	2.62	0.07
Western Australian Treasury Corp.	2.48	1.02
Wesfarmers Limited	2.39	0.03
Airservices Australia	2.36	0.07
Cooperatieve Rabobank U.A. (Australia Branch)	2.34	0.06
KfW	2.34	0.46
Credit Union Australia Limited	2.33	--
ETSA Utilities Finance Pty Ltd.	2.33	0.03
Tasmanian Public Finance Corp.	2.18	0.38
Bank Australia Limited	2.08	--
Victoria Power Networks (Finance) Pty Ltd.	2.07	0.05
BNP Paribas SA	2.07	0.02
Government of Australia	1.93	23.41

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	5.08	4.23
Modified duration (years)	2.61	2.38

Fund Snapshot

APIR code	AUS0071AU
Inception Date	21 Nov 2014
Distribution frequency	Quarterly
Minimum initial investment	$5,000
Fund size (net asset value)	$152m
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.

Ratings / Awards

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The AE Altius Short Duration 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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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.

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 Short Duration 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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