

# First Sentier Wholesale Global Credit Income Fund

Formerly the Colonial First State Wholesale Global Credit Income Fund

## Quarterly Factsheet

31 March 2021

For Adviser use only

### Portfolio Description

The fund invests in a diversified portfolio of higher yielding Australian and international fixed interest investments.

### Investment Strategy

The fund invests in a portfolio of predominantly global credit securities. The fund's strategy is to earn an income return from its investments, controlling risk through careful selection and monitoring, combined with broad diversification. 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. Derivatives may be used for risk management or return enhancement. The fund aims to hedge currency exposure.

### Investment Objective

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 relatively higher yielding Australian and international fixed interest investments.

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

Tony Togher	Head of Fixed Income, Short Term Investments and Global Credit	(1983 / 1988)
Craig Morabito	Senior Portfolio Manager	(2003 / 2005)

### Product Overview

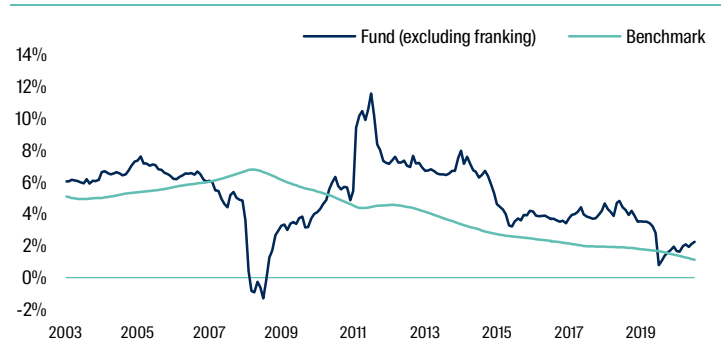
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	665 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	5,000
Management cost (p.a.)*	0.62%

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

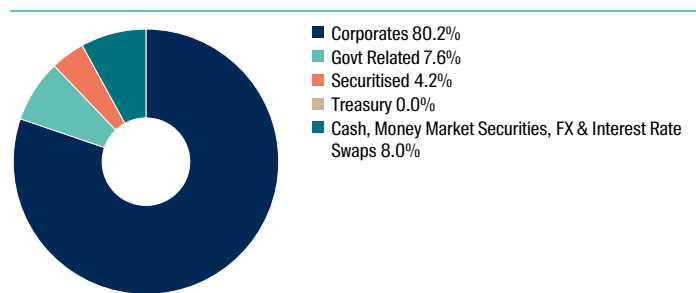
### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.9	8.2	2.2	3.5	3.1	4.1	4.9
Benchmark return	0.0	0.1	1.1	1.4	1.7	2.3	3.9
Excess net return	0.8	8.1	1.1	2.1	1.3	1.8	1.0
Income return	0.2	0.5	1.8	4.6	4.6	4.9	5.4
Growth return	0.7	7.7	0.5	-1.0	-1.5	-0.8	-0.4

### Rolling 3 year return (%)



### Sector breakdown

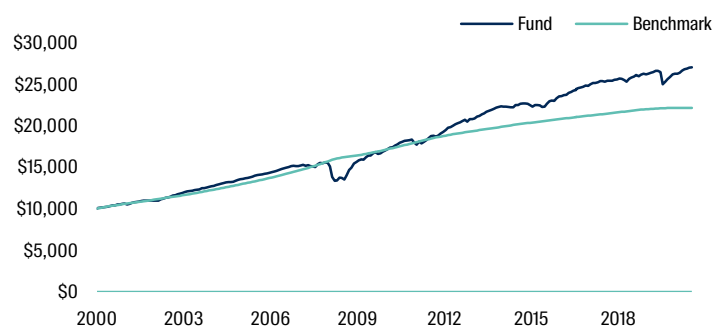
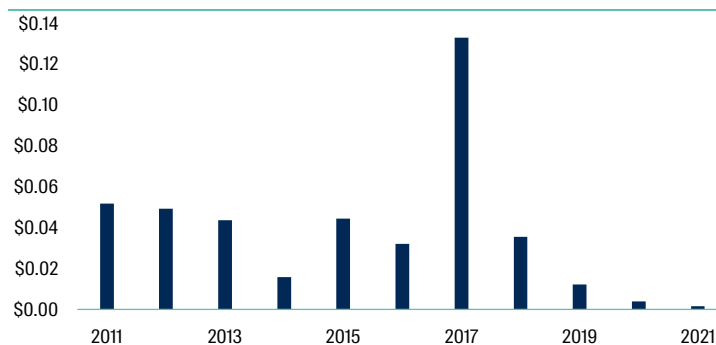


### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	1.5	3.8	3.1	2.8	2.9	3.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.4	0.6
Tracking error (%)	1.5	3.8	3.1	2.9	2.9	3.7
Fund Sharpe ratio	5.3	0.3	0.7	0.5	0.6	0.3
Information ratio	5.3	0.3	0.7	0.5	0.6	0.3

### 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**

Credit spreads fluctuated a little as confidence levels waxed and waned, but returns from the asset class were positive in the quarter as a whole. A modest narrowing in spreads, the receipt of coupon income and active management enabled the Fund to rise in value by 0.9% over the quarter, net of fees. The Bloomberg AusBond Bank Bill Index returned 0.00% over the period.

**Market Review**

Concerns about rising inflation did not appear to affect corporate bonds as much as some other asset classes. While government bonds sold off, credit spreads continued to grind tighter. The favourable move was seen in both the investment grade and high yield sub-sectors. Investment grade spreads ground 5 bps lower, to 0.95%, while high yield spreads fell by 23 bps, to 2.93%. There has been quite an extraordinary turnaround in sentiment; high yield spreads were close to 8% 12 months ago during the height of the Covid-related panic. Investors' healthy risk appetite has enabled more speculative areas of the market to outperform since then. Consequently, high yield exposures have made meaningful performance contributions to the portfolio.

Spreads on investment grade issuers in the US have narrowed to their lowest level in three years. This reflects various factors, but the resilience of corporate earnings appears to have helped. Corporate earnings held up better than expected in 2020 despite the obvious Covid-related disruptions, increasing confidence that most firms will be able to ride out this period of sub-par growth without experiencing financial difficulties. A gradual easing of restrictions in the US and elsewhere as vaccines are rolled out should also support corporate earnings in 2021 and beyond, at a time when official interest rates are expected to remain at extremely low levels.

The approval of President Biden's latest financial stimulus program was also well-received by credit investors. The new US\$1.9 trillion package includes direct payments to individuals, and various other financial support measures. These disbursements should be supportive of growth and, in turn, corporate profitability. At the same time, central banks in other regions continue to buy corporate bonds on the open market as part of their ongoing quantitative easing programs. These schemes are helping keep spreads low, and continue to support confidence in the asset class.

**Fund Activity**

Given our cautiously optimistic outlook for the asset class, we were comfortable increasing the Fund's credit risk profile. At the same time, we continued to monitor evolving valuations of all investments in the portfolio, and took profits in some that have performed well recently. In some cases, we are also able to exploit valuation differentials between securities issued by the same company. Towards the end of the quarter, for example, we switched exposure from various companies' EUR-denominated issues into USD-denominated equivalents, where relative valuations had diverged.

Exposures remain well spread, both geographically and by industry sector. At the end of March, the Fund held exposure to more than 330 companies, across 27 different countries. Maintaining such a high level of diversification helps mitigate investment risk, and should help ensure unexpected defaults do not have an out-sized influence on performance outcomes.

**Market Outlook**

We have prepared a comprehensive outlook for the asset class, outlining likely drivers of credit spreads in the period ahead. This is available here: <https://www.firstsentierinvestors.com.au/au/en/adviser/insights/latest-insights/global-credit--outlook.html>

In summary, we remain cautiously optimistic regarding prospects for credit markets and there is some scope for spreads to narrow a little further, in our view. Even if spreads remain range-bound and close to current levels, credit markets should continue to provide steady positive returns; likely over and above those from other defensive investments.

The gradual reopening of services sectors in most regions following the relaxation of social distancing restrictions augurs well for company profitability. At the same time, lower borrowing costs mean companies can generally service their debt repayment obligations more comfortably. Even though many firms have increased their net debt by issuing new bonds, in many cases repayment costs have not actually increased much, if at all. This should limit the number of ratings downgrades among corporate issuers, and help ensure default rates remain low. This is important – while fluctuations in credit spreads will always be a feature of the market, they should not be concerning for investors as long as default risk remains manageable. Ultimately, as long as issuers do not default, positive credit spreads and the receipt of coupon income and the repayment of bond principal at maturity will generate positive returns, over and above those from comparable government securities.

[www.firstsentierinvestors.com.au](http://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 First Sentier Wholesale Global Credit Income Fund, ARSN 093 045 713 (**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.