

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 June 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	0.81	2.31	4.02	5.31	2.87	2.38	2.93
Net total return	0.77	2.18	3.51	4.79	2.37	1.82	2.31
Benchmark	0.66	1.84	2.68	4.05	1.72	1.52	2.24
Excess to benchmark	0.11	0.34	0.83	0.75	0.65	0.30	0.08

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.

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

Despite ongoing concerns surrounding the Iranian crisis and energy market disruption, the dominant theme in June was the better-than-expected strength of the global economy and the resulting shift in central bank policy expectations. Stronger-than-anticipated economic data, coupled with persistent inflation pressures, prompted several major central banks to adopt a more hawkish stance.

Locally, the RBA left the cash rate unchanged at 4.35% in June, following three consecutive rate hikes earlier in 2026. The RBA noted that policy settings were “somewhat restrictive”, providing the Board with “space” to assess incoming data. While the Bank highlighted ongoing inflation risks associated with elevated energy prices and Middle East supply disruptions, softer domestic conditions—including weaker consumer spending, slowing housing market momentum and a higher unemployment rate—provided justification for a pause. Monthly trimmed mean inflation firmed to 3.6% from 3.4%, reinforcing the RBA’s concerns, while Q1 GDP growth rose just 0.3%, taking annual growth to 2.5%. Consumer

momentum continued to soften, while employment remained resilient, with 40,300 jobs added and the unemployment rate declining to 4.4% from 4.5%. Financial markets interpreted both the policy decision and the data flow as signalling that the RBA was nearing the end of its tightening cycle. As a result, expectations for further rate increases were pared back, with three-year government bond yields falling 12 basis points over the month to 4.37%.

In the United States, strong May employment data marked the third consecutive payrolls report to exceed market expectations during the quarter. The three-month average payroll gain rose to 188,000 in May, its highest level in two years, reinforcing the view that labour market conditions remain robust. At the Federal Reserve, the first FOMC meeting chaired by new Chair Kevin Warsh struck a more hawkish tone than markets had anticipated, with half of committee members submitting rate projections that implied a rate increase in 2026. Market expectations shifted materially over the month, with forecasts moving from 14 basis points to 37 basis points of policy tightening by year-end. US two-year Treasury yields rose 18 basis points to 4.18%, while 10-year Treasury yields were marginally lower at 4.42%.

Contact Details

Website

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

Email

australianethical@unitregistry.com.au

Investor Services

T 1300 997 774

Adviser Services

T 1300 997 774

In Europe, the ECB delivered its first rate increase since 2023, raising the deposit rate by 25 basis points to 2.25% in June. President Lagarde characterised the move as “completely warranted and justified”, citing concerns that inflationary pressures were becoming more broad-based. In Japan, the Bank of Japan also increased its policy rate by 25 basis points to 1.0%; however, the move did little to stem yen weakness, with the currency falling to its lowest level against the US dollar since 1986.

The Australian corporate bond market delivered record issuance in the first half of the year, with AUD25.2 billion issued to 30 June, representing almost 70% growth compared with the same period last year and 83% of the record AUD30.4 billion issued during 2025. Issuance has been broad based, with 36% from Kangaroo issuers and 22% from hybrid securities, with the majority from Australian issuers. June continued this trend, with 10 issuers raising approximately AUD6.5 billion.

Debt deals from Oncor, the Texas-based electricity services company, raising AUD750 million through a seven-year bond at 120 basis points, and Telefónica, the Spanish telecommunications company, which issued dual-tranche six-year and ten-year bonds at 147 basis points and 185 basis points, respectively. CDC Australia Ltd, a data centre operator, completed an inaugural AUD1 billion transaction split across 30NC5 and 30NC7.5 hybrid structures at 240 basis points and 260 basis points. Following investor roadshows earlier in the year, Engie launched and priced AUD1.25 billion across senior and subordinated debt. This included AUD550 million and AUD300 million of five-year and ten-year senior debt, respectively, together with a AUD400 million perpetual non-call six-year floating-rate note at 200 basis points, representing the first transaction of its type in the Australian market.

Other transactions during the month included issues from Adelaide Airport (seven years), Toyota Finance (three and five years), Worley (five years), Waypoint REIT (six years), and Goodman Industrial, which raised AUD500 million through a six-year bond at 113 basis points. Consistent with the supportive technical

backdrop across global credit markets, all transactions were met with strong demand and were heavily oversubscribed. Locally, credit spreads continued to tighten during June despite elevated levels of new issuance. Major bank five-year senior paper contracted by 4 basis points to 65 basis points, while bank 10NC5 subordinated debt tightened by 6 basis points and insurance AT1 securities tightened by 24 basis points.

Looking ahead, July is typically a quieter period for primary issuance as corporates enter earnings blackout periods ahead of the August reporting season. The reporting season will be closely scrutinised for signs of any secondary impacts stemming from the Iran conflict, as well as evidence that the domestic economy may be beginning to soften.

Socially Responsible Investments in Focus

AEMO released its Final 2026 Integrated System Plan (ISP), reaffirming that the lowest-cost pathway for the National Electricity Market (NEM) remains a renewables-led system—supported by storage, enabled by transmission and distribution, and backed up by gas as coal exits. However, the 2026 ISP shifts the composition of that pathway, with a stronger role for batteries and consumer energy resources (CER), and a reduced reliance on large-scale transmission builds.

Electricity demand is still expected to double by 2050, driven by electrification, population growth and new loads such as data centres, reinforcing a large, multi-decade investment requirement. Coal retirement remains the central driver of system change, although the timeline has extended versus 2024’s more accelerated assumptions, with full exit now closer to the late 2040s rather than early 2040s.

The generation mix remains renewables-dominated, requiring a fivefold increase in utility-scale wind and solar to replace coal and meet rising demand. Notably, the 2026 ISP tilts more toward solar and

Contact Details

Website

altiusam.com

Email

australianunitywealth_transactions@unitregistry.com.au

Investor Services

T 1300 997 774 F 1300 856 685

Adviser Services

T 1300 997 774 F 1300 856 685

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storage and less toward wind relative to 2024, due to cost and delivery constraints. Storage is the most significant area of upward revision, with grid-scale battery capacity now expected to reach around 33 GW by 2030 — roughly double the 2024 ISP estimate and around 40% above the draft 2026 ISP. Gas remains necessary as flexible firming capacity (~15–17 GW by 2050), but is positioned more as a reliability backstop rather than core energy supply.

Total system investment remains substantial at ~\$106bn to 2050 (vs ~\$122bn in the 2024 ISP), reflecting lower solar and battery costs and greater consumer investment, partly offset by higher transmission and wind costs. The AEMO continues to emphasise that execution risk — particularly delays in transmission, generation and storage delivery — remains the key determinant to system reliability and cost outcomes.

Against this backdrop, the QLD government's approval of the Saraji East coal mine (BHP Mitsubishi Alliance) highlights the ongoing disconnect between long-term system planning and near-term policy outcomes. While the ISP assumes an orderly but eventual exit of coal from the domestic power system, the approval of a project expected to produce ~110 Mt of coal and over 330 Mt of associated emissions underscores that fossil fuel expansion—particularly for export markets—continues alongside the energy transition. This tension reflects the dual-track nature of Australia's energy landscape - a forward-looking electricity system increasingly aligned with decarbonisation, and a resource sector still supported by strong global demand and fiscal considerations.

During the month, the Australian Sustainable Finance Institute (ASFI) also called for Australia to join and expand the EU-China Common Ground Taxonomy framework, to improve interoperability across global sustainable finance regimes and facilitate cross-border capital flows. While greater alignment could support funding access and lower the cost of green and transition finance, it could also raise eligibility thresholds, increasing pressure on weaker transition pathways and driving greater differentiation in funding outcomes.

Separately, the SBTi published its Corporate Net-Zero Standard Version 2.0, marking a shift from a primary focus on target-setting toward embedding climate considerations within operations, value chains and capital allocation. While still focused on real-economy emissions reduction, the framework introduces more principles-based flexibility. Companies are expected to demonstrate credible progress and disclose assumptions and constraints, with greater emphasis on accountability and execution rather than process.

The standard strengthens the linkage between targets and implementation—particularly capital allocation, transition planning and supply chain engagement—reinforcing the expectation that net-zero commitments are underpinned by credible, operationally grounded plans. It also maintains a clear mitigation hierarchy prioritising direct emissions reduction, with tighter guardrails on market-based instruments.

Greater differentiation is introduced across company types, including more tailored pathways for SMEs and firms in lower-income jurisdictions, balancing ambition with feasibility. The role of carbon credits remains constrained: they cannot be used to meet Scope 1–3 targets but can support “ongoing emissions responsibility” (OER) for residual emissions, establishing a clearer but secondary role for carbon markets.

Finally, a recent United Nations University report highlights that AI's environmental footprint is expanding beyond carbon, with energy, water and land use emerging as equally material constraints. By 2030, AI data centres are projected to consume ~945 TWh of electricity annually, with water usage comparable to the domestic needs of ~1.3 billion people. As AI energy consumption is predominantly driven by day-to-day usage, gains in efficiency may be diluted by increased utilisation, limiting the extent to which overall demand declines. This broadens the ESG risk lens for hyperscalers, utilities and digital infrastructure providers, and is likely to drive tighter disclosure requirements and greater regulatory scrutiny, while introducing new cost pressures and risk considerations.

Contact Details

Website
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Investor Services
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Outlook

Globally, central banks dual mandates are in tension. The global energy crisis caused by middle east conflict has concurrently lifted inflation via energy costs but also created production disruption and a hit to consumer activity. Creating more complexity is the concentrated but significant capex expansion in AI technology.

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

Australia was 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 worked into direct inflationary measures such as transportation and energy costs.

The RBA articulated that “nothing can be done about the inflation currently in the system. The nuance being that the RBA decision is essentially (to hike) to prevent second order inflation that comes via a price wage spiral, but is also based on inflation data as presented.

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

The peak in short dated bonds may already be in place, irrespective of the RBA policy stance.

We note that the labour market is seeing support from the construction of data centres, but outside of that, is a little softer than earlier and reflected in an increase in the unemployment rate.

Global oil prices have softened somewhat and definitionally direct inflation impacts will ease in the measured period ahead, even though indirect impacts of the earlier rise in oil prices are currently working

through. The earlier reduction in fuel excise has moderated the peak to inflation.

Should a resolution to the gulf war that secures a reopening of the strait of Hormuz, there is a strong possibility that there will be a surge in oil supply from Gulf states. Importantly, this supply is now additional to the uplift in production from other parts of the world. Definitionally, this will lead to a disinflationary pulse that would have downstream impacts to central bank policy – possibly shifting to an easing bias.

With a lag, a resolution would lead Inflation lower by about 1% to 1.5% in the quarters following, with inflation arriving in the middle of the RBA target band during Q2 next year.

The RBA is expected to remain at current levels. The one caveat being if wage decisions later this year are higher than expected.

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

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 based on data, which by nature reflects historical information.

The three-year bonds are projected trade around 4.45%. Above 4.60% we believe that the implied cash rate to be excessive.

We expect the yield on long-dated Australian government bonds to trade within a range centred around 4.85% for 10-year sovereign bonds.

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Sector Profile as at

Asset Class	Portfolio %	Benchmark %
Agencies	3.29	0.96
Asset Backed	10.30	--
Financials	43.51	2.94
Industrials	15.17	2.25
RBA Cash	--	50.00
Semi Government	19.31	17.45
Sovereigns	2.91	22.68
Supranationals	3.24	3.71
[Cash]	2.28	--
Agencies	3.29	0.96

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	28.98	1.56
AA	29.33	14.19
AAA	22.15	32.54
BBB	19.11	1.71
RBA Cash	--	50.00
[Unassigned]	0.43	0.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	8.17	54.35
1 - 3 Years	30.50	10.68
3 - 5 Years	28.38	10.52
5 - 7 Year	16.51	7.87
7 - 10 Year	13.01	10.53
10+ Years	3.43	6.06

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	8.04	4.88
Treasury Corporation of Victoria	4.14	4.75
Commonwealth Bank of Australia	3.88	0.25
South Australian Government Financing Authority	3.40	1.06
Government of Australia	3.19	22.65
Wesfarmers Limited	2.99	0.03
Tasmanian Public Finance Corp.	2.56	0.40
Housing Australia	2.53	0.07
Macquarie Bank Limited	2.37	0.04
APOLLO Series 2023-1 Trust	2.28	--
Stockland Trust Management Ltd.	2.25	0.05
GAIF Bond Issuer Pty Limited	2.20	0.05
Mirvac Group Finance Ltd.	2.03	0.03
Heritage & People's Choice Ltd.	2.03	--

Victoria Power Networks (Finance) Pty Ltd.	1.98	0.04
Western Australian Treasury Corp.	1.94	1.08
BNP Paribas SA	1.91	0.02
Oversea-Chinese Banking Corp. Ltd. /Sydney Branch/	1.89	--
Bank Australia Limited	1.79	--
KfW	1.79	0.48

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	5.00	4.78
Modified duration (years)	2.65	2.40

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Website

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Email

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