

Altius Green Bond Fund (Ordinary Units)

The Green Bond Fund's purpose is to invest in green, sustainable and social bonds, with the primary aim of targeting investments that contribute to lowering carbon emissions. It is aligned with Australian Unity's values to create positive impact.

Performance as at 28 February 2025

	1 mth %	3 mths %	1 yr %	3 yrs % p.a.	Since inception % p.a.
Gross total return	0.97	1.85	4.81	0.59	(0.36)
Net total return	0.94	1.77	4.49	0.29	(0.66)
Benchmark	0.93	1.63	4.18	0.32	(0.68)
Excess to benchmark	0.01	0.14	0.31	(0.03)	0.02

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.

Benchmark is the Bloomberg AusBond Composite 0+Yr Index.

Inception date for performance calculations is 18 June 2020.

Portfolio Performance and Activity

February was marked by tariff tensions, inflation concerns, and shifting market sentiment. Early in the month, the US threatened 25% tariffs on Canada and Mexico and 10% on China, leading to a strong risk-off tone for markets. While a last-minute extension delayed the Canadian and Mexican tariffs, this was not the case for China. Trump also announced reciprocal tariffs would occur and 25% duties on steel and aluminum which were expected to have a direct impact on Australian trade, coming into force on March 12th. By the end of the month, Trump confirmed tariffs would be imposed on Canada and Mexico. This on-again-off-agency discussion on tariffs provided a negative undercurrent throughout February. The uncertainty created by tariff discussions feeds into growing concerns that the US economy was starting to experience economic weakness. These concerns saw US and Australian 10-year bond yields fall to 4.21% and 4.33% respectively, with rates in the US falling 46bpts while Australian 10 years only fell 26bpts resulting in Australian/US 10-year spread returning to positive territory. At month end the fund had 4.60 years of duration, -0.13 years shorter than the benchmark.

In the US, economic data released painted a picture of inflation concerns but a weakening economy. Inflation fears intensified after the US January CPI rose +0.47%, the highest since August 2023, and saw the annual number push to 3% from 2.9%. This coincided with the monthly high in US yields. However, a string of weak economic data such as a softer US PPI, weak retail sales, below-expectation payrolls of 143k vs 175k, and weaker consumer confidence all set the tone for a strong retracement of rates in the second half of the month.

Closer to home the highlight was the RBA meeting that delivered the long-awaited easing of policy. The RBA delivered a 25bpt cut taking the cash rate to 4.1%. The accompanying statement, quarterly SoMP, and the RBA Governors press conference were notably cautious. Several key SoMP takeaways included the revision higher of medium-term inflation forecasts to 2.7% from 2.5% and a labor market that remains tighter over the forecast period. Both highlighted the RBA is set to proceed carefully when considering further policy cuts. The Governor also pushed back on

market pricing, suggesting the number of cuts was unrealistic, overly confident, and inconsistent in meeting the bank inflation target. The reaction by the market was limited with the terminal cash rate pricing only pared back to 3.64% from 3.56%. However, by month end the terminal rate had fallen to 3.44% as tariff and US economic uncertainty overshadowed the domestic landscape.

Other notable events included the S&P 500 hitting a record high on February 19th before a weak Nvidia result pushed equity markets lower, with the "Magnificent 7" falling 8.7% in March, making it the worst month since December 2022. Lastly, the German election took place on February 23rd. The result was broadly in line with expectations with the conservative CDU/CSU bloc holding exploratory talks with the Centre left SPD to form a new government.

After having a strong start to the month, global credit markets came under significant pressure in the final week driven by strong primary issuance and deteriorating equity markets. By month end, US and European investment grade had widened 8 and 4 basis points respectively while Australian spreads managed to close the month two basis points tighter. US primary saw \$53bn in March, well above estimates of \$35bn while domestically we saw roughly \$15bn of new issuance. The financials and industrial indices closed at 79bpts and 102bpts respectively.

While spreads were largely unchanged in March they remain at multi-year lows. Investors haven't been undeterred by the tight levels with most primary books being well over-subscribed, spreads grinding tighter post issuance, and secondary curves re-pricing. This trend was observed across the OpCo bank sector in March with record deals from DBS, Mizuho, Rabo, and UOB all resulting in tighter secondary curves. Also, 2025 has seen foreign bank book sizes average \$3.9bn versus \$1.8bn in 2024 driven by growing demand from Asian investors. While foreign banks have delivered a strong outperformance versus Australian major banks, regionals, and offshore T2 have also benefitted as these sectors have become more liquid, in turn attracting new investor interest.

Notable primary deals in March included the first corporate transaction since January, with Ausnet issuing \$950m, 30NC5 subordinated debt

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

transaction at 225bpts with \$4.8bn of investor interest. This was quickly followed by Electranet issuing \$400m for six years at a margin of 133bpts with an order book of \$1.4bn. NBN returned to the market issuing \$750m of green bonds for 10 years at 115bpts, 10 tighter than the launch price, with the fund participating in the transaction. On the financials front, Westpac issued \$1.250bn of a 10NC5 Tier 2 transaction at a margin of 152bpt. What was notable about the trade was the small final book size, just \$3bn, which could reflect the market's view on current pricing. Banco Santander issued \$600m of a 10NC5 Tier 2 at 192bpts after launching at 210bpts. Finally, ANZ issued \$4.5bn of a multi-tranche three- and five-year senior deal at 68bpts and 81bpts respectively. While the transaction was heavily oversubscribed it subsequently underperformed to finish the month a few basis points higher.

Socially Responsible Investments in Focus

Among key sustainable finance developments for February, political pressure continues to see major U.S. Institutions stepping back from publicly promoting their diversity, equity, and inclusion (DEI) initiatives, as the White House intensifies scrutiny of private-sector policies. JPMorgan Chase, Goldman Sachs, Wells Fargo, and Bank of America have announced they are reassessing DEI language or have reduced or eliminated DEI references in their latest annual filings, although many still target an "inclusive work environment".

In addition, the SEC finalized a long-anticipated rule requiring many publicly traded companies to disclose certain climate-related information, issuing a stay on implementation. However as S&P noted, the trend toward emissions disclosures by US Companies is well entrenched.

Locally, tax incentives for Green Hydrogen and Critical Minerals were included in the Future Made in Australia Bill 2024 passed during the month. This includes an AUD 2 per kilogram tax offset for hydrogen production (2027-2040) and a 10% refundable tax offset for critical minerals processing. These incentives aim to decarbonize industries and boost Australia's critical minerals sector, supporting the production of technologies like wind turbines and electric vehicles. The Electricity Infrastructure Legislation Amendment Bill 2025 was also passed, continuing the Capacity Investment Scheme (CIS) with targets for renewable energy generation (at least 23 gigawatts) and clean dispatchable capacity (at least 9 gigawatts) by 2030, supporting Australia's goal of 82% renewable electricity by 2030. The Federal Government also announced a 1 billion Green Iron Fund to support early-stage green iron projects and attract private investment.

The NSW Energy Security Corporation announced its first investment mandate, focusing on co-investing with the private sector in renewable energy projects, including storage, grid infrastructure upgrades, and consumer energy resource coordination.

In terms of innovation, floating solar projects are set for deployment in Australia. These systems provide renewable energy generation and rainwater harvesting, addressing both energy and water needs by reducing evaporation and delivering potential water quality improvements.

New Zealand has announced its second international climate target, aiming for a 51-55% reduction in emissions from 2005 levels by 2035 and noting that it could potentially reach a net zero target as early as 2044.

Outlook

Inflation is gradually shifting lower, towards central bank targets, but is expected to remain above the previous decade levels. There is an uneven

inflation profile across regions, and this will impact the timing and quantum of central banks' adjustments to policy settings. The lags are largely a result of variations in energy costs, labour market and wage negotiation rigidities, population growth, fiscal pulses, and financial conditions.

We expect geo-political "tectonic plate" fragmentation. Most recently, the US is recasting its place in the world order, further modifying defense, technology, medical, and production chains. By definition, an increasingly fragmented supply chain is frictional in effect on activity levels and prices.

Punitive and reciprocal tariffs clearest impact will be felt on growth. First, the uncertainty created by shifting trade policy and costs impact companies' ability to plan. Capex and employment intentions are disrupted, reflecting business confidence being undermined, with output being impacted. This is beginning to appear in business diffusion indices.

Second, retaliatory tariffs and other escalations in a tariff war results in a loss of activity. To illustrate, Canada's threat to retaliate against US tariffs by refusing to supply energy to US states will result in a loss in output.

The period from 2017 to 2020 demonstrated that although China was the target of US tariffs, European growth slowed appreciably too. Slower global eventually resulted in slower US growth. This period will likely provide a template for the effect of tariffs under the second Trump administration.

We do not expect a broad or acute period of inflation. Indeed, any inflationary pulse is likely to be muted by softer aggregate demand. The experience of Trump's first regime showed the early lift in inflation had more to do with the doubling of oil prices and the income and company tax cuts. When aggregate demand slowed, so too did US inflation. There was no tariff-related inflation lift elsewhere in the world.

The US economy is currently tracking at a 3.1% growth. The US Federal Reserve has reduced cash rates by 100 basis points and is likely most of the way through an easing cycle – but not finished yet. The recent surge in long-dated bonds, related to inflationary fears, has the effect of a tightening in financial conditions. Coupled with the uncertainty caused by shifting trade policy, we expect this to dampen sentiment. Weaker consumer spending and business activity is suggesting annualized US GDP will fall to 1.5%.

Australian economic conditions in aggregate remain somewhat anemic, and uneven across sectors and household types. Despite a boost in household income via the Stage 3 tax cuts, there was little lift in consumer spending in the second half of 2024. Dwelling investment posted a decline in the December quarter (-0.4%). There were falls in both new construction (-0.1%) and alterations and additions (-0.9%).

Public sector demand is the key driver of any growth being generated. Without it, Australia would have been in recession. The lift in public recurrent expenditure has been quite extraordinary over an extended period. During the December quarter, it increased by 0.7% and 5.1% over the year. Driven by state capex in transport, roads, water, and renewable electricity infrastructure, public investment has lifted a whopping 8.1% over the year.

The labour market has seen 394,000 new jobs this calendar year, almost all from the public sector and public investment. Unemployment has fallen over the last six months to 3.9%. In terms of the "full employment" component of the RBA mandate, monetary policy is not so tight that labour market conditions are threatened. However, the RBA appears a little concerned that outside of government-related jobs, private-sector

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

ALTIVUS
ASSET MANAGEMENT

Powered by
**Australian
Ethical**



job growth is essentially zero.

Inflation gains have allowed the first interest rate reduction by the RBA. The six-month annualized trimmed mean inflation rate is 2.6%. Headline inflation is below 2%. These inflation outcomes point to a sustained return to the RBA's target band. The RBA is likely to ease a further 0.25% after the next quarterly CPI release. With global growth likely to slow, the RBA could reasonably be expected to cut cash rates by an additional 50 to 75 basis points.

The recent lift in Australian longer-dated bond yields has not been related to inflation expectations. Indeed implied inflation has fallen. Rather, it has been driven by market risk premium associated with US trade policy, and central banks unwinding of central bank QE programs and FX reserve activities. Australia's term premium is standing out in historical terms and versus peers.

Across the yield curve, Australia's real interest rates are above 2.2%. These are decade or multi-decade highs. The range on Australian long-dated bonds is expected to oscillate around a midpoint in 10-year Australian sovereign bonds of 4.0% over the medium term, with 4.20% over shorter horizons.

The portfolio strategy is to actively manage duration settings; incrementally increasing long bond exposure above this point and vice versa.

Ten-year Australian sovereign yields, currently around 4.40% versus expectation, imply the expectation of capital gains over time, and further advantage of roll down, given the relatively steep nominal curve. Short-dated bonds have, as expected, outperformed cash. The portfolio has substituted the overweigh in short-dated bonds into longer-dated bonds.

Sector Profile as at 28 February 2025

Asset Class	Portfolio %	Benchmark %
Supranationals	12.22	7.51
Industrials	18.56	5.20
Financials	15.55	4.64
Asset Backed	3.85	0.00
Agencies	9.84	1.56
11AM	2.27	0.00
Cash at Bank	0.12	0.00
Sovereigns	7.69	48.19
Semi Government	29.90	32.91

Ratings Exposure

Rating	Portfolio %	Benchmark %
A	13.07	3.11
AA	47.10	34.08
AAA	32.55	59.62
BBB	7.28	3.19

Interest Rate Profile

Term	Portfolio %	Benchmark %
0 - 1 Year	11.93	9.33
1 - 3 Years	20.59	20.41
3 - 5 Years	17.85	22.07
5 - 7 Year	13.59	16.46
7+ Years	36.04	31.73

Top 10 Holdings

Issuer	Portfolio %	Benchmark %
New South Wales Treasury Corp.	12.27	9.00
Treasury Corporation of Victoria	7.83	9.37
Government of Australia	7.69	48.16
Queensland Treasury Corp.	7.37	7.06
Commonwealth Bank of Australia	6.00	0.43
Housing Australia	5.96	0.15
NBN Co Limited	5.05	0.31
Woolworths Group Limited	3.77	0.19
Bank Australia Limited	3.77	0.00
Transpower New Zealand Limited	3.51	0.03

Portfolio Summary Statistics

	Portfolio %	Benchmark %
Yield to maturity (%)	4.38	4.27
Running yield (%)	3.65	
Modified duration (years)	4.60	4.82

Fund snapshot

APIR code	AUS0084AU
Inception date	18 Jun 2020
Distribution frequency	Quarterly
Minimum initial investment	\$100,000
Fund size (net asset value)	\$160.55m
Management fee*	0.30% p.a. expressed as a percentage of the net asset value of the Fund
Buy/Sell spread	0.05%/0.05%
Advice fee	

*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.

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

ALTIVUS
ASSET MANAGEMENT

Powered by
**Australian
Ethical**



Important Information

The Altius business is now owned by Australian Ethical, however Australian Unity provides transitional support services to Australian Ethical for Altius investors and advisers. For more information on the Altius Sustainable Short Term Income Fund, please contact your financial adviser or our Investor Services Team.

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 Altius Sustainable Short Term 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.

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

ALTÍUS
ASSET MANAGEMENT

Powered by
**Australian
Ethical**

