

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

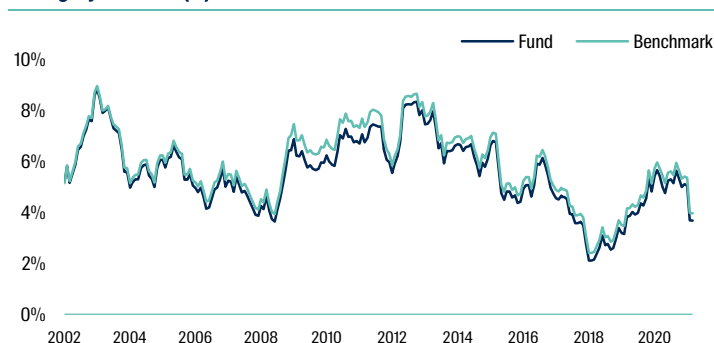
APIR code	CMI0102AU
Inception date	31 January 1999
Fund Size (AS)	4,642 million
Benchmark	Bloomberg AusBond Composite O+ Yr Index
Number of stock holdings	635
Buy / Sell spread	0.10% / 0.10%
Minimum investment (AS)	5,000
Management cost (p.a.)*	0.31%

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

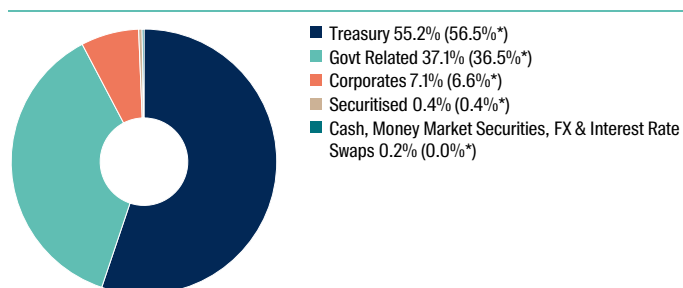
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-3.3	-2.1	3.7	3.2	4.0	4.7	5.2
Benchmark return	-3.2	-1.8	4.0	3.5	4.3	5.0	5.5
Excess net return	0.0	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Income return	0.7	3.9	3.6	3.5	3.8	4.2	5.1
Growth return	-3.9	-6.0	0.1	-0.4	0.2	0.5	0.1

Rolling 3 year return (%)



Sector breakdown



*Benchmark weight

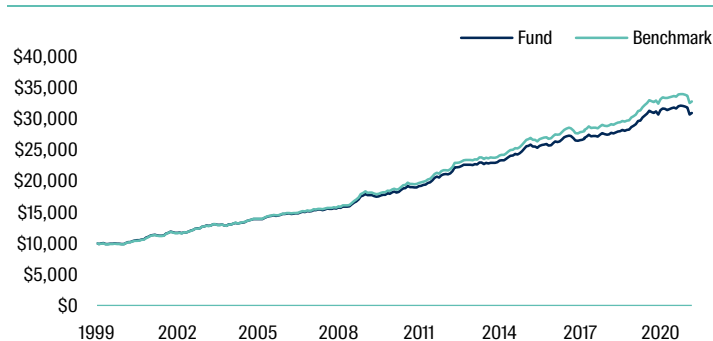
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	4.0	3.6	3.2	3.1	3.0	3.0
Benchmark standard deviation (%)	3.9	3.5	3.2	3.1	3.0	3.0
Tracking error (%)	0.6	0.3	0.3	0.2	0.2	0.2
Fund Sharpe ratio	-0.6	0.7	0.5	0.7	0.8	0.5
Information ratio	-0.5	-0.9	-1.2	-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 March 2021

Fund Performance

Rising government bond yields acted as a headwind for the Australian fixed income market, and resulted in negative returns from the portfolio. The Fund returned -3.3%, which was broadly in line with the benchmark Bloomberg AusBond Composite 0+ Yr Index. The Fund is designed so that returns should always remain close to those of the benchmark.

Market Review

Australian government bond yields soared in the March quarter, consistent with moves offshore. The yield on 10-year Commonwealth Government securities climbed 82 bps, to 1.79%.

Reserve Bank of Australia officials have reiterated their intention to keep official interest rates unchanged at 0.10% until 2024, at the earliest. Nonetheless, investors have started to price in the possibility of official interest rates being raised earlier. This reflects anticipation that the rebound in the local economy following the Covid vaccination program will result in higher inflation. For now, CPI remains well below the 2% to 3% target range, but it could be pushed higher if recent consumption trends continue.

On the data front, Australian GDP rose 3.1% in the three months ending 31 December 2020, which was comfortably ahead of consensus forecasts. The local economy remains slightly smaller than before the pandemic, but appears to be on track to have regained all of its lost ground in the next few months. For now, the recovery is outpacing that in most other major economies and is helping support both business and consumer confidence.

Employment indicators are also encouraging. The most recent statistics saw the Australian unemployment rate drop sharply – and by much more than expected – to 5.8%, from 6.3% previously. This headline figure compares with the Reserve Bank of Australia's end-2021 forecast of 6.0%, and suggests there could be some upside risk to the official growth outlook if the recent strength in employment persists.

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

The next few months will be an interesting time to monitor consumption trends and, in turn, the prospect of an acceleration in inflation. Retail sales and other discretionary expenditure have picked up in Australia and New Zealand in recent months, as restrictions have been eased. It seems reasonable to assume we will see similar consumer behaviour offshore, as pent-up demand translates into higher consumption.

If inflation increases meaningfully, there could be increasing pressure on central bank officials to review policy settings. For now, commentary suggests the current accommodative settings will persist for the next two or three years; at least in Australia, Europe and the US. Expectations of persistently low official interest rates are keeping bond yields artificially low at the front end of the curve. It seems likely we will see some upward pressure on shorter-dated yields over time, but the timing remains unknown. Therein lies the problem for investors and asset allocators. Ultimately, expectations of a normalisation in risk-free rates will force investors to recalibrate return expectations in all asset classes, and could have broader implications for portfolio construction.

For now, we still do not know how the anticipated economic recovery will play out. This suggests volatility in bonds and growth assets could persist in the months ahead. There could also be varying returns geographically. Countries are unlikely to lift social distancing restrictions at the same time, and the economic and inflation outlook could therefore differ regionally.

www.firstsentierinvestors.com.au

For further information

Head of Investment Sales and Key Accounts Chris King	+61 2 9010 5249	Business Development Manager - VIC/TAS Jack Heinz	+61 3 9225 5056
Key Account Manager - NSW Angela Vincent	+61 2 9010 5230	Key Account Manager - QLD Quin Smith	+61 4 5509 5505
Paul Sleiman	+61 2 9010 5393	Business Development Manager – QLD Julie Day	+61 4 6641 3176
Business Development Manager – NSW Justin Sultana	+61 2 9010 5326	Key Account Manager - WA/SA/NT Nathan Robinson	+61 4 0327 2440
Key Account Manager - VIC/TAS Nicholas Everitt	+61 3 9225 5055		

This report has been prepared by and is issued by First Sentier Investors (Australia) IM Ltd (ABN 89 114 194 311, AFSL 289017) (**FSI AIM**) which forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (**MUFG**).

It is directed at persons who are professional, sophisticated or wholesale clients and has not been prepared for and is not intended for persons who are retail clients and must not be reproduced or transmitted in any form without the prior written consent of FSI AIM. A copy of the Financial Services Guide for FSI AIM is available from First Sentier Investors on its website.

This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision, you should consider whether this information is appropriate in light of your investment needs, objectives and financial situation. Total returns shown for the Fund or any Portfolio have been calculated using exit prices after taking into account all ongoing fees and assuming reinvestment of distributions. Past performance is no indication of future performance.

The product disclosure statement (**PDS**) and Information Memorandum (**IM**) for the Colonial First State Wholesale Indexed Australian Bond Fund, ARSN 091 476 185 (**Fund**) issued by Colonial First State Investments Limited (ABN 98 002 348 352, AFSL 232468) (**CFSIL**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website.

CFSIL is a subsidiary of the Commonwealth Bank of Australia (**Bank**). The Bank, MUFG and subsidiaries thereof do not guarantee the performance of the Fund or the repayment of capital by the Fund. Investments in the Fund are not deposits or other liabilities of MUFG, the Bank or their respective subsidiaries, and investment-type products are subject to investment risk including loss of income and capital invested. First Sentier Investors was acquired by MUFG on 2 August 2019 and is now financially and legally independent from the Bank.

To the extent permitted by law, no liability is accepted by the Bank, MUFG or any affiliates thereof for any loss or damage as a result of any reliance on this information. This information is, or is based upon, information that we believe to be accurate and reliable, however neither the Bank, MUFG nor any affiliates thereof offer any warranty that it contains no factual errors. Any opinions expressed in this material are the opinions of FSI AIM at the time of publication only. Such opinions are subject to change without notice.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2021

All rights reserved.