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## ARTESIAN GREEN AND SUSTAINABLE BOND FUND (NZD)

MONTHLY REPORT: JULY 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)*	1.49%	2.41%	6.38%	7.20%
Artesian Green & Sustainable Bond Fund PIR Return (NZD)**	1.65%	2.57%	6.79%	7.62%
Bloomberg AusBond Composite 0-5 Yr Index 100% Hedged to NZD	1.46%	2.17%	5.99%	6.89%

\*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	1.33%	2.50%	2.87%	6.59%	4.83%	1.86%	2.35%
Net Fund Return	1.29%	2.37%	2.61%	6.06%	4.31%	1.35%	1.83%
Bloomberg AusBond Composite 0-5 Yr Index	1.13%	1.90%	1.82%	4.81%	2.80%	0.44%	0.49%
Active Return (net Fund return - benchmark)	0.16%	0.47%	0.80%	1.25%	1.51%	0.91%	1.34%

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#

There was a pickup in volatility in July as investors digested falling inflation, escalating geopolitical risks, the US presidential election and the latest company earnings announcements. With US inflation and employment data both coming in weaker than expected in July, the Federal Reserve look set to start cutting interest rates at their next meeting in September. In Australia, Artesian saw a meaningful market reaction to the latest inflation data, largely driven by the CPI Weighted Median QoQ coming in at 0.8% versus expectations of 1.0%. A lot of market commentators were calling for interest rate hikes before the latest CPI data, post the announcement a lot are now calling for cuts. With inflation at 3.80%, it is still well above the RBA's target range of 2%-3%, however, the trend is your friend, and the RBA would have been pleased with the recent data. Artesian still assign a very small probability to any change in the cash rate in 2024 though, 2025 will hopefully deliver borrowers some much needed relief.

The Underlying Fund's outperformance versus benchmark in July was driven by the overweight credit duration positioning (credit spreads were lower/tighter) and overweight interest rate duration positioning (interest rates were lower/tighter). The Underlying Fund's running yield of 4.74% versus the benchmark's 4.16%, also contributed to the monthly outperformance.

Outperformance in July came from the Underlying Fund's positions in Contact Energy (Green), Australian Postal Corporation (Sustainable), ETSA Utilities Finance (Green) and Mercury (Green). Small underperformance in July came from Mitsubishi UFJ (Green), Macquarie University (Sustainable) and Housing Australia (Sustainable).

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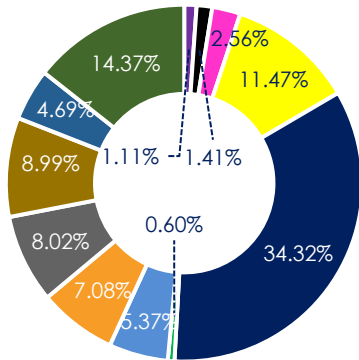
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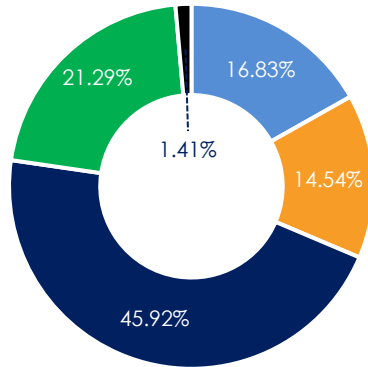
## PORTFOLIO BREAKDOWN#

### SECTOR BREAKDOWN



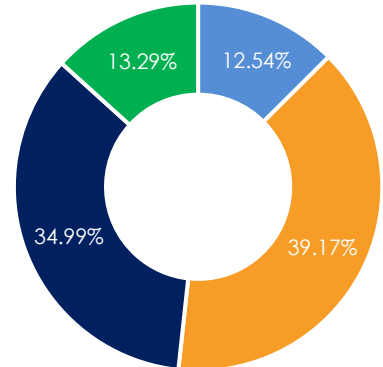
- Agencies
- Consumer Staples
- Financial
- Real Estate
- Supranational
- Transportation & Logistics
- Cash
- Educational Services
- Government
- Semi Government
- TMT
- Utilities

### REGION & PRODUCT



- Australian AUD FRNs
- International AUD FRNs
- Australian AUD Fixed Rate
- International AUD Fixed Rate
- Cash

### CREDIT RATING



- AAA
- AA
- A
- BBB

## CREDIT SPREADS#

Credit spreads tightened throughout July and largely reversed the widening Artesian witnessed in June. There was mixed performance from the subordinated Tier 2 sector. Banco Santander issued a floating rate and fixed rate 10yr deal with a 5yr call for total volume of AUD 600m, those bonds rallied 14bps-19bps respectively. However, ANZ also issued a Tier 2 deal which was a 15yr bond with a 10yr call which performed poorly. They issued AUD 1.9b which for that debt type and duration was too much for the market and Artesian saw immediate selling in secondary markets by fast money accounts in Asia. This put some pressure on the entire Tier 2 sector and until those bonds clear dealers' inventory lists, the market is likely to trade a bit wider in Tier 2. The 3yr to 5yr part of the curve outperformed the front end and long end, which suited the Underlying Fund's overweight positioning to these maturities.

AS AT 31 <sup>ST</sup> JULY 2024	PRICE	CHG ON MTH
ITRAXX AUSTRALIA 5YR	0.65%	-0.05%
ITRAXX EUROPE 5YR	0.55%	-0.06%
ITRAXX EUROPE XOVER 5YR	2.95%	-0.24%
CDX US IG 5YR	0.52%	-0.02%
CDX US HY 5YR	3.31%	-0.13%

## METRICS FOR THE UNDERLYING FUND#

Australian Government bond yields had been drifting lower throughout July. That was until the last day of trading for the month, when the inflation data was announced and the move lower in yields accelerated significantly. This resulted in 3yr yields finishing 37bps lower MoM at 3.73%. Considering Artesian had been lengthening the Underlying Fund's interest rate duration (IRD) longer than benchmark since March, Artesian took advantage of the rally in July and reduced the IRD by 0.7yrs to 2.04yrs. The Underlying Fund's credit duration remains 0.32yrs above benchmark. 3-month BBSW peaked at its highest level in +10 years on July 30th at 4.49%, which bodes well for the Underlying Fund's floating rate notes. However, due to the lower outright yields across the fixed rate bond curve, the Underlying Fund's running yield fell by 34bps to 4.74%.

AS AT 31 <sup>ST</sup> JULY 2024	FUND	BENCH-MARK
INTEREST RATE DURATION	2.04	2.42
CREDIT DURATION	2.74	2.42
YIELD TO MATURITY	4.79%	4.16%
YIELD TO WORST	4.74%	4.16%
BLOOMBERG COMPOSITE RATING (weighted average)	A	AA+

\*Using the Morningstar methodology for Average Credit Quality

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Just the one new labelled bond issued in the AUD market in July, which was a green bond issued by The Canada Pension Plan Investment Board (CPPIB). The Underlying Fund did not participate in CPPIB deal, however Artesian did purchase more of the below bond issued by La Trobe University.

ISSUER	Bond Type	Issue Date	Issue Size \$M	Fixed/Floating	Maturity
LA TROBE UNIVERSITY	Green	31-July-23	175	Fixed	8-Aug-30

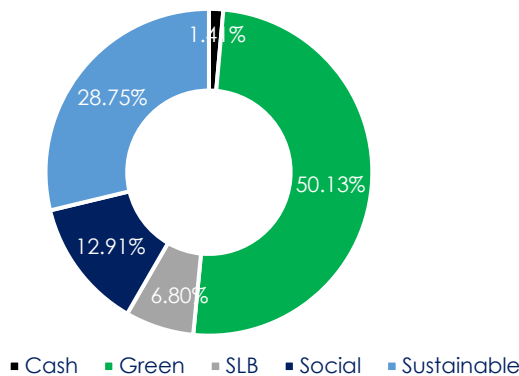
Issuer	LA TROBE UNIVERSITY
Currency	AUD
Sector	Educational Services
SDG Alignment	
Eligible Projects	<p>Eligible green projects must contribute to environmental objectives such as;</p> <ul style="list-style-type: none"> <li>• Green buildings</li> <li>• Renewable energy</li> <li>• Energy efficiency</li> <li>• Clean transportation</li> <li>• Pollution prevention and control</li> <li>• Sustainable water and waste management</li> <li>• Terrestrial and aquatic biodiversity conversation</li> </ul>

La Trobe University (LTU) is a public research university located in Melbourne, Australia. In July 2023, the university priced its inaugural AUD \$175m Green Bond. In July 2023, LTU launched their Sustainable Financing Framework to ensure that their funding strategy is fully aligned with their sustainability objectives. Independent verification has been undertaken by DNV.

The net proceeds from the LTU Green Bond will be used to finance or refinance new or existing Eligible Green Project Categories as set out in the LTU Sustainability Financing Framework. LTU has also declared that the eligible green assets are not double counted through allocation to other certified bonds, such as their Social Bonds.

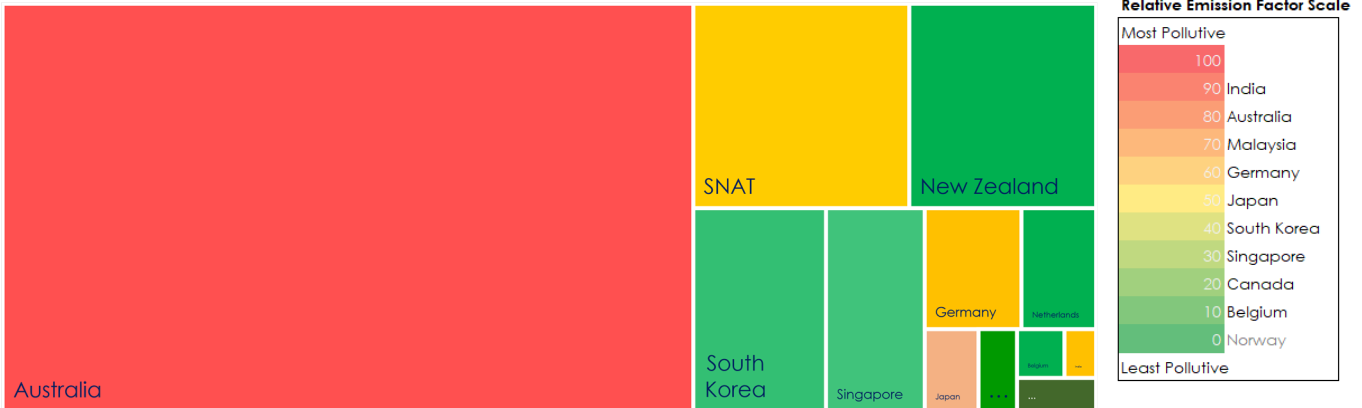
## GREEN, SUSTAINABLE AND SOCIAL HOLDINGS#

BOND TYPE





## 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 gCO<sub>2</sub>e/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 takes 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 55% of the Underlying Fund's targeted SDGs. The Fund currently supports 17 of the 17 SDGs.



## 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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