

# First Sentier Wholesale Global Credit Income Fund

Formerly the Colonial First State Wholesale Global Credit Income Fund

## Quarterly Factsheet

30 June 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

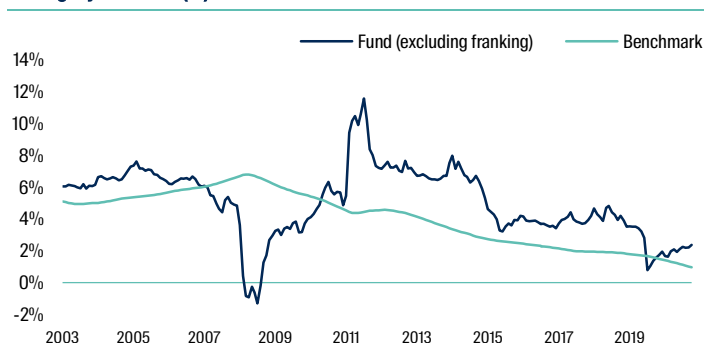
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	750 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	5,000
Management cost (p.a.)*	0.62%

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

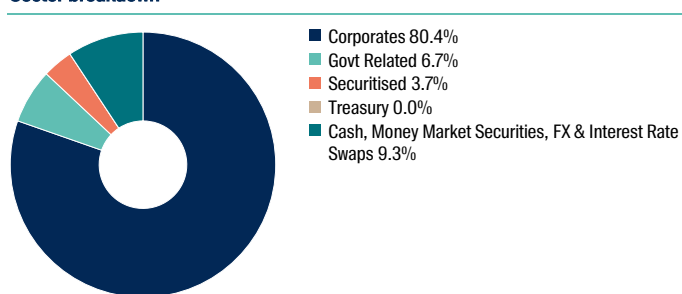
### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.8	5.4	2.4	3.4	2.9	4.1	4.9
Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2	3.9
Excess net return	0.8	5.3	1.4	2.1	1.3	1.9	1.0
Income return	2.5	2.9	1.8	4.8	4.6	4.8	5.4
Growth return	-1.7	2.5	0.6	-1.5	-1.7	-0.8	-0.5

### Rolling 3 year return (%)



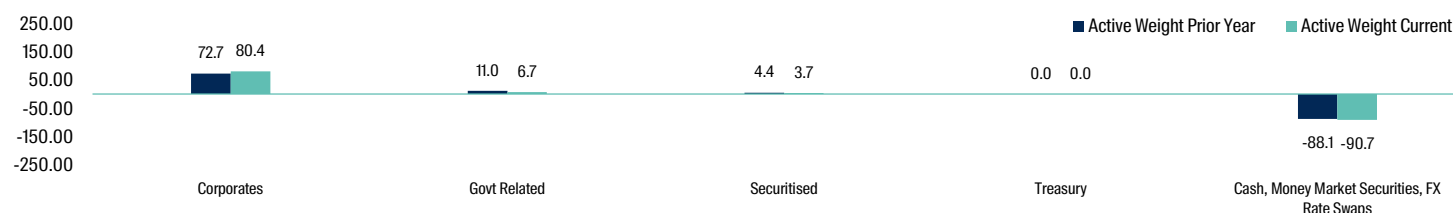
### Sector breakdown

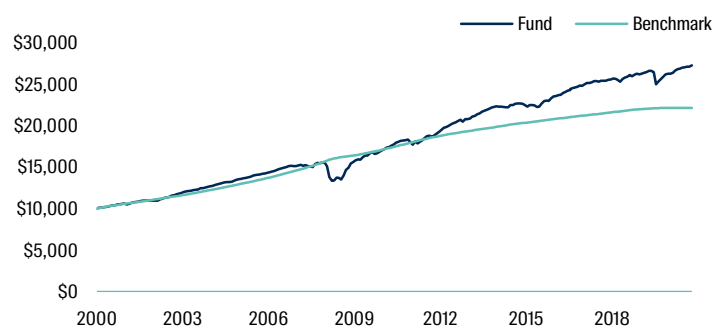
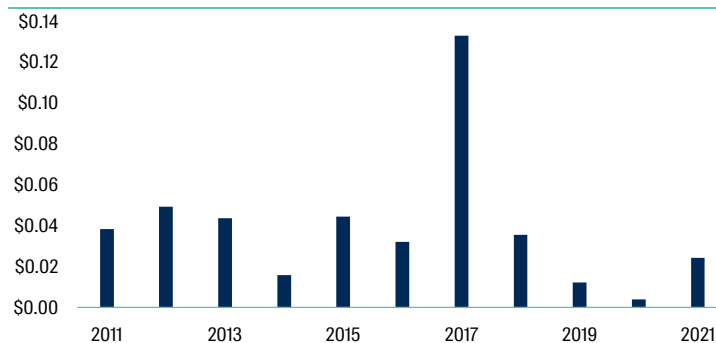


### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	1.2	3.8	3.1	2.8	2.9	3.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.3	0.6
Tracking error (%)	1.2	3.8	3.1	2.9	2.9	3.7
Fund Sharpe ratio	4.3	0.4	0.7	0.5	0.6	0.3
Information ratio	4.3	0.4	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: 30 June 2021

**Fund Performance**

Corporate bonds were buoyed by generally favourable sentiment towards equities and other risk assets. The bellwether S&P 500 Index in the US rose in all three of April, May and June, for example. The Fund appreciated against this background, adding 0.8%. This extended the Fund's return in the FY21 year as a whole to 5.4%, net of fees – a pleasing return given the bank bill benchmark returned just 0.1% over the year.

**Market Review**

The ongoing rollout of Covid vaccines in most countries and the relaxation of social distancing restrictions continued to support investor sentiment towards risk assets, including credit. Low interest rates and encouraging economic indicators acted as a further tailwind for corporate bonds.

Investment grade credit spreads closed the quarter 9 bps lower, at 0.86%, while high yield spreads narrowed by 24 bps, to 2.69%. These moves resulted in positive returns from global credit markets.

Spreads on some speculative grade bonds are now back to levels last seen prior to the Global Financial Crisis in 2008. This is not necessarily a negative indicator, but is something for credit investors to monitor in case of a sudden reversal in sentiment.

Credit markets were also buoyed the release of generally favourable corporate earnings. On the whole, financial results released by US-listed firms for the March quarter were well received by investors. Companies in various industry sectors announced earnings that were ahead of expectations; several benefited from a rebound in consumer spending as the easing of Covid restrictions released pent-up demand. In general, consumers have significant spending power after more than a year of saving and, in some cases, following the receipt of income support payments. This augurs well for revenues and company profitability in the remainder of 2021 and beyond.

**Fund Activity**

Given our cautiously optimistic outlook for the asset class, we were comfortable increasing the overall risk profile of the portfolio modestly. Exposure to a broad range of companies was increased, including Oracle in the US, Naver in Asia, and Victoria Power Networks in Australia. Investment in BP and ENI was also increased. Sentiment towards energy companies has been supported recently by a sharp increase in oil prices.

The Fund also participated in the new issuance of a US\$500 million sustainability-linked bond from Australian engineering firm Worley. As part of the process, Worley has committed to significantly reduce its carbon footprint. As responsible investors we support initiatives like these, and were very comfortable adding the bonds to the portfolio.

At the end of June the Fund held exposure to more than 350 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**

As well as generating positive returns recently, credit markets have seen very low levels of volatility. Analysis suggests 2021 could be the 'dullest' year on record for investment grade and high yield credit, in terms of spread movements. That will likely be a welcome development for investors in the asset class, who were forced to endure a year of unsettling volatility in 2020.

Default rates have fallen meaningfully, underlining the favourable conditions that exist currently for corporate borrowers. Moreover, current forecasts suggest the default rate in 2021 as a whole will be less than half the long-term average. Again, this appears to be reassuring investors that an allocation to credit can be attractive from a risk/return perspective, particularly with prospective returns from term deposits and government bonds remaining so low. Official cash rates are not expected to change in most regions for the foreseeable future, suggesting demand for credit could remain firm from income-seeking investors.

While credit valuations remain quite high relative to historical averages, it is important to note that spreads can stay low for extended periods if conditions remain favourable. That appears to be the case currently, owing to the improving economic outlook, the likelihood of an earnings upgrade cycle, and an associated reduction in defaults.

Finally, despite the broad rollout of vaccines in several countries and strict travel restrictions, new variants of the Covid virus continue to spread worldwide. This provides a reminder that the anticipated recovery in major economies is likely to be bumpy, and probably not uniform across different countries and regions. This should present opportunities for active managers to add value to credit portfolios through selective positioning regionally. Individual companies will be also be affected by the evolving pandemic in different ways. Ongoing detailed credit research and monitoring will therefore remain critical. As active managers and responsible stewards of investors' capital, we will continue to monitor developments closely and amend portfolio positioning as and when changed are deemed necessary. Historically, active amendments in the Fund's risk profile during periods of market stress have helped preserve capital and made meaningful contributions to the Fund's favourable long-term performance track record.

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

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