

# First Sentier Wholesale Global Credit Income Fund

Formerly the Colonial First State Wholesale Global Credit Income Fund

## Quarterly Factsheet

31 March 2022

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 & Global Credit	(1983 / 1988)
Craig Morabito	Senior Portfolio Manager	(2003 / 2005)

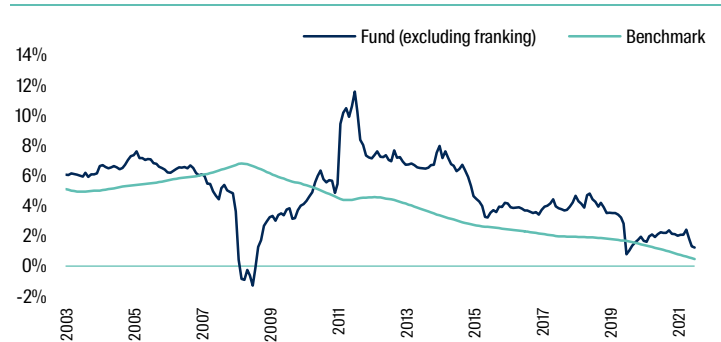
### Product Overview

APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	821 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.	

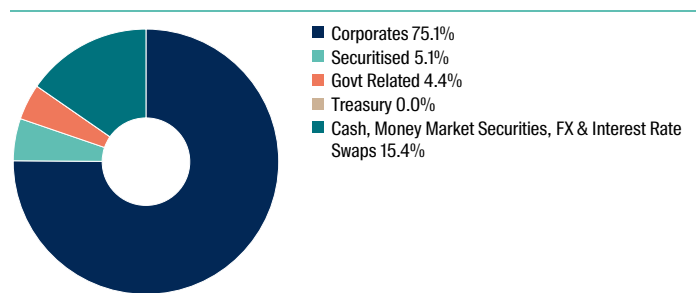
### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-1.1	-0.6	1.2	1.9	2.5	3.6	4.7
Benchmark return	0.0	0.0	0.5	1.0	1.3	1.8	3.7
Excess net return	-1.1	-0.6	0.8	0.9	1.2	1.8	0.9
Income return	0.0	2.6	1.5	4.3	4.2	4.5	5.2
Growth return	-1.1	-3.1	-0.2	-2.3	-1.7	-0.8	-0.6

### Rolling 3 year return (%)



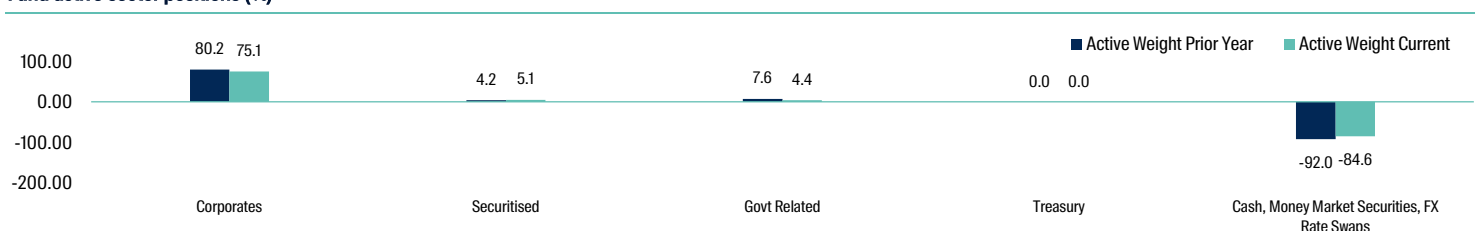
### Sector breakdown

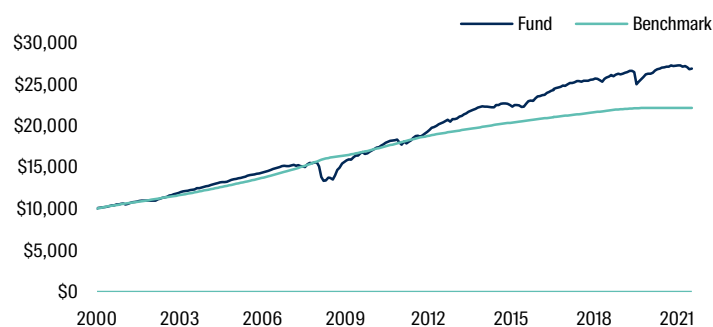
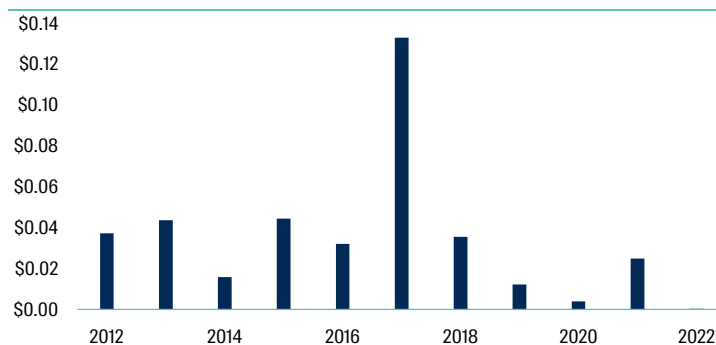


### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	1.3	3.7	3.1	2.9	2.6	3.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.3	0.6
Tracking error (%)	1.3	3.8	3.1	2.9	2.6	3.6
Fund Sharpe ratio	-0.5	0.2	0.3	0.4	0.7	0.3
Information ratio	-0.5	0.2	0.3	0.4	0.7	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 2022

Data as at: 31 March 2022

**Fund Performance**

Wider credit spreads hampered returns and resulted in the Fund declining in value by 1.1% over the quarter, after fees. This was behind the 0.0% return from the bank bill index. That said, performance was ahead of traditional credit benchmarks as active management and careful portfolio positioning helped preserve capital.

**Market Review**

Investors focused on rampant inflation and, in turn, the probability of interest rate increases in key regions. The prospect of monetary policy tightening was unwelcome for credit investors, as rising interest rates will increase the cost of debt for corporate bond issuers as they refinance or raise new debt. Escalating geopolitical risks in Eastern Europe and, eventually, Russia's invasion of Ukraine acted as a further headwind.

These developments diverted attention from the release of corporate earnings for the December quarter in the US and Europe – which were reasonably encouraging on the whole – and resulted in negative returns from global credit markets.

There was a fair amount of new corporate bond issuance during the quarter, as companies looked to lock in relatively attractive borrowing costs before central banks raise official interest rates further. In most cases order books for new issues remained comfortably over-subscribed, which was encouraging. At the same time, we continued to see ratings upgrades among some existing issuers. This underlined the strong credit fundamentals that exist for most companies.

**Fund Activity**

Overall, the portfolio was defensively positioned through the period to help withstand ongoing volatility in financial markets and as we monitored how markets were responding to the likelihood of higher borrowing costs.

The Fund has no direct exposure to Russian issuers, although there is a modest amount of indirect exposure in the portfolio as some companies have minority investments or operations in the country. Our credit analysts have assessed all companies' exposure to Russia – particularly how their earnings profile might be affected by a prolonged military conflict – and will continue to monitor developments as the situation evolves. The intention is always to remove deteriorating issuers from portfolios before rising default risk starts to adversely affect valuations.

At the end of March, the Fund's assets were invested in more than 450 issues, across 30 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**

Higher spreads and 'all in' yields are providing an increased risk/return payoff for credit. This is positive for long-term, income-oriented investors, particularly as the fundamental backdrop remains broadly supportive. Most corporates remain well capitalised, having raised ample additional capital at historically low borrowing costs over the past two years or so. In general, interest coverage – a metric that measures how comfortably corporates can meet their repayment obligations – remains high relative to historic averages and firms' pricing power means default risk remains relatively low in most industry sectors.

Separately, it is important to understand how movements in government bond yields are affecting performance outcomes in fixed and floating rate credit products. Traditional fixed rate credit benchmarks were down by around 7% in the quarter; among the worst performance outcomes on record. Volatility in credit spreads was unhelpful, but most of the negative performance impact was attributable to higher Treasury yields. The performance of credit products with floating rate benchmarks was much better, however, as they are not directly affected by changes in government bond yields.

Whilst disappointing to report negative returns at any time, it is worth noting that the performance of this Fund was substantially better than comparable products where interest rate risk is unhedged. Even more importantly, the Fund's performance will remain largely unaffected by future movements in Treasury yields. This is important to bear in mind, particularly given the possibility of even higher government bond yields if inflation remains elevated and if central banks respond by tightening policy settings more significantly.

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

#### For further information

Acting Head of Wholesale Ross Crocker	+61 2 9010 5424	Business Development Manager - VIC/TAS Jack Heinz	+61 3 9225 5056
Key Account Manager - NSW Paul Sleiman	+61 2 9010 5393	Key Account Manager - QLD Quin Smith	+61 4 5509 5505
Business Development Manager – NSW Justin Sultana	+61 2 9010 5326	Business Development Manager – QLD Julie Day	+61 4 6641 3176
Key Account Manager - VIC/TAS Nicholas Everitt	+61 3 9225 5055	Key Account Manager - WA/SA/NT Nathan Robinson	+61 4 0327 2440

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. 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.

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 2022

All rights reserved.