

Colonial First State Wholesale Indexed Australian Bond Fund

For Adviser use only

Portfolio Description

The fund invests in a wide range of Australian bonds issued by the Commonwealth Government, State Governments, supranational entities and corporates.

Investment Strategy

The fund is passively managed and holdings closely replicate those of the benchmark. Accordingly, activity in the portfolio is limited to index rebalancing and the reinvestment of coupons and maturities.

Investment Objective

To closely track the returns of the Bloomberg AusBond Composite O+Yr Index over rolling one-year periods (before fees and taxes and assuming income is reinvested)

Key Investment Personnel and Experience (Industry / Firm)

Stephen Cooper	Head of Australian Fixed Income	(1995 / 2013)
Darja Milosevic	Portfolio Manager	(2000 / 2007)

Product Overview

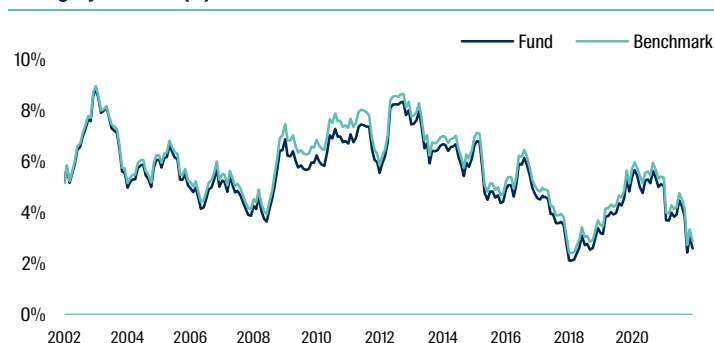
APIR code	CMI0102AU
Inception date	31 January 1999
Fund Size (AS)	5,034 million
Benchmark	Bloomberg AusBond Composite O+ Yr Index
Number of stock holdings	654
Buy / Sell spread	0.10% / 0.10%
Minimum investment (AS)	5,000
Management cost (p.a.)*	0.31%

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

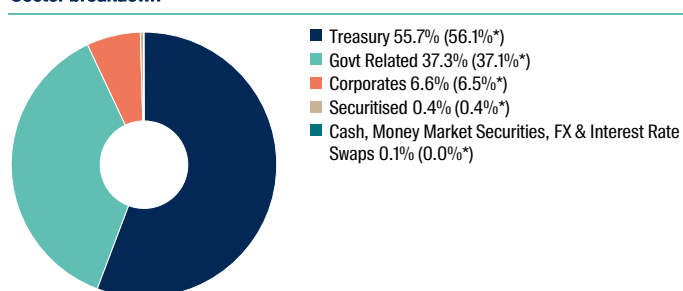
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-1.5	-3.1	2.6	3.1	2.9	3.9	5.0
Benchmark return	-1.5	-2.9	2.9	3.4	3.2	4.2	5.3
Excess net return	0.0	-0.2	-0.3	-0.3	-0.3	-0.3	-0.3
Income return	0.4	1.6	3.2	3.1	3.5	3.8	5.0
Growth return	-1.9	-4.7	-0.6	0.0	-0.6	0.0	0.0

Rolling 3 year return (%)



Sector breakdown



*Benchmark weight

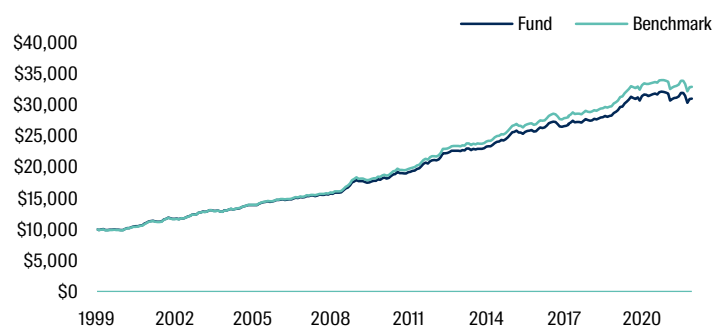
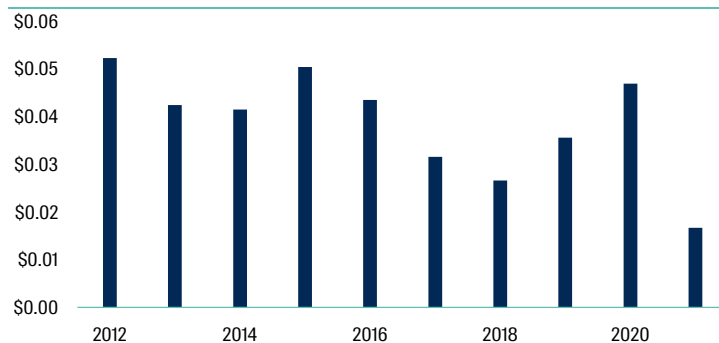
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	6.0	4.4	3.7	3.5	3.3	3.1
Benchmark standard deviation (%)	6.0	4.4	3.7	3.5	3.3	3.1
Tracking error (%)	0.1	0.3	0.3	0.2	0.2	0.2
Fund Sharpe ratio	-0.5	0.5	0.5	0.4	0.6	0.4
Information ratio	-2.5	-0.8	-1.1	-1.4	-1.7	-1.4
Beta	1.0	1.0	1.0	1.0	1.0	1.0

Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over the past five years.

Fund active sector positions (%)



Growth of AUD 10,000 Investment Since Inception**Distributions**

Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

Data source: First Sentier Investors 2021

Data as at: 31 December 2021

Fund Performance

Rising government bond yields were a headwind for performance and resulted in the Fund declining in value by 1.5% during the quarter. Reported returns were in line with the benchmark Bloomberg AusBond Composite O+ Yr Index. The product is designed so that returns should always remain close to those of the benchmark.

Market Review

At the start of October, consensus forecasts suggested official interest rates in Australia would be raised in late-2022. During the quarter, the expected timing of the first rate hike was brought forward. These evolving expectations had meaningful implications for yields. Ten-year Commonwealth Government Bond yields rose 18 bps over the period, which hampered returns from the local fixed income market.

The most dramatic price action was seen at the front end of the curve – yields on 3-year securities nearly trebled, from 0.31% at the start of October to 0.91% by the end of December. This reflected the Reserve Bank of Australia's decision to abandon its previous 0.10% yield target on 3-year government bonds. Other expansionary policy settings have been wound back too – policymakers have started the process of withdrawing Australia's quantitative easing program, reducing the amount of bonds purchased to \$4 billion per week, from \$5 billion previously. This program is expected to be terminated completely within the next few months, depending on the outlook for GDP growth, employment and inflation. The asset purchase program has meaningfully changed the supply/demand dynamic in the bond market over the past two years or so and it will be interesting to see how yields behave when this very large, price insensitive buyer withdraws from the market.

Fund Activity

The Fund is passively managed and holdings closely replicate those of the benchmark. Accordingly, Fund activity is limited to index rebalancing and the reinvestment of coupons and maturities.

Market Outlook

Reserve Bank of Australia officials have made it clear they are watching employment and inflation trends to gauge the magnitude of the anticipated improvement in activity levels. Unemployment is within a whisker of its lowest level since the Global Financial Crisis more than a decade ago. It remains to be seen how low it can go, and whether labour shortages in some areas – partly due to a temporary lack of immigrant skilled labour owing to border closures – will result in more meaningful wage pressure this year and beyond. If so, it is plausible that inflation could rise further. For now, underlying inflation remains close to the lower end of the Reserve Bank of Australia's target range, suggesting there is no pressure on officials to amend policy settings.

Against this background, local bond yields could remain range bound in a relative sense, with outright yield direction being driven by offshore influences rather than developments closer to home.

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