

Formerly the Colonial First State Wholesale Global Credit Income Fund

## Quarterly Factsheet

31 December 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

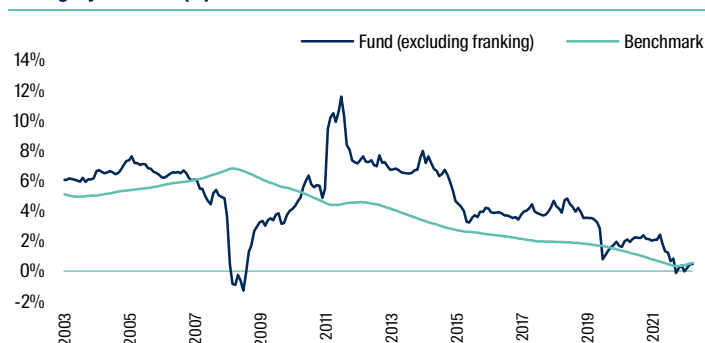
|                                   |                                   |
|-----------------------------------|-----------------------------------|
| APIR code                         | FSF0084AU                         |
| Inception date                    | 15 September 2000                 |
| Fund Size (A\$)                   | 732 million                       |
| Benchmark                         | Bloomberg AusBond Bank Bill Index |
| Buy / Sell spread                 | 0.15% / 0.15%                     |
| Minimum investment (A\$)          | 5,000                             |
| Management fees and costs (p.a.)* | 0.62%                             |

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

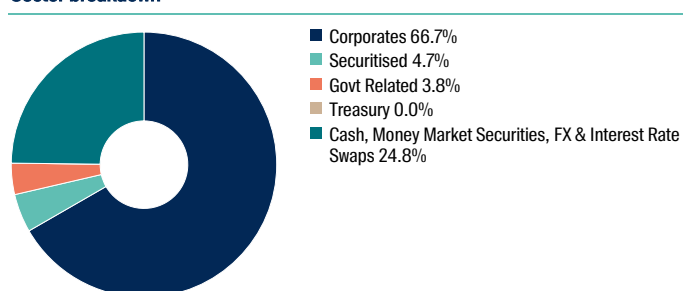
### Performance Summary (%)

| Period            | 3mth | 1yr  | 3yr  | 5yr  | 7yr  | 10yr | SI   |
|-------------------|------|------|------|------|------|------|------|
| Net return        | 2.7  | -0.7 | 0.5  | 1.4  | 2.6  | 3.0  | 4.5  |
| Benchmark return  | 0.7  | 1.3  | 0.5  | 1.0  | 1.3  | 1.7  | 3.7  |
| Excess net return | 2.0  | -2.0 | -0.1 | 0.4  | 1.3  | 1.3  | 0.9  |
| Income return     | 0.0  | 1.4  | 1.5  | 2.0  | 3.9  | 4.2  | 5.1  |
| Growth return     | 2.7  | -2.1 | -1.1 | -0.6 | -1.3 | -1.2 | -0.6 |

### Rolling 3 year return (%)



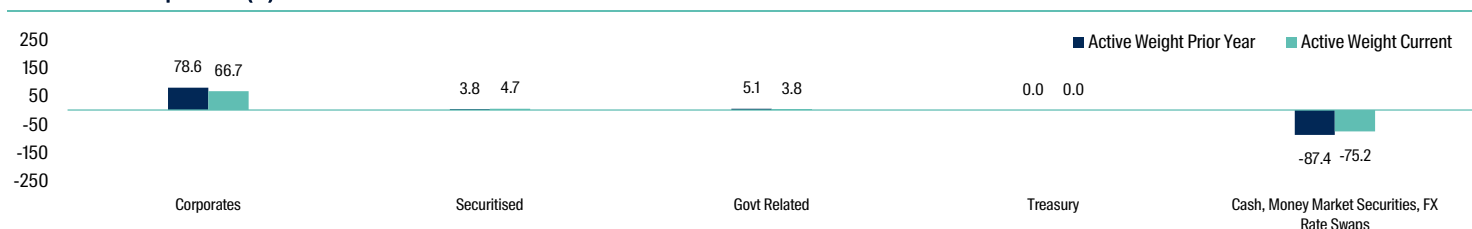
### Sector breakdown

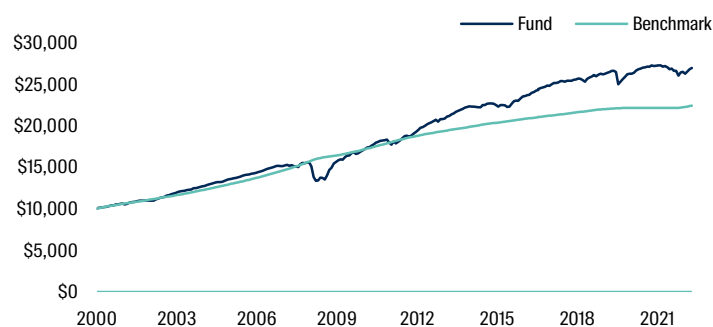
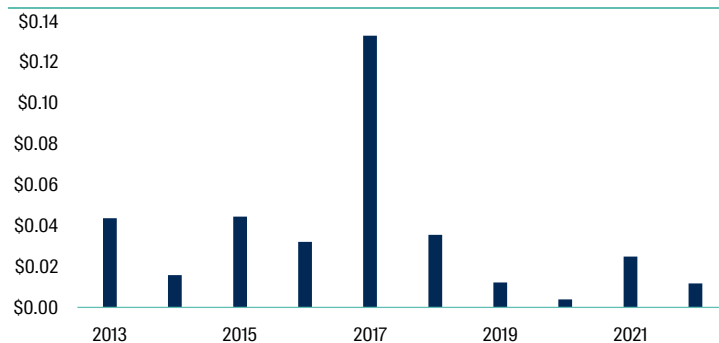


### Risk Characteristics

| Period                           | 1yr  | 3yr | 5yr | 7yr | 10yr | SI  |
|----------------------------------|------|-----|-----|-----|------|-----|
| Fund standard deviation (%)      | 3.4  | 4.1 | 3.4 | 3.0 | 2.8  | 3.6 |
| Benchmark standard deviation (%) | 0.3  | 0.3 | 0.3 | 0.3 | 0.3  | 0.6 |
| Tracking error (%)               | 3.2  | 4.1 | 3.3 | 3.0 | 2.7  | 3.6 |
| Fund Sharpe ratio                | -0.6 | 0.0 | 0.1 | 0.4 | 0.5  | 0.2 |
| Information ratio                | -0.6 | 0.0 | 0.1 | 0.4 | 0.5  | 0.2 |

### 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 December 2022

**Fund Performance**

Corporate bonds performed well in the December quarter, with credit spreads tightening in the investment grade and high yield sub-sectors. The Fund rose in value by 2.7% on a net of fee basis, a return that was comfortably ahead of the bank bill benchmark.

It was pleasing to see favourable performance in the final quarter of the year, following weakness earlier in 2022. Despite the improvement, the Fund was not quite able to claw back all of its earlier losses and returned -0.7% in 2022 as a whole after fees. This compared to a return of 1.3% from the benchmark. That said, the portfolio starts 2023 with a significantly higher yield of 4.84% and an option adjusted spread of 175 bps, versus 1.39% and just under 100 bps at the beginning of 2022. This augurs well for expected performance in the year ahead and supports our confidence of achieving the Fund's return objectives.

The performance of the Fund was substantially better than comparable products where interest rate risk is unhedged. Returns from some global credit funds were as low as -15% over the year, owing to sharp increases in government bond yields. The performance of the Wholesale Global Credit Income Fund will remain largely unaffected by future movements in government bond 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 continue to tighten policy settings.

**Market Review**

Credit spreads narrowed steadily throughout the quarter, which aided the performance of corporate bonds. Returns also benefited from the receipt of regular coupons – this steady flow of income supported positive returns from the asset class over the period.

Despite the Covid shock and an uncertain economic outlook, most corporates appear to be in reasonable shape financially. The average credit rating among investment grade issuers is almost unchanged since December 2019, before the pandemic started to erode confidence. Separately, the volume of corporate bonds with 'negative' outlooks among major rating agencies is close to the lowest level on record. These indicators appeared to provide some reassurance to investors and helped support valuations.

**Fund Activity**

Individual holdings in the portfolio continued to be actively managed, with various exposures amended in response to evolving risk/return expectations. The Fund no longer has any direct exposure to Chinese issuers, for example, following sales of names including Alibaba Group, Baidu, and Tencent Holdings. The outlook for growth in China remains highly uncertain and we are mindful of potentially deteriorating liquidity in the USD-funding market.

At the same time, investment in Tier 2 securities in Australia was lowered. These notes – typically issued by banks – held up reasonably well despite some regulatory uncertainty. The introduction of new guidelines by APRA during the quarter could have some implications for the Australian subordinated debt market moving forward, so it seemed prudent to reduce exposure to this part of the market.

On the buy side, the Fund participated in the issuance of new bonds from Korean bank Shinhan, as well as Airservices and Australia Post closer to home. All of these securities offered attractive yields given their perceived risk profile.

At the end of December the Fund held exposure to well over 400 issuers, across 27 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**

Increases in credit spreads and risk-free rates in 2022 have pushed 'all-in' yields from credit up towards 5.5%, the highest level in more than a decade. These higher 'all-in' yields and subsequent improved breakeven return profile for global credit is proving appealing to both institutional and retail investors and could help support valuations and returns in the year ahead. We are cautiously optimistic regarding the outlook, but expect to see a divergence in performance between individual companies as operating conditions vary regionally and by industry sector. This demands caution with portfolio positioning and underlines the importance of active management in this asset class.

From a valuation perspective, we believe credit offers better value than 12 months ago following a year of spread widening. Moreover, capturing higher coupon payments from securities held should help boost the Fund's income generation and contribute to the achievement of stated performance objectives over the full credit cycle. Overall we are comfortable with the credit position of the portfolio, but are mindful of not increasing risk following the recent improvement in valuations and ahead of what could be another year of heightened volatility in 2023.

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

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