Fund Update
October 2026

AE Altius Short Duration Bond 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 October 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	0.74	0.47	2.72	5.62	3.28	2.30	2.86
Net total return	0.70	0.35	2.22	5.10	2.78	1.75	2.28
Benchmark	0.77	0.59	2.25	4.39	2.20	1.50	2.22
Excess to benchmark	-0.07	-0.24	-0.03	0.71	0.58	0.25	0.06

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

Global bond markets remained volatile through October, with yields initially moving higher before a meaningful rally in duration later in the month. Investors grappled with mounting doubts around the AI trade, growing French sovereign risk and ever-present Geopolitical tensions. In Australia, the focus remained firmly on the outlook for monetary policy, with expectations for further RBA tightening shifting materially as the month progressed.

Following the RBA's 25bp September increase, expectations for further tightening initially eased. This was reinforced by a softer labour market report, with September employment falling 39,000 and unemployment rising to 4.7%. The data provided further evidence that labour market conditions were gradually easing and initially supported the case for the RBA to remain on hold.

This changed materially following the Q3 inflation release. Headline CPI rose 1.3% over the quarter and 3.9% over the year, while trimmed mean inflation increased 1.0% q/q and 3.7% y/y, above the RBA's previous forecast profile. The stronger inflation data, together with more hawkish RBA commentary, saw expectations quickly shift back towards further tightening, with markets ending the month pricing a high probability of another increase in November.

The Australian data therefore continued to present a challenging backdrop for monetary policy. Activity and labour market indicators were showing signs of moderating, while inflation remained stronger and more persistent than the RBA would like. This tension increasingly became the key driver of Australian interest rate markets through the latter part of October. After opening October close to month highs of 4.96% and 5.40%, three and 10 years bonds rallied through the month to end at 4.81% and 5.14%, respectively.

In the US, the Federal Reserve left rates unchanged at 3.75-4.00%. Labour market data softened, with September payroll growth of just 29,000, but broader economic activity remained resilient. Q3 GDP increased 3.4% annualised, ahead of expectations, while core PCE inflation remained elevated at 3.1% y/y. The combination of resilient growth and persistent inflation meant expectations for further

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tightening remained in place despite the October pause.

In Europe, France was the epicentre of European sovereign stress. As political unrest grew the spread between German and French bonds reached a spread of 174bps. A level not seen since the European debt crisis of 2011 and leading to a French 10-year trading at 5.07%. The move higher also spilled over to Italian and Spanish bonds markets. The ECB left rates unchanged, holding the deposit rate at 2.50%. Growth remained subdued, particularly once the impact of Ireland was excluded, while inflation pressures remained elevated. The ECB continued to balance weaker underlying activity against persistent inflation pressures, maintaining a data-dependent stance and leaving the door open to further tightening.

Credit markets reflected a broader risk-off tone in October, with spreads widening across all sectors. The themes that drove interest rate markets were also the dominant drivers of credit spreads during the month. Growing concerns around AI infrastructure investment, uncertainty over the direction of the Iran war and energy prices, and the potential impact of higher interest rates, as central banks remained concerned about inflation, all played a part in pushing credit spreads wider.

Across the local investment-grade curve, spreads moved on average between 3 and 5 basis points wider. This saw Major Bank 3- and 5-year debt finish the month at 48bps and 65bps, respectively.

The two standout underperforming sectors were French banks and residential mortgage-backed securities, with both widening for sector-specific reasons. French banks were impacted by the deteriorating political backdrop, with the banking sector increasingly used as a proxy to express sovereign concerns. This pushed senior preferred spreads around 30bps wider, while Tier 2 widened approximately 40bps.

The securitised mortgage market also came under pressure, with 3-year AAA spreads widening 17bps in October. The market started to feel the strain from the extremely strong primary market in 2026, with issuance up 65% from 2025 levels. As a result, growing offshore selling during October could not be readily absorbed by investors without an additional liquidity premium. AAA 3-year WAL spreads closed the month around 102-105bps.

Finally, the other major story was the significant underperformance of NextDC, with spreads widening between 200 and 350bps over October, depending on the debt type. The move was triggered by a significant revision to 2027 earnings following power delays at its M3 data centre in Melbourne, driven by community objections. At month-end, there remained considerable uncertainty around the delivery timeline for the M3 project.

Locally, primary markets were quiet in October, with only three corporate deals and five financial transactions. On the corporate front, we saw debut deals from Boral and State Grid, issuing 7-year debt at 165bps and 5-year debt at 68bps, respectively, while CNH Industrial tapped its 3-year deal from May.

In financials, Police Bank returned to the market after a three-year absence, issuing $125 million for three years at 117bps. Bank of Queensland issued $800 million following its downgrade to BBB+, pricing 3-year debt at 92bps. Bank Australia also issued 3-year debt at 117bps and tapped its 2028 line for a further $100 million. Unlike previous months, most primary transactions failed to perform in the secondary market.

Socially Responsible Investments in Focus

In October, the High Court of Australia handed down a significant decision for fossil-fuel project approvals, dismissing MACH Energy's appeal over the proposed extension and expansion of the Mount Pleasant coal mine in the Hunter Valley. The project sought to extend the mine's life by 22 years, with Scope 3 emissions, predominantly arising from the eventual combustion of exported coal, representing 98% of forecast project emissions.

By a 3:2 majority, the High Court found that the NSW Independent Planning Commission had failed to

properly consider whether conditions should be imposed to minimise all greenhouse-gas emissions, including Scope 3 emissions, to the greatest extent practicable under the NSW resources planning framework. The decision left the mine's development consent invalid.

The ruling increases the importance of downstream emissions in NSW resource approvals, potentially increasing approval and litigation risk for future projects. However, the decision is specific to NSW planning legislation and does not establish a broader national precedent requiring conditions on Scope 3 emissions.

At the same time, the NSW Government adopted a more pragmatic position on gas through the new Gas Statement. The Government committed to releasing no further areas for gas exploration, limiting expansion of the state's exploration. However, existing areas and projects can continue to progress, including the Narrabri Gas Project and exploration in the Bancannia and Pondie Range Troughs, alongside investment in LNG import, pipeline and storage infrastructure.

The policy therefore stops short of prohibiting new gas development and retains a role for gas in NSW's transition, particularly for hard-to-electrify industries and as backup generation as coal exits the system. This approach was reinforced later in the month when NSW announced plans for a 1,500MW firming tender, expected to be met primarily by gas-fired peaking generation. The capacity is intended to support system reliability during extended periods of low renewable generation when available storage may be insufficient. The contrasts with the Federal Government's Capacity Investment Scheme, which excludes gas-fired generation.

October also highlighted the growing challenges in delivering Australia's renewable energy pipeline, with rising costs and other development constraints affecting the commercial viability of some projects.

Origin Energy ceased development of the proposed 870MW Skye Ridge Wind Farm in northern NSW, which would have been one of Australia's largest wind farms. The company cited a substantial increase in wind-generation construction costs, which have reportedly risen by around 50% since 2020, materially weakening the project's economics.

The decision highlights a broader execution challenge for Australia's energy transition. Rising construction and financing costs, supply-chain pressures, lengthy approval processes and transmission constraints are affecting project viability and delivery timelines. While the pipeline of proposed renewable capacity remains substantial, these pressures are increasing the gap between announced projects and those that can be delivered economically and on schedule.

Against these challenges in expanding renewable supply, Australia's rapidly growing data-centre sector is attracting more regulatory and community scrutiny. The Federal Government's consultation on nationally consistent standards for large data centres closed on 9 October, covering energy, water, infrastructure and community impacts.

Under the proposals, large data centres could be expected to support additional renewable generation and firming capacity to meet their electricity needs, while providing greater flexibility during periods of grid stress. Developers could also face greater responsibility for funding the grid and water infrastructure required to support new capacity.

Scrutiny is also extending beyond emissions to water use, location and community impacts. Community concerns around noise, residential proximity, water and electricity consumption and pressure on local infrastructure have increased scrutiny of where data centres should be located. As such, the Federal Government is considering stronger restrictions on where new developments can be located, although a blanket prohibition on suburban data centres has yet to be formally established.

Victoria has moved further, proposing restrictions on new data centres in residential areas and near schools, including a 150-metre buffer from homes, alongside requirements relating to renewable power, grid-upgrade costs, sustainable water sourcing and community engagement.

These developments demonstrate how environmental footprint and social license are becoming increasingly important determinants of where, and potentially how quickly, new data centre capacity can be developed.

Outlook

Australian inflation is still rising, but beneath the headline numbers the economy is weakening. Housing, credit and employment increasingly suggest monetary policy is becoming restrictive just as inflation approaches what we believe will be its cyclical peak.

Major-city house prices have fallen around 8.5% since March, while housing lending has weakened materially. Deterioration in mortgage arrears and impairments is heavily skewed towards loans serviced by business income and is evident across most states. Tax changes affecting investment property have contributed, but so too has the cumulative increase in interest rates, with effective mortgage rates rising broadly alongside the cash rate.

The labour market is also softening. Unemployment has risen to 4.7%, up 0.6 percentage points this year, while employment has contracted by around 27,000 over the past quarter. Construction had been a major source of employment growth, supported by government infrastructure and data-centre investment, but residential construction has weakened over the past six months.

Inflation, however, may get worse before it gets better. Housing costs and petrol have been important contributors, with higher fuel costs also passing through transport into food and other prices. Petrol prices entering the next monthly CPI are around 9.5% higher than the previous month. Together with lower earlier readings dropping out of the annual calculation, this could temporarily lift inflation towards 4.8-4.9%.

We believe this is more likely to mark the peak than signal renewed acceleration. Oil prices have fallen around 16% from their peak. If sustained, the decline should flow through to domestic fuel prices with a lag, providing a potentially meaningful disinflationary impulse both locally and globally.

This leaves the RBA facing an awkward combination. Inflation is still rising in the rear-view mirror while housing, credit and employment are increasingly pointing in the opposite direction. Our central expectation is that the cash rate peaks at 4.85%. Cuts are not imminent, but there is an improved possibility, rather than yet a probability, that the next move could ultimately be down.

Global capital competition remains a constraint on longer-term bonds. AI and hyperscaler investment is creating substantial demand for funding across data centres, power and computing capacity, although we expect issuance to peak around late 2027. A more restrained US fiscal trajectory could also reduce prospective Treasury supply and term-premium pressure. At the same time, bonds are increasingly regaining their traditional defensive role if concerns around elevated technology valuations and the sustainability of hyperscaler capital expenditure increase equity-market volatility. This strengthens the diversification case for duration alongside its increasingly attractive income.

Against this backdrop, we expect 10-year Australian government bond yields to centre around 4.85%, with three-year yields rallying towards 4.60%. Inflation may rise once more, but increasingly bond markets should focus on where the economy is heading, rather than where inflation has been.

Sector Profile as at

Asset Class	Portfolio %	Benchmark %
Agencies	4.19	0.94
Asset Backed	10.50	0.00
Cash at Bank	0.01	0.00
Financials	43.65	2.91
Industrials	16.67	2.51
RBA Cash	0.00	50.00
Semi Government	20.15	17.60
Sovereigns	1.70	22.47
Supranationals	1.09	3.57

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	29.68	1.63
AA	29.66	14.63

AAA	19.70	31.85
BBB	20.95	1.88
RBA Cash	0.00	50.00

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+ Years	16.44	16.58

Top 20 Issuers

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	10.00	4.99
South Australian Government Financing Authority	4.92	1.07
Treasury Corporation of Victoria	3.87	4.79
Housing Australia	3.54	0.08
Wesfarmers Limited	3.26	0.03
Mirvac Group Finance Ltd.	2.61	0.03
Western Australian Treasury Corp.	2.59	1.06
Macquarie Bank Limited	2.53	0.02
Victoria Power Networks (Finance) Pty Ltd.	2.38	0.04
GAIF Bond Issuer Pty Limited	2.37	0.06
Stockland Trust Management Ltd.	2.35	0.05
APOLLO Series 2023-1 Trust	2.28	0.00
BNP Paribas SA	2.06	0.02
Bank Australia Limited	1.94	0.00
Teachers Mutual Bank Limited	1.93	0.00
Government of Australia	1.90	22.43
ETSA Utilities Finance Pty Ltd.	1.90	0.04
National Australia Bank Limited	1.84	0.24
Cooperatieve Rabobank U.A.	1.83	0.00
Australian Energy Market Operator Limited	1.83	0.01

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.59	4.93
Modified duration (years)	2.73	2.38

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