

# First Sentier Wholesale Global Credit Income Fund

Formerly the Colonial First State Wholesale Global Credit Income Fund

## Quarterly Factsheet

31 December 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

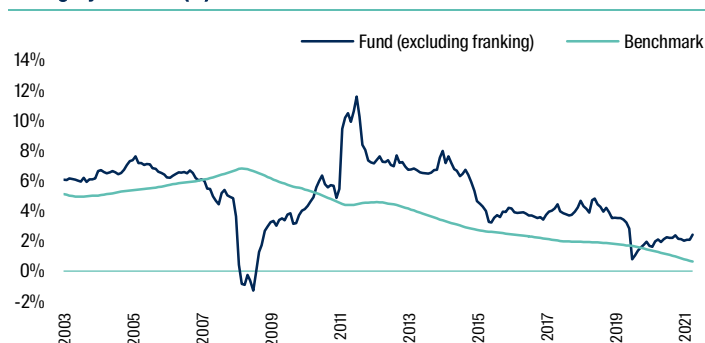
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	816 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	5,000
Management cost (p.a.)*	0.62%

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

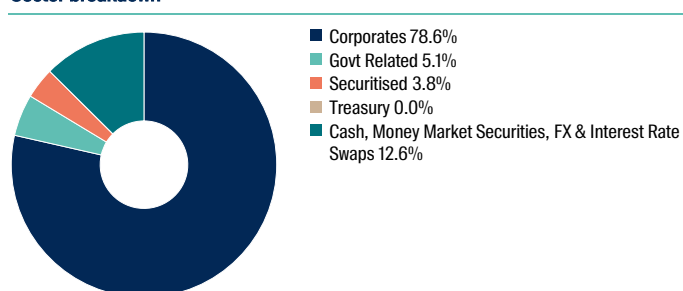
### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.3	1.3	2.4	2.5	2.9	4.1	4.8
Benchmark return	0.0	0.0	0.6	1.1	1.4	1.9	3.8
Excess net return	-0.3	1.3	1.8	1.4	1.4	2.2	1.0
Income return	0.0	2.7	1.6	4.5	4.4	4.6	5.3
Growth return	-0.3	-1.4	0.9	-2.1	-1.5	-0.5	-0.5

### Rolling 3 year return (%)



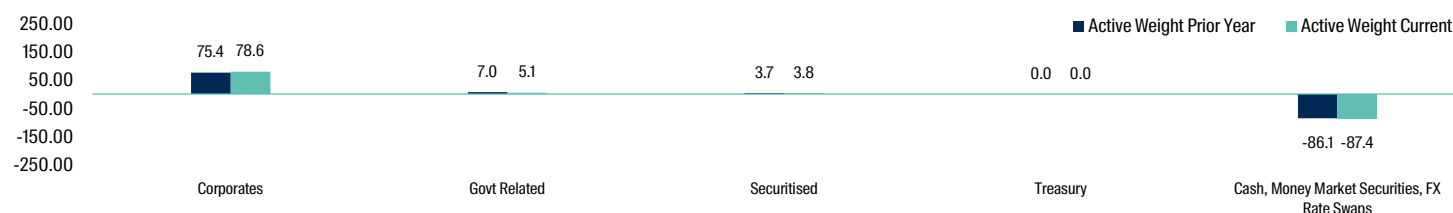
### Sector breakdown

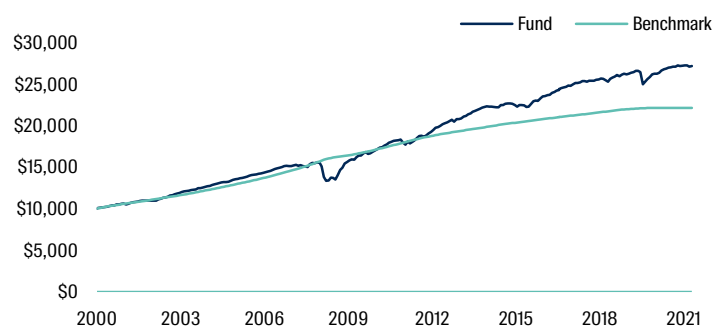
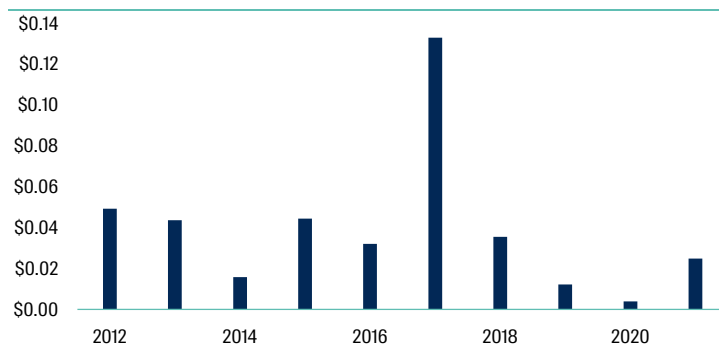


### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	1.0	3.7	3.0	2.8	2.7	3.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.3	0.6
Tracking error (%)	1.0	3.8	3.0	2.8	2.6	3.7
Fund Sharpe ratio	1.4	0.5	0.4	0.5	0.8	0.3
Information ratio	1.4	0.5	0.4	0.5	0.8	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 December 2021

**Fund Performance**

The identification of a new variant of Covid-19 – named Omicron – adversely affected risk appetite and saw investment grade credit spreads widen over the quarter. This hampered returns from credit markets and resulted in the Fund declining in value by 0.3%. This compared to a return of 0.0% from the bank bill benchmark.

In spite of the negative return in the most recent period, the Fund appreciated by 1.3% over the year. This was broadly in line with expectations and consistent with the Fund's stated performance objectives. For context, the bank bill benchmark returned 0.0% over the year.

**Market Review**

Quickening inflation was a little unsettling for credit investors, particularly as policymakers conceded that inflation may not be as 'transitory' as they had been insisting for months. This was an important change in stance, as it increased the probability of US interest rates being raised. Higher borrowing costs are typically a headwind for companies, as it increases the cost of debt. While most firms are well capitalised and currently able to meet their debt repayment obligations quite comfortably, higher borrowing costs would be unwelcome for most – particularly if a re-introduction of virus-related restrictions starts to hamper revenues and profitability.

On the positive side, sentiment was supported by a sixth consecutive quarter of corporate results that beat consensus forecasts. Firms in various industry sectors have benefited from a rebound in discretionary spending and an improvement in economic activity levels. As well as the strong results, forward-looking earnings estimates were raised, which provided an additional tailwind. The resilience of most corporates meant new issues were generally well supported. More than US\$1.5 trillion of new corporate bonds were sold in 2021 – the second highest annual total ever – underlining the scale of demand for yielding securities among income-oriented investors.

**Fund Activity**

Various changes to portfolio positioning were made given evolving market conditions, and a shift in the overall risk/return trade-off following the Omicron news. Protection against widening spreads was bought, which should help preserve capital in the event of a material sell-off in credit markets. Exposure to various travel-related companies was also lowered, in case any further travel restrictions are introduced. Expedia, Hong Kong Airport and Brisbane Airport were removed from the portfolio, for example.

At the end of December, the Fund's assets were invested in more than 400 issues, across 29 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**

Despite the probability of higher interest rates in 2022, most companies can comfortably afford to service their debt repayment obligations currently. Revenues are holding up well in most industry sectors and firms continue to focus on cost control in order to support profitability. All of this suggests corporate default rates will remain low in 2022.

On the demand front, Asian and European investors remain active in the US investment grade sector, in particular. With sub-zero interest rates and/or government bond yields in these regions, 'all in' yields of around 2.5% are enticing – even after factoring in currency hedging costs. Time will tell whether offshore demand remains firm, or whether it will dissipate if official interest rates and government bond yields start to rise in key regions. Earlier in the year, order books for new investment grade issues in the US were around 4x oversubscribed. By the end of December, that number had fallen below 3x. We will be monitoring this – and various other high frequency indicators – for any signs of weakening demand.

More broadly, following recent comments from policymakers it has become clear that interest rates in the US will be raised this year. The key questions are when, and by how much. Speculation on these fronts – and the resilience of the latest economic statistics – will continue to drive government bond yields in the US and elsewhere for the foreseeable future. Importantly, the performance of the First Sentier Wholesale Global Credit Income Fund, for example, is largely unaffected by changes in interest rates and bond yields. Returns from this product are primarily driven by changes in credit spreads rather than movements in government bond yields, as all interest rate risk in the portfolio is fully hedged.

Irrespective of the prevailing market backdrop, careful security selection will remain critical as there will almost certainly be some divergence in performance between individual companies. Our dedicated credit analysts continue to monitor individual issuers and how they are being affected by evolving market conditions. The intention is always to remove deteriorating issuers from the portfolio before rising default risk starts to affect valuations.

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

#### For further information

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