

# First Sentier Global Credit Income Fund



**First Sentier**  
Investors

Formerly the First Sentier Global Credit Fund

## Quarterly Factsheet

30 June 2023

For Adviser use only

### Portfolio Description

The Fund is suitable for investors seeking to invest in a diversified portfolio of higher yielding Australian and international fixed interest investments.

### Investment Strategy

The Fund's strategy is to invest directly or indirectly in a portfolio of predominantly global credit investments. The Fund aims to deliver an income return from its investments. The Fund aims to control risk through the Investment Manager's investment selection and monitoring, combined with broad diversification. Generally, the increased credit risk of credit securities means that these investments have the potential to deliver higher returns over the medium term compared to cash. Responsible investment considerations form an important component of the research and investment processes. ESG risks and how they are being managed by issuers help influence the assignment of internal credit ratings, which in turn drive portfolio construction decisions. Derivatives may be used for risk management, return enhancement or hedging purposes. The Fund aims to hedge currency exposure.

### Investment Objective

The Fund aims to provide income-based returns and to outperform the Bloomberg AusBond Bank Bill Index over rolling three-year periods before fees and taxes by investing in a diversified portfolio of Australian and international fixed interest investments.

### Key Investment Personnel and Experience (Industry / Firm)

Tony Togher	Head of Fixed Income & Credit	(1983 / 1988)
Craig Morabito	Senior Portfolio Manager	(2003 / 2005)
Ben Samuel	Portfolio Manager	(2008 / 2015)

### Product Overview

APIR code	FSF0083AU
Inception date	04 January 2002
Benchmark**	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	20,000
Management fees and costs (p.a.)*	0.40%

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

### Portfolio Overview

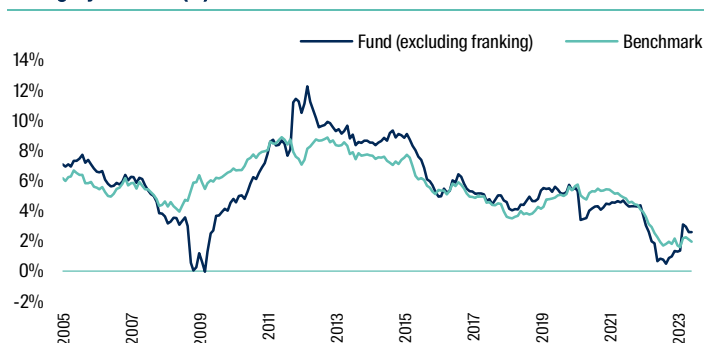
Fund Size (A\$)	29 million
No. of Issuers	468
Largest Issuer	0.99%
Running Yield	6.03%
Yield to Maturity	6.01%
Interest Rate Duration	0.60 years
Credit Spread Duration	4.13 years

### Performance Summary (%)

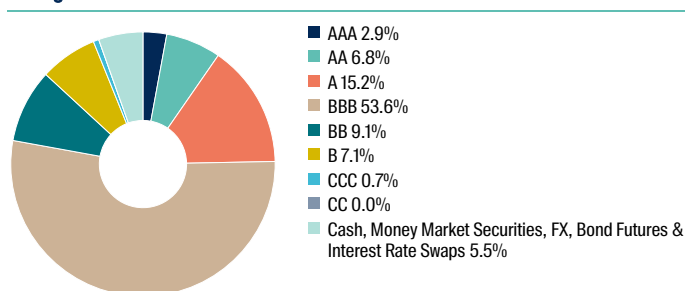
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.7	6.9	2.6	3.2	3.6	4.3	5.5
Benchmark return	0.9	2.9	2.0	3.5	3.4	4.2	5.5
Excess net return	0.8	4.0	0.6	-0.3	0.2	0.2	0.0
Income return	1.7	2.3	3.1	3.5	5.9	6.0	6.2
Growth return	0.0	4.6	-0.5	-0.3	-2.3	-1.7	-0.7

Past performance is not a reliable indicator of future performance.

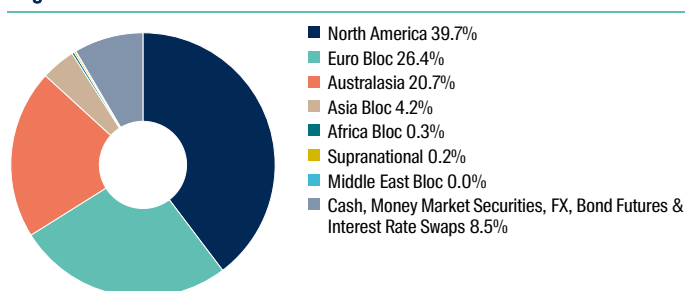
### Rolling 3 year return (%)



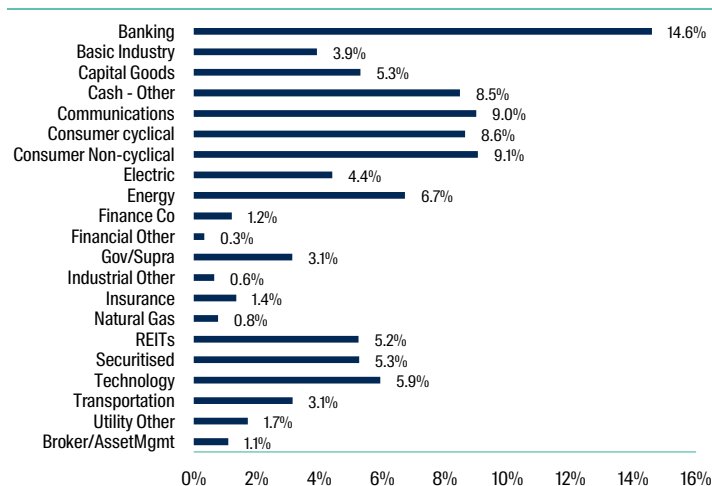
### Rating Breakdown



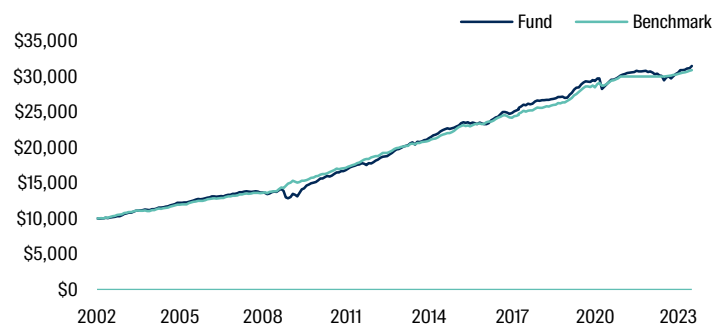
### Regional Breakdown



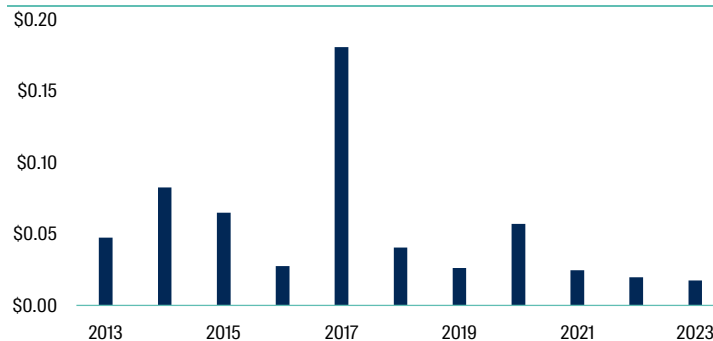
### Sector Breakdown



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



**Distributions**



**Risk Characteristics**

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	2.1	2.4	3.3	3.0	2.8	3.3
Benchmark standard deviation (%)	0.2	0.8	1.7	1.7	1.7	1.9
Tracking error (%)	2.1	2.1	2.5	2.2	2.1	3.0
Fund Sharpe ratio	1.9	0.7	0.6	0.8	0.9	0.6
Information ratio	1.9	0.3	-0.1	0.1	0.1	0.0

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 2023 Data as at: 30 June 2023

**Fund Performance**

Credit spreads narrowed meaningfully in the June quarter, which supported favourable returns from the asset class. The Fund appreciated by 1.7% during the period, after fees.

Active management of the portfolio – during what was a fairly volatile period for investment markets – helped preserve capital and generate pleasing returns for unit holders. Fund returns were 0.8% above the bank bill benchmark over the quarter and 4.0% ahead in the FY23 year as a whole. These outcomes helped preserve the Fund’s favourable long-term performance track record.

**Market Review**

Investment markets calmed during the quarter, following a period of heightened volatility in March when banking failures in the US and Europe had shaken confidence. Overall there was increasing optimism that major economies might be able to avoid recessions this year, despite persistently high inflation and rising borrowing costs. This augurs well for company profitability and supported investor sentiment towards credit. Spreads narrowed in both the investment grade and high yield sub-sectors.

Corporate earnings announcements in the US and Europe were generally supportive during the period, with few firms disappointing relative to market expectations. With profitability holding up quite well and with balance sheets generally in good shape, most companies appear well placed to service their debt repayment obligations. That said, higher borrowing costs are starting to bite in some areas and an increase in defaults from very low levels is occurring.

**Fund Activity**

Overall, we are looking to capture attractive credit spreads while keeping duration low and therefore minimising the Fund’s sensitivity to changes in interest rates. Additionally, we continued to monitor macroeconomic developments as well as the performance of individual companies, amending portfolio positioning on an ongoing basis as relative valuations between individual securities moved.

Exposure to the REIT sector was increased towards the end of the period, for example. We view specific companies in this area of the market as being fairly stable, with current valuations that are appealing. We are also comfortable with the Fund’s current exposure to top-tier banks and added selectively to banking names during June. The sector remains cheap versus the broader market, in our view, and some issuers stand out from a valuation perspective given their individual risk profiles.

The portfolio remains very well diversified, currently holding exposure to nearly 440 issues across 28 countries. Maintaining such a high level of diversification mitigates risk, and should help ensure that any unexpected defaults do not have an out-sized influence on returns.

**Market Outlook**

Economic data remains reasonably supportive and there are few signs of an imminent recession in key regions. Employment trends remain resilient, suggesting major economies might be able to withstand the impacts of higher borrowing costs. More importantly from a credit perspective, corporate default rates have not yet risen above long-term averages. An increase in defaults from very low levels is occurring, however, and will be important for credit investors to monitor going forward. With that in mind, the overall portfolio is somewhat cautiously positioned currently. Material increases in interest rates in key regions over the past year or so are still filtering through the broader economy and seem almost certain to erode confidence levels and discretionary expenditure in the months ahead.

Investors will continue to scrutinise the latest economic data indicators and dissect the wording of central bank policy statements, for clues regarding possible changes in monetary policy settings. With inflation proving to be sticky in nature in most key regions, it seems likely that interest rates will remain elevated for a prolonged period. This prospect does not appear to have been fully reflected in credit valuations, in our view, and there could be some market volatility as investors consider the potential impacts of a ‘higher for longer’ interest rate environment.

Any bouts of volatility in credit markets could be exacerbated by the summer holiday season in the northern hemisphere. Trading volumes in credit markets typically moderate at this time of year, resulting in thinner market liquidity and, at times, some meaningful price swings. While unsettling, this kind of market environment can provide opportunities for active credit investors to exploit.

### RIAA Certification

The First Sentier Global Credit Income Fund has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See [www.responsibleinvestments.com.au](http://www.responsibleinvestments.com.au) for details.<sup>1</sup>

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

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\*\*The benchmark was changed from the Bloomberg AusBond Credit Index 0+Yr Index with effect from 1 January 2021. Longer-term benchmark performance outcomes are calculated by combining returns from the Bloomberg AusBond Credit Index 0+Yr index from inception until 31 December 2020 and returns from the Bloomberg AusBond Bank Bill Index thereafter. Past performance is not a reliable indicator of future performance.

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The product disclosure statement (**PDS**) or Information Memorandum (**IM**) (as applicable) for the First Sentier Global Credit Income Fund, ARSN 094 088 454 (**Fund**) issued by The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL 235150) (**Perpetual**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website. The target market determination (**TMD**) for the Fund is available from First Sentier Investors on its website and should be considered by prospective investors before any investment decision to ensure that investors form part of the target market.

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