Fund Update
May 2026

AE Altius Credit Income Fund (Ordinary 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 May 2026

	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	1.13	5.27	5.72	4.03	3.33	3.21
Net total return	0.41	1.08	5.06	5.51	3.82	3.13	2.99
Benchmark	0.34	1.00	3.78	4.18	3.03	2.31	2.21
Excess to benchmark	0.07	0.08	1.28	1.33	0.79	0.82	0.78

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
Gross total returns are calculated before fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The benchmark is the Bloomberg AusBond BankBill Index.
Excess to benchmark is calculated on Net total return.
Inception date for performance calculations is 13 June 2017.

Portfolio Performance and Activity

The US-Iran conflict remained the dominant driver of credit markets throughout May. Optimism surrounding a potential peace agreement, a strong US corporate earnings season and continued momentum in AI-related investment themes supported risk sentiment and pushed US equities higher. Over the month, the S&P 500 and Nasdaq gained 5.3% and 8.4% respectively, providing a favourable backdrop for tighter global credit spreads, with US investment grade spreads approaching multi-decade lows. Australian credit markets benefited from these moves, with financial and industrial spreads tightening by 3bps and 2bps respectively, ending the month at 77bps and 96bps.

Primary markets remained very active both globally and domestically during May. US investment grade issuance totalled US$164 billion for the month, while Australian issuance reached $3.92 billion. Notable transactions included Qantas' $500 million 10-year deal at +180bps, which had previously been delayed by the conflict. ETSA completed a $300 million five-year green bond transaction at +95bps, in which the funds participated, while Transurban Queensland issued $720 million across 7.25-year and 10-year maturities at +140bps and +160bps respectively to refinance upcoming EUR and USD maturities.

Looking ahead to June, data centre operator CDC Australia announced an inaugural 30nc7.5-year hybrid transaction. Following NextDC's issuance in April, the deal highlights the continued strength of investor demand for AI-related infrastructure opportunities.

Socially Responsible Investments in Focus

In May, the Federal Government delivered the 2026 Federal Budget which pointed to a shift in Australia's ESG policy, away from expansion and towards consolidation and delivery. The Government remains committed to its net-zero and energy transition objectives, but the focus has moved to fiscal discipline, energy security, and implementing existing programs rather than launching new climate initiatives. This is reflected in around $2.2 billion of savings, largely driven by reallocating uncommitted funding from renewable energy programs.

Contact Details

Website
www.australianethical.com.au/managed-funds/investment-options/altius-funds/altiusam.com

Investor Services
T 1300 788 031

Email
australianethical@unitregistry.com.au

Adviser Services
T 1300 788 031

From an environmental perspective, support for the transition continues, but with a more selective approach to capital. Funding for early-stage technologies has been trimmed, most notably with the Hydrogen Headstart program reducing to around $1 billion for its second round. Cuts to solar and battery programs also point to a broader move away from widespread subsidies towards more targeted investment.

Regulatory reform is becoming a central policy lever. The Government is progressing significant changes to environmental approvals under the EPBC Act, including the establishment of a federal Environmental Protection Agency from 1 July 2026. These reforms aim to deliver more efficient and transparent project assessments while strengthening environmental standards and enforcement. The intent is to improve approval timelines and reduce bottlenecks across sectors such as renewables, infrastructure and data centres, although outcomes will depend on the implementation of new standards and compliance requirements.

Support for electrification and lower-carbon industry remains in place, including funding for cleaner fuels, EVs and distributed energy, alongside continued investment in biodiversity and carbon market integrity. However, there is limited new funding for climate adaptation and resilience, suggesting that longer-term physical risks may remain a gap in policy settings.

On governance, the approach to ESG reporting is becoming more pragmatic. The Government has proposed raising size thresholds for mandatory climate disclosures—effectively removing a portion of smaller companies from the regime—while consulting on simplified requirements, including clearer limits on Scope 3 data requests and more proportionate and practical assurance requirements. The framework remains aligned with global standards, but is increasingly calibrated to reduce compliance costs and implementation complexity.

Separately, the Government has also proposed a domestic gas reservation scheme, requiring LNG exporters to supply volumes equivalent to 20% of exports into the local market from July 2027. The policy is aimed at increasing domestic supply, easing price pressure and reducing exposure to global LNG volatility, while supporting energy security and industrial policy objectives. While the core design has been outlined, key aspects of implementation remain subject to consultation, leaving some uncertainty around how the scheme will ultimately operate in practice.

Stepping back, global developments also reinforce a more complex transition backdrop. The IEA expects fossil fuel investment—particularly in upstream oil and gas—to reach its highest level in around a decade, while clean energy investment continues to grow but is facing moderating momentum in some markets due to higher financing costs, supply chain pressures and policy delays. At the same time, capital is increasingly being directed towards energy security and system reliability. This points to a transition that is becoming less linear, with governments balancing decarbonisation against affordability and supply risks.

Against this backdrop, policy approaches continue to diverge across jurisdictions. In the US, regulators are moving in a different direction on disclosure. The SEC has formally proposed rescinding its 2024 climate disclosure rules in full, which would have mandated standardised reporting of climate risks and emissions in company filings. The rollback underscores increasing regulatory fragmentation across jurisdictions and, if implemented, could influence how other markets balance investor protection, political pressures, and the cost of corporate climate disclosure.

Outlook

Globally, central banks' dual mandates are in tension. The global energy crisis caused by the Middle East conflict has concurrently lifted inflation via energy costs while also creating production disruption and a hit to consumer activity. Adding further complexity is the concentrated but significant capital expenditure expansion in AI technology.

Financial markets have largely factored in a lift in inflation. The persistence of, and damage from, this inflation are determined by the length of the conflict and the time required for downstream effects to work

through. Markets are factoring in central bank cash rate rises.

Australia was already experiencing elevated inflation, largely related to the housing sector (which comprises 21% of measured inflation). The additional surge in inflation due to the outbreak of war in the Middle East has fed into direct inflationary measures such as transportation and energy costs.

Downstream price pressures across food, building materials, and aviation fuel are expected to emerge over the following quarter, with Australian inflation expected to peak at around 4.8% over that period.

The RBA has articulated that "nothing can be done about the inflation currently in the system." The nuance is that the RBA's decision is essentially to hike in order to prevent second-order inflation arising from a price–wage spiral.

Until it is clear that inflation has already peaked, the RBA will maintain a tightening bias.

The peak in short-dated bonds may already be in place, irrespective of the RBA's policy stance. We note that the labour market is receiving support from the construction of data centres; however, outside of that sector, conditions are a little softer than earlier, as reflected in an increase in the unemployment rate.

Global oil prices have softened somewhat and, by definition, direct inflation impacts will ease in the measured period ahead, even though indirect impacts of the earlier rise in oil prices are still working through. The earlier reduction in fuel excise has moderated the peak in inflation. The combined effect is to bring forward the inflationary pulse at a lower level.

The introduction of significant changes to negative gearing and capital gains tax within the Australian federal government budget has further weighed on consumer confidence.

We believe this limits the RBA tightening cycle to four rate hikes, with one further from here if wage decisions later this year are higher than expected (4.35% to 4.60%).

Our base assumptions factor in the adaptability of global trade and oil production, but not necessarily a resolution to the conflict.

Historically, yields on three-year bonds have tended to reach their peak at or below the terminal cash rate, and often do so prior to the terminal rate being achieved. In the current environment, this trend is likely to continue given that the Reserve Bank of Australia's decisions are data-dependent, which by nature reflects historical information.

Three-year bonds are projected to trade around 4.45%. Above 4.60%, we believe the implied cash rate would be excessive.

We expect the yield on long-dated Australian government bonds to trade within a range centred around 4.85% for ten-year sovereign bonds.

An increasingly important alternative scenario involves a reopening of the Strait of Hormuz. This is currently not factored into bond markets and remains, in our view, highly likely, though the timing is unclear.

Oil prices could swiftly turn disinflationary. We would expect a significant boost to oil output from the UAE, Saudi Arabia, and other Gulf states, as the OPEC cartel fragments and budget repair from lost oil revenue becomes an imperative.

This alternative scenario — a reopening of the Strait of Hormuz and oil prices moving back toward USD $60 per barrel — likely biases three- and ten-year bonds meaningfully lower than projected.

With a lag, a resolution would lead inflation lower by approximately 1.0% to 1.5% in the quarters following, with inflation arriving in the middle of the RBA target

band during Q2 next year. This could lead the market to contemplate policy easing in H2 2027.

Sector Profile

Asset Class	Portfolio %
Agencies	0.24
Asset Backed	14.96
Cash at Bank	--
Financials	80.85
Industrials	2.99
Semi Government	0.18
[Cash]	0.78

Ratings Exposure

Rating	Portfolio %
A	34.99
AA	6.41
AAA	15.99
BBB	42.61

Interest Rate Profile

Term	Portfolio %
0 - 30 Days	28.73
1 - 3 Years	1.56
3+ Years	1.24
30 - 90 Days	66.40
90 Days - 1 Year	1.29
[Cash]	0.78

Top 10 Holdings

Issuer	Portfolio %
Teachers Mutual Bank Limited	6.83
Westpac Banking Corporation	6.66
Commonwealth Bank of Australia	6.57
Credit Union Australia Limited	6.40
Newcastle Greater Mutual Group Ltd.	5.91
Heritage & People's Choice Ltd.	5.72
Bank of Queensland Limited	5.48
Beyond Bank Australia Limited	5.19
Bank Australia Limited	5.03
National Australia Bank Limited	5.00

Portfolio Summary Statistics

	Portfolio %
Yield to maturity (%)	5.36
Credit duration (years)	2.16
Modified duration (days)	36.25

Fund snapshot

APIR code	AUS0079AU
Inception date	13 Jun 2017
Distribution frequency	Monthly
Minimum initial investment	$100,000
Management fee*	0.20% p.a.
Buy/Sell spread	n/a
Advice fee	n/a

*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.

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

Zenith RECOMMENDED

Contact Details

Website
www.australianethical.com.au/managed-funds/investment-options/altius-funds/altiusam.com

Email
australianethical@unitregistry.com.au

Investor Services
T 1300 788 031

Adviser Services
T 1300 788 031

ALTIUS ASSET MANAGEMENT
Powered by Australian Ethical