

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 August 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	0.05	0.91	3.16	4.88	2.79	2.15	2.90
Net total return	0.01	0.78	2.66	4.37	2.29	1.59	2.28
Benchmark	0.07	0.69	2.25	3.72	1.55	1.34	2.21
Excess to benchmark	-0.06	0.09	0.41	0.65	0.75	0.26	0.07

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

August's dominant market development was a sharp rise in longer-dated government bond yields globally. The US 30-year Treasury yield reached a post-2007 high of 5.31%, Germany's 30-year yield hit a post-2011 high of 3.81%, and Japan's reached 4.14%, its highest level since issuance began in 1999. Australian 10-year government bond yields also moved higher, closing at 5.12%.

The moves reflected stronger global growth expectations, persistent inflation concerns, mainly driven by the Middle East crisis and renewed focus on fiscal risks. Resilient economic data reinforced expectations that interest rates would remain elevated for longer.

US Long-dated yields retraced towards month-end following the US Treasury's unexpected decision to at least double longer-dated bond buybacks. At Jackson Hole, Fed Chair Warsh adopted a more hawkish tone, emphasising the Fed's firm 2% inflation target and cautioning that recent inflation improvements had not meaningfully changed underlying trends. Markets consequently retained expectations of a September rate hike, with futures pricing a 65% probability.

The RBA held the cash rate steady at 4.35% at its August meeting. The post-meeting statement retained a hawkish conclusion and tightening bias, with the Board reiterating that returning inflation to target on a sustainable basis remained its key focus and that further tightening would be delivered if required. As a result, markets became increasingly focused on the inflation release in the final week of the month. Australian labour force data followed on 20 August. The unemployment rate rose to 4.5% from 4.4%, with employment falling by 15,000. The numbers supported the RBA's view that the domestic labour market was softening and therefore had limited impact on market expectations for rates policy. The key release was the July monthly CPI print, with markets looking for a number that could build the case for further RBA tightening. This was delivered, with a solid trimmed mean monthly number of 0.5% and an annual reading of 3.6%, above market expectations and leading markets and a number of economists to expect a 25 bps tightening at the September meeting. Other data released over the month was mixed: household spending remained strong at 6% over the year, while business conditions and confidence dipped and housing indicators, such as home lending, weakened. AUD credit markets had another strong month, with roughly \$23 billion of primary issuance, making August one of the busiest months on record. Financial issuance reached \$14 billion in the first half of the month, the

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

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T 1300 997 774

largest monthly total for the sector since January 2025. Major bank issuance followed reporting season, with transactions from Westpac, CBA and ANZ. CBA issued the tightest three-year transaction since COVID at 56 bps, while ANZ was the first major bank to offer a five-tranche deal, comprising five-year fixed and floating senior notes, a 20-year fixed senior note, and fixed and floating 15NC10 subordinated notes. The standout trade over August was the long-awaited hyperscaler transaction, led by Alphabet through a multi-tranche deal. Alphabet has issued close to \$100 billion across global markets this year, so it was only a matter of time before it entered the AUD market. Alphabet issued \$4.75 billion across five maturities (three, five, 10 and 20 years), attracting roughly \$14 billion of interest and making it the largest corporate deal ever in the AUD market.

Australian investment grade spreads were largely unchanged to slightly wider over August. The high level of corporate supply meant spreads struggled to compress back to their February lows, with fixed-rate corporate index spreads around 10 bps higher at 76 bps. Major bank spreads widened by 2 bps across the curve, with five-year spreads closing at 67 bps. A similar trend was evident in major bank subordinated debt, with 10NC5 paper widening from February's low of 111 bps to close August at 122 bps.

Australian corporate reporting season concluded in August, highlighting a widening divergence across the economy. Overall results were solid and modestly ahead of expectations, though they lacked the strength seen in the US market. Interest-rate-sensitive sectors reported softer trading conditions, while companies exposed to government spending, infrastructure development, the energy transition and AI investment saw earnings improve. Although earnings growth remains below US levels, the underlying credit fundamentals of domestic companies remain sound.

Socially Responsible Investments in Focus

In August, the Australian Government launched a consultation on measures to reduce the compliance burden of its mandatory climate reporting regime while maintaining the credibility and international comparability of disclosures. The review is focused on assurance requirements, reporting guidance and reducing climate-related information requests throughout corporate supply chains. Options under consideration include delaying or scaling back the

planned transition to reasonable assurance from 2030, particularly for more complex Scope 3 disclosures, alongside clearer guidance to reduce reporting costs for companies and SMEs. The consultation reflects a broader effort to balance transparency and investor confidence with practical implementation challenges as the reporting framework is rolled out across the economy.

Separately, the Albanese Government commenced a review of the Safeguard Mechanism, Australia's cornerstone industrial emissions reduction policy, to ensure it remains aligned with the country's 2030 and 2035 emissions targets. A key focus is whether to limit the currently unrestricted use of carbon offsets, amid concerns that excessive reliance on credits may reduce incentives for companies to invest in on-site decarbonisation, electrification and renewable energy. The review will also consider whether emissions reduction requirements should be increased to align the policy with Australia's 62% emissions reduction target by 2035.

During the month, Woodside Energy also announced a significant strategic reset under new CEO Liz Westcott, scaling back its clean energy ambitions and refocusing capital allocation on projects delivering the strongest shareholder returns. The company has abandoned its US\$5 billion new-energy investment target, retired its Scope 3 emissions-abatement target and launched a review of its Beaumont ammonia project in Texas, citing slower-than-expected customer demand and policy support for lower-carbon products. Beaumont was acquired for US\$2.35 billion in 2024 and represented a cornerstone of Woodside's energy transition strategy, accounting for almost half of the company's new-energy investment commitment. While management maintains the project is performing well operationally, Woodside has become increasingly cautious on the pace of development of lower-carbon fuel markets.

Management reaffirmed its view that LNG will remain critical to global energy security and decarbonisation, signalling a move away from prescribed clean-energy spending targets towards a capital allocation framework in which all projects compete on commercial returns. The reset reinforces management's confidence in its hydrocarbon portfolio but has attracted heavy scrutiny from ESG-focused investors and environmental organisations.

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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Meanwhile, the Federal Government is progressing plans to require new data centres to be supported by additional renewable energy generation, despite opposition from Queensland and the Northern Territory. The proposal reflects growing concerns about the impact of AI-driven data centre expansion on Australia's electricity system, with data centres currently accounting for around 2% of national electricity demand and expected to consume a materially larger share over time. The Government's position is that new facilities should fund or contract additional renewable generation rather than rely on existing grid capacity, thereby limiting impacts on household electricity prices and system reliability.

A key feature of the proposal is a "user pays" framework under which data centre operators would be required to fund both grid connection costs and the renewable energy needed to offset their electricity consumption. The Government is also developing mechanisms to ensure these costs are not passed through to households, effectively requiring new data centres to bring additional generation capacity into the system as a condition of development. The policy is supportive for renewable energy, transmission and storage investment, while highlighting growing regulatory scrutiny of large electricity users as AI-related power demand accelerates.

Outlook

Global fixed income markets remain dominated by inflation, although the transmission has increasingly moved through real yields rather than inflation expectations. Across developed markets, expected inflation remains close to 2.35%, but nominal bond yields have continued to rise as investors require a larger premium to hold duration. The increase in term premiums to multi-decade highs reflects a combination of fiscal uncertainty, sustained public-sector borrowing and the withdrawal of central bank balance-sheet support.

At the same time, the artificial intelligence investment cycle is creating a material additional call on global capital. Large technology firms are financing data centres, power infrastructure and computing capacity at scale, adding to debt-market supply just as governments are also issuing more long-dated bonds.

With central banks reducing their sovereign bond holdings, particularly large deficits in the US and Japan are competing more directly with private-sector investment, reinforcing upward pressure on global long-term yields.

Australia has been more exposed than many developed-market peers to the rise in term premium and the global competition for capital. Bond yields have remained elevated reflecting both global duration risk and domestic some specific capacity constraints. The AI infrastructure boom adds to this mix, with data centre investment supporting employment and increasing demand for energy supply and building materials in areas where labour and construction capacity are already tight.

The domestic inflation backdrop has nevertheless improved, with headline inflation easing to 3.5% from the March peak of 4.6%. That progress is likely to be interrupted by the reintroduction of petrol excise and the recent rise in oil prices, which should lift inflation over the coming quarter and slow the return to central bank targets. This leaves the RBA with less scope to ease policy quickly, even as housing market softness following Federal Budget changes to capital gains tax and negative gearing begins to weigh on confidence and domestic demand.

Despite the slowing economy, the RBA has become less willing to look through upside inflation surprises. Its recent communication suggests the central risk is that inflation remains elevated for longer, even if the source of pressure is not visible at all in wages. Instead, higher energy and transport costs are being passed through across a broader range of prices, complicating the disinflation process and limiting the Bank's ability to contemplate weaker domestic demand.

Against that backdrop, the cash rate is now expected to rise to 4.60%. A move in November may be more likely than earlier action, given that it would allow the RBA to assess a wider set of inflation data and look through some of the volatility in the monthly CPI series, which remains difficult to seasonally adjust. Regardless of the precise timing, markets have priced in two additional rate increases by February 2027, consistent with a longer period of restrictive monetary policy.

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Email

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Three-year Australian government bond yields are expected to trade around 4.70%, while ten-year yields are likely to fluctuate around 4.95%. With yields near the upper end of expected ranges and term premium elevated, fixed income valuations remain increasingly attractive despite the absence of an immediate catalyst for a sustained rally.

Elevated term premium and bond yields that remain near the upper end of expected ranges provide attractive income and roll-down opportunities. Portfolio strategy remains focused on actively managing duration settings, incrementally increasing long bond exposure as yields move above fair value ranges and reducing exposure when yields become excessively rich. Credit markets remain supported by contained volatility and resilient labour market conditions, allowing portfolios to continue benefiting from accrual income.

Sector Profile as at

Asset Class	Portfolio %	Benchmark %
Agencies		3.31
Asset Backed		9.95
Financials		43.49
Industrials		16.15
RBA Cash		--
Semi Government		18.76
Sovereigns		2.37
Supranationals		3.09
[Cash]		2.89

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	30.56	1.63
AA	29.69	14.03
AAA	20.59	32.55
BBB	17.99	1.77
RBA Cash	--	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	7.50	54.47
1 - 3 Years	30.81	10.66
3 - 5 Years	28.60	10.59
5 - 7 Year	17.47	7.88
7 - 10 Year	11.43	10.41

10+ Years	4.20	5.99
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Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	8.06	4.94
Treasury Corporation of Victoria	5.43	4.75
South Australian Government Financing Authority	3.67	1.03
Wesfarmers Limited	3.28	0.03
Government of Australia	2.79	22.72
Housing Australia	2.72	0.07
Macquarie Bank Limited	2.58	0.03
Stockland Trust Management Ltd.	2.46	0.05
APOLLO Series 2023-1 Trust	2.43	--
GAIF Bond Issuer Pty Limited	2.40	0.06
Mirvac Group Finance Ltd.	2.20	0.03
Victoria Power Networks (Finance) Pty Ltd.	2.14	0.04
BNP Paribas SA	2.11	0.02
Western Australian Treasury Corp.	2.05	1.08
Oversea-Chinese Banking Corporation Limited	2.04	--
Australian Dollar	2.04	--
Teachers Mutual Bank Limited	1.96	--
Bank Australia Limited	1.94	--
ETSA Utilities Finance Pty Ltd.	1.91	0.04
KfW	1.90	0.50

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	5.28	3.50
Modified duration (years)	2.65	2.35

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RIAA - Certified Responsible Investment

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Website

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