Fund Update
September 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 September 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	-0.32	-0.22	2.41	5.06	2.77	2.19	2.85
Net total return	-0.36	-0.34	1.91	4.55	2.27	1.63	2.23
Benchmark	-0.25	-0.21	1.80	3.84	1.65	1.33	2.17
Excess to benchmark	-0.10	-0.13	0.11	0.71	0.62	0.30	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.
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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

September was defined by a more hawkish global policy backdrop, as higher energy prices, resilient economic growth and persistent inflation kept central banks focused on tightening. The Federal Reserve, ECB, Bank of Japan, RBNZ and RBA all raised interest rates during the month, reinforcing the higher-for-longer narrative. The Fed delivered its first rate hike since 2023 and signalled the possibility of further tightening, while the ECB warned inflation was likely to remain above target for an extended period. The BoJ also lifted rates to 1.25%, its highest level since 1995.

In Australia, the RBA increased the cash rate by 25bp to 4.60%. Persistent inflation, ongoing conflict in the Middle East, rising AI-related energy demand and concerns around weak productivity supported the case for tighter policy. Despite the hike, Governor Bullock struck a relatively balanced tone, noting that policy was already restrictive and emphasising the importance of preserving labour market gains.

Australian economic data remained mixed. Employment increased by a stronger-than-expected 39.5k in August, while the unemployment rate edged higher to 4.6%. Inflation continued to moderate, with trimmed mean inflation easing to 3.6% year-on-year and headline CPI printing at 4.0%, slightly below expectations. The softer inflation outcome saw market pricing for a further RBA rate hike in November decline materially over the month.

Australian bond yields rose alongside global markets, with 3-year and 10-year government bond yields reaching 5.05% and 5.43% respectively, their highest levels since 2011. The Australia-US 10-year yield spread narrowed sharply as US Treasury yields rose faster than their Australian counterparts. Towards month-end, the 3-year bond recovered some losses as expectations of a November RBA hike were scaled back, finishing at 4.92%, while the 10-year yield remained near its highs at 5.34%.

Energy markets were a key driver of inflation concerns. Attacks on Saudi energy infrastructure and the temporary closure of the East-West pipeline heightened fears of supply disruptions, while hopes of a US-Iran diplomatic breakthrough faded. Brent crude rose 12.5% to US$103.53/bbl, with longer-dated oil prices also moving higher, reflecting expectations that elevated energy costs may persist.

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Despite these inflationary pressures, economic activity remained resilient. PMI surveys pointed to accelerating growth across major economies, while strong labour markets provided central banks with confidence to maintain a tightening bias. As a result, sovereign bond yields rose sharply, with US 10-year Treasury yields reaching 5.30%, their highest level since 2007. German Bund yields climbed to 3.50%, while Japanese 10-year government bond yields reached 3.0%, a level not seen since the mid-1990s.

Credit markets weakened in September as rising global yields began to weigh on sentiment. Locally, Major Bank 5-year and industrial spreads widened by around 4 basis points to 70 and 102 basis points respectively, while US and European investment-grade indices widened by 5 and 13 basis points to 84 and 89 basis points.

The more notable move came in global high yield. US and European ICE High Yield spreads widened by 39 and 34 basis points to 312 and 300 basis points respectively, with the CCC sector attracting most attention. US CCC spreads widened sharply by 153 basis points to 1,179, while European CCC spreads widened 96 basis points to 1,440. While there was no clear catalyst, higher rates and increasing refinancing risk appear to be placing greater pressure on the most leveraged parts of the economy. Positively, CCCs now represent a smaller proportion of the overall high-yield market, limiting the broader impact. However, the widening remains an important signal that pockets of stress are emerging in credit markets.

The local primary market remained active during September. ElectraNet opened the month with a $400 million 7-year deal at 130bps, tightening from initial guidance of 140 basis points after attracting $1.1 billion of demand. ARTC followed with 7- and 10-year deals at 115 and 130 basis points, also receiving solid investor support. Transgrid issued a $500 million 10-year senior deal at 155 basis points alongside a $450 million 30NC5 hybrid. Other notable issuers included Kangaroo Utilities, E.ON, Anglian Water, debut issuer The Lottery Corporation, Port of Brisbane and Infratil NZ.

In financials, the Major Banks were again absent, although issuance remained solid across the regional and mutual banking sectors. Bendigo Bank tapped its 2027 line for $450 million, likely supporting funding for the RACQ acquisition. Great Southern Bank issued $500 million for five years at 123 basis points, while Police and Nurses Bank issued $300 million for three years at 115 basis points, attracting a $450 million order book. Nationwide and ING Australia also priced covered bonds, both receiving strong support.

Macquarie completed the month's only Tier 2 transaction, issuing $900 million across 10.5NC5.5 and 15NC10 tranches at 152 and 177 basis points respectively. Notably, the deal experienced lacklustre secondary performance, with trading reportedly wider than issue levels by month-end.

Socially Responsible Investments in Focus

During the month, the UN Environmental Programme (UNEP) released its report Limiting Overshoot: Navigating exceedance of 1.5°C and pathways towards return, which acknowledged a growing scientific consensus that exceeding 1.5°C warming is likely under current policy settings. However, UNEP argued that the extent and duration of this overshoot remain within humanity's control and will materially influence future climate, economic and social outcomes. As such, policymakers, businesses and investors should focus on limiting the magnitude and duration of exceedance through accelerated emissions reductions, adaptation measures and carbon-removal technologies. UNEP also stressed that mitigation and adaptation must now advance together, noting that carbon dioxide removal technologies are likely required to help return warming below 1.5°C, although these solutions cannot substitute for direct emissions reductions given the scalability, governance and social challenges associated with these technologies.

Against this backdrop, tensions between climate ambition, affordability and implementation became increasingly evident in Australia. In Queensland, the state government abandoned plans to electrify its public bus fleet and instead commenced procurement for up to 630 diesel buses. The government cited a lack of charging infrastructure and depot readiness, highlighting the practical constraints associated with transport decarbonisation. The decision was criticised as a setback for emissions reduction efforts and illustrates the challenges governments face balancing climate objectives with cost, operational requirements and implementation risk.

Policy uncertainty also increased during the month after the Coalition signalled it would seek to repeal several major climate policies if elected, including offshore wind development zones, the Safeguard Mechanism, vehicle-emissions standards and Australia's legislated net-zero framework. While these proposals remain contingent on future electoral outcomes, they reinforce that political and regulatory risk continue to be important considerations for long-term energy-transition and infrastructure investments.

At the same time, governments increasingly turned their attention to managing the environmental footprint of emerging technologies. The Victorian Government released its

Sustainable Data Centre Action Plan, introducing some of Australia's most stringent sustainability requirements for new data-centre developments. Proposed facilities will be required to support demand with additional renewable energy and storage, minimise reliance on potable water, maintain separation from residential areas and contribute benefits to local communities. The framework reflects growing concern around the energy, water and land-use implications of AI-driven data-centre growth and may provide a blueprint for future regulation in other jurisdictions.

Alongside these broader policy developments, the Australian Government continued refining the country's climate-disclosure framework. Australian Treasury commenced consultation on measures aimed at improving the efficiency of mandatory climate reporting, including clearer limits on Scope 3 value-chain information requests, additional guidance on information that can reasonably be obtained from suppliers and potential adjustments to assurance requirements. While the consultation does not alter the underlying reporting framework, it reflects growing concern from businesses regarding compliance costs and reporting complexity as sustainability-reporting obligations expand.

The focus is also shifting from establishing reporting frameworks to improving disclosure quality and regulatory compliance. ASIC released REP 839, its first detailed assessment of mandatory climate disclosures, identifying shortcomings in areas including climate-risk identification, scenario analysis, governance disclosures and the integration of climate risks into financial reporting. While climate reporting is already a mandatory compliance obligation for entities within scope, the review signals that ASIC's attention is moving beyond basic compliance toward the quality, rigour and decision-usefulness of disclosures.

Overall, September highlighted a growing shift from climate ambition toward climate implementation, with policymakers, regulators and businesses increasingly focused on the practical costs, governance requirements and infrastructure challenges associated with the transition.

Outlook

The inflation outlook remains finely balanced. Higher oil and energy costs continue to present upside risks, with pass-through to transport, food and services likely to remain evident over coming quarters. Domestic inflation is showing some moderation: housing CPI remains elevated at 5.7% year-on-year but rose just 0.2% in the latest month, while rents increased 3.5% over the year but were unchanged over the past three months. Inflation remains persistent, but its underlying components are no longer moving uniformly higher.

The cash rate remains at 4.60%, with markets pricing almost another 25bp increase by March 2027 and a peak of 4.88% in May. A somewhat softer-than-expected labour-force report has reduced the probability of another increase before year-end. However, inflation remains too high for an imminent easing cycle, suggesting monetary policy is likely to remain restrictive even if rates are approaching their peak.

Longer-dated bond valuations have become increasingly attractive. Ten-year real yields are around 30-year highs, while current yields embed an average cash rate above 5% over the coming decade. This is a demanding long-run assumption and provides a substantial valuation cushion should inflation ultimately moderate and monetary policy return towards more neutral settings.

Global capital supply remains the principal counterweight. The AI investment cycle is driving substantial financing of data centres, power infrastructure and computing capacity alongside already elevated sovereign borrowing. With central banks reducing sovereign bond holdings, governments and private borrowers must compete more directly for investor capital. Large funding requirements in the US and Japan reinforce this pressure, supporting higher global real yields and term premia.

We expect Australian three-year government bond yields to trade around 4.70% and ten-year yields around 4.95%. With yields near the upper end of expected ranges, prospective returns are increasingly attractive even without an immediate catalyst for a sustained rally. Elevated term premium further improves the compensation available for holding duration.

Portfolio strategy remains focused on harvesting these improved valuations while actively managing duration. Long-bond exposure is being increased incrementally when yields move above fair-value ranges and reduced when valuations become excessively rich. Attractive income and roll-down support returns while awaiting a clearer catalyst, while contained volatility and resilient labour-market conditions continue to favour selective credit exposure.

Sector Profile

Asset Class	Portfolio %	Benchmark %
Agencies	4.14	0.94
Asset Backed	10.28	--
Cash at Bank	--	-
Financials	45.50	2.96
Industrials	16.33	2.45
RBA Cash	--	50.00
Semi Government	16.21	17.67
Sovereigns	2.27	22.37
Supranationals	3.15	3.62

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	30.42	1.64
AA	27.21	14.31
AAA	22.67	32.21
BBB	19.70	1.83
RBA Cash	--	50.00

Maturity Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	6.76	53.45
1 - 3 Years	33.40	10.69
3 - 5 Years	27.95	11.37
5 - 7 Year	16.33	7.92
7 – 10 Year	11.35	10.46
10+ Years	4.21	6.11

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	7.92	5.00
Treasury Corporation of Victoria	3.78	4.81
South Australian Government Financing Authority	3.63	1.07
Housing Australia	3.56	0.07
Wesfarmers Limited	3.27	0.03
Government of Australia	2.59	22.33
Macquarie Bank Limited	2.58	0.02
Victoria Power Networks (Finance) Pty Ltd.	2.42	0.04
Stockland Trust Management Ltd.	2.39	0.05
GAIF Bond Issuer Pty Limited	2.38	0.06
APOLLO Series 2023-1 Trust	2.37	--
Mirvac Group Finance Ltd.	2.22	0.03
BNP Paribas SA	2.08	0.02
Oversea-Chinese Banking Corporation Limited	2.04	--
Western Australian Treasury Corp.	2.01	1.13
Teachers Mutual Bank Limited	1.94	--
Bank Australia Limited	1.94	--
KfW	1.88	0.44
Cooperatieve Rabobank U.A.	1.88	--
ETSA Utilities Finance Pty Ltd.	1.88	0.04

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to worst (%)	5.61	5.36
Modified duration (years)	2.65	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)	$m
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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