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ARTESIAN GREEN AND SUSTAINABLE BOND FUND (NZD)

MONTHLY REPORT: SEPTEMBER 2024

ABOUT THE FUND

The Artesian Green and Sustainable Bond Fund (NZD) offers New Zealand-based investors a Portfolio Investment Entity (PIE) vehicle through which to invest in the Artesian Green & Sustainable Bond Fund (AUD). Through this structure, the Fund will invest in a diversified portfolio of liquid, predominately investment grade fixed and floating rate green and sustainable corporate bonds. Artesian are committed to integrating ESG into their investment processes, with a focus on responsible investing. Artesian has managed specialised funds focused on credit arbitrage and relative-value strategies across global financial markets since 2004 from its New York, London, Singapore, Shanghai, Melbourne and Sydney offices.

In this document, we refer to the Artesian Green & Sustainable Bond Fund (AUD) as the Underlying Fund. In most sections of this document, the metrics and commentary shown are taken from the Underlying Fund. We have signalled these sections with a hashtag in the section heading. From time to time there may be small differences between the metrics of the NZD Fund and the Underlying Fund, as a result of liquidity cash held in the NZD fund.

PERFORMANCE	1 Mth	3 Mth	1 Yr	Since Inception
Artesian Green & Sustainable Bond Fund (NZD)*	0.54%	2.80%	7.01%	8.58%
Artesian Green & Sustainable Bond Fund PIR Return (NZD)**	0.54%	2.97%	7.44%	9.01%
Bloomberg AusBond Composite 0-5 Yr Index 100% Hedged to NZD	0.44%	2.78%	6.78%	8.27%

*Artesian Green & Sustainable Bond Fund (NZD) returns are after all fees and expenses, but before tax which varies by investor. Past performance should not be taken as an indicator of future performance. The inception date for Artesian Green and Sustainable Bond Fund (NZD) is 19 June 2023.

**Artesian Green & Sustainable Bond Fund (NZD) returns are after all fees and expenses, but before tax which varies by investor and inclusive of tax credits. The Fund invests in an underlying Australian Unit Trust (AUT) which is required to distribute all income. Tax on these distributions is withheld at fund level but investors receive a tax credit for this amount. As such, the Zero PIR return is a reasonable basis for comparing performance between the NZD Fund and its AUT alternative.

PERFORMANCE of the Underlying Fund#	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr	3 Yr	Since Inception (p.a.)
Gross Fund Return	0.50%	2.63%	3.33%	7.29%	5.97%	2.34%	2.57%
Net Fund Return	0.46%	2.50%	3.07%	6.76%	5.44%	1.83%	2.05%
Bloomberg AusBond Composite 0-5 Yr Index	0.39%	2.34%	2.41%	5.73%	4.26%	0.91%	0.77%
Active Return (net Fund return - benchmark)	0.07%	0.16%	0.67%	1.03%	1.18%	0.92%	1.29%

Past performance should not be taken as an indicator of future performance. Net of fees performance is based on end of month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions. Gross performance is the net return with fees and expenses added back. The inception date for the Artesian Green & Sustainable Bond Fund (AUD) is 25 September 2020.

PORTFOLIO UPDATE#

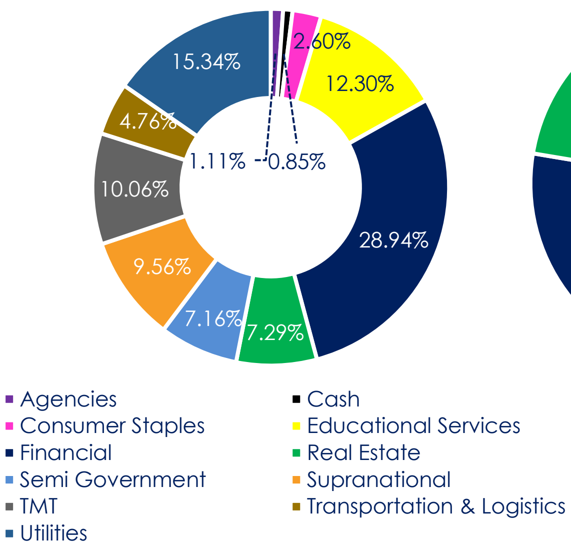
In September, the US Federal Reserve (Fed) delivered a widely expected 0.50% cut in their overnight cash rate to 4.75% to 5.00%. With the decision, came the first dissent from a board governor since 2005 as Michelle Bowman was in favour of a 0.25% cut. Government bond yields rose post the Fed move, which may seem counter intuitive given the 0.50% cut, but as Artesian have pointed out in previous commentary, yield curves have priced in substantial cuts already. Global stock markets continue to rise to record levels. In contrast, global geopolitical risks continue to escalate. A further rational explanation for the sanguine September, is that the major geopolitical and political risks are simply too difficult to quantify at the moment. However, what can be quantified is recent economic data and in particular the interest rate outlook and inflationary trends. Credit market conditions remain solid, supported by softening interest rates around the globe. Investment grade corporate bond credit spreads closed marginally tighter MoM by 1bp to 2bps.

The Underlying Fund outperformed its benchmark in September, due to the modest overweight in credit duration positioning. The Underlying Fund's interest rate duration sits in line with the benchmark, which was a positive contributor to September's returns as government bond yields rallied. The Underlying Fund's running yield of 4.51% versus the benchmark's 3.96%, was another positive contribution relative to benchmark.

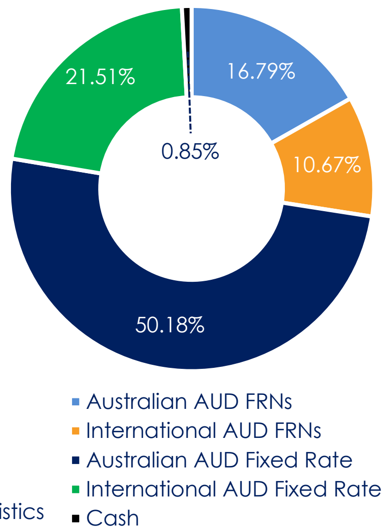
Outperformance in September came from the Underlying Fund's positions in NBN, Optus, SA Power Network, Mercury and Mirvac. Underperformance came from only two positions in September, they were La Trobe University and ANZ Banking Group.

PORTFOLIO BREAKDOWN#

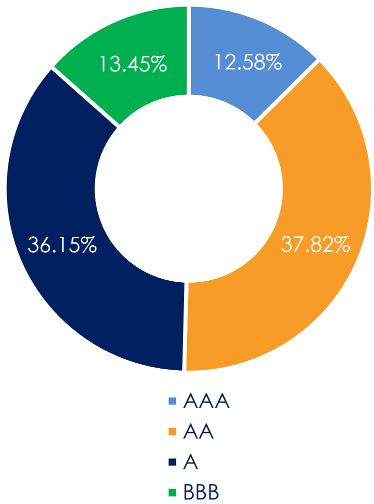
SECTOR BREAKDOWN



REGION & PRODUCT



CREDIT RATING



CREDIT SPREADS#

Corporate bond spreads were marginally tighter and credit indices were marginally wider MoM. The major story in relation to credit spreads was APRA indicating Tier 1 (T1) bank debt (hybrids) would be phased out from 2027 and replaced with current Tier 2 (T2) debt. Ratings agencies indicated there would likely be no effect on T2 ratings on larger banks and the subsequent reaction in spreads was muted. ANZ New Zealand issued a wholesale T1 security in September that performed very well, rallying 70bps from the new issue spread over the month. This may indicate that existing T1 spreads will converge to T2 spreads over time, particularly in times of credit strength. Conversely, there will also be times of divergence in T1 and T2 spreads when markets are challenged. The stability of bank spreads in the face of supply is a continuing theme, with Westpac bringing a 5yr issue at 85bps, which is the 6th major bank deal in 2024 which has been issued in the 80bps to 90bps range.

AS AT 30TH SEPTEMBER 2024	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.63%	0.02%
ITRAXX EUROPE 5YR	0.59%	0.06%
ITRAXX EUROPE XOVER 5YR	3.11%	0.22%
CDX US IG 5YR	0.53%	0.03%
CDX US HY 5YR	3.29%	0.07%

METRICS FOR THE UNDERLYING FUND#

Yields rallied steadily up to the Fed rate cut mid-month, but it was a case of buy the rumour sell the fact, as post the announcement rates receded back to September opening levels. The bond market will have difficulty pricing in much lower yields than present, until rate cuts delivered by the Fed achieve the desired effect and boost the economy. As indicated previously, there are now material cuts priced into the yield curve. As such, despite the latest Australian inflation (CPI) reading being slightly lower than expected, this had very little impact on government bond yields. The Underlying Fund's credit duration decreased marginally MoM and remains at a conservative level of 2.83yrs. The appetite for investment grade credit is robust, as real yields remain positive and compare well with alternative credit products. The underlying running yield of the Underlying Fund at 4.51% is well above the CPI at 2.70%.

AS AT 30TH SEPTEMBER 2024	FUND	BENCHMARK
INTEREST RATE DURATION	2.31	2.32
CREDIT DURATION	2.83	2.32
YIELD TO MATURITY	4.54%	3.96%
YIELD TO WORST	4.51%	3.96%
BLOOMBERG COMPOSITE RATING (weighted average)	A	AA+

**Using the Morningstar methodology for Average Credit Quality*

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After a busy month of AUD labelled bond issuance in August, in September there was just the one labelled bond issued by the Treasury Corporation of Victoria. It was an AUD 1.5b tap of their existing Jun-35 Sustainability Bond, taking the total volume of that line to AUD 10.03b. This month Artesian have highlighted NBN's green bond issued in August.

ISSUER	Bond Type	Issue Date	Issue Size $M	Fixed/ Floating	Maturity
NBN CO LTD	Green	20-Aug-24	750	Fixed	28-Aug-31

Issuer	nbn
Currency	AUD
Sector	Technology, media, and telecom (TMT)
SDG Alignment	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Eligible Projects	**Energy efficiency:** Deployment of Australia's broadband network, using a more energy-efficient technology such as a fixed line fibre optic connection instead of legacy technology (i.e. copper), to lift the digital capability of Australia. **Renewable energy**: Purchasing renewable electricity to power the NBN network and infrastructure in line with their RE100 Commitment.

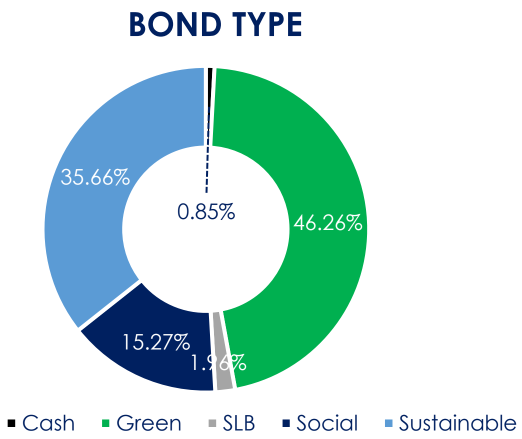
NBN released their first ever Sustainability Bond Framework to the market in February 2022. Since then, they have issued 3 green bonds in the AUD market and 4 green bonds in the EUR market. NBN are the largest Australian non-financial corporate issuer of labelled bonds in the market.

NBN also produce good quality annual impact reporting. In relation to this green bond issue, they are planning to disclose environmental impact metrics such as;

1) Energy intensity
2) Emissions intensity.

This will be published in their Sustainability Bond Report subject to the availability of information and confidentiality requirements.

GREEN, SUSTAINABLE AND SOCIAL HOLDINGS#



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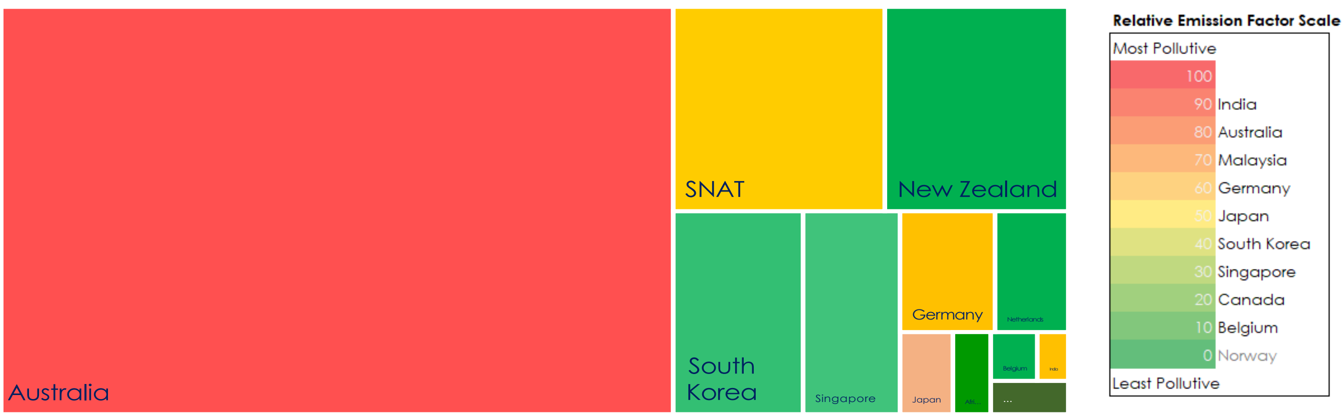
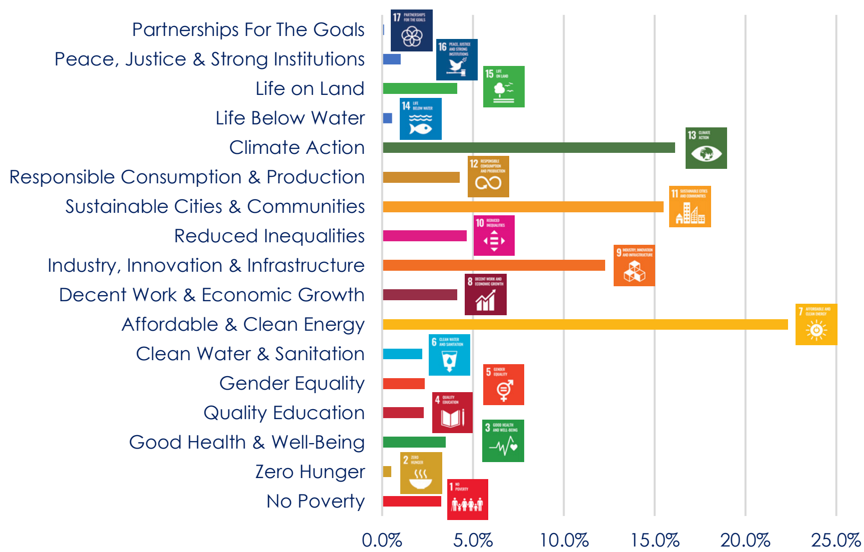
ALLOCATION OF FUNDS IN THE UNDERLYING FUND#



Source: Artesian, EIB; Relative Emission Factor is measured across 43 countries/regions; Oct 2022

The heatmap above shows which countries the Underlying Fund is allocating capital to, to improve the global green economy. The Relative Emission Factor Scale shows how dirty the energy grid of each country is. It is a normalised scale of the baseline emission factor for electricity generation across 43 major countries - how much gCO2e/kWh is emitted. In essence, the more green capital investors can channel to higher pollutive countries, the higher the impact per dollar.

SUSTAINABLE DEVELOPMENT GOALS#



The Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including poverty, inequality, climate change, environmental degradation, peace and justice. When mapping the SDG's per bond held in the Underlying Fund, Artesian take a conservative approach. If one bond targets more than one SDG, then the allocation is split evenly between the SDGs and then portfolio weighted. Unsurprisingly, the Underlying Fund is most aligned with Clean Energy, Climate Action and Sustainable Cities, making up 53% of the Underlying Fund's targeted SDGs. The Underlying Fund currently supports 17 of the 17 SDGs.

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NOTES

The impact metrics published in this document reflect the proprietary methodology developed by Artesian for the collection, evaluation, calculation and harmonization of thematic ESG indicators that are aligned with United Nations Sustainable Development Goals. Actual data and estimated data are both analysed based on companies' disclosures including but not limited to "Use of Proceeds", "Impact Report" and "Second-party Verification", as well as engagement with the companies themselves.

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