

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

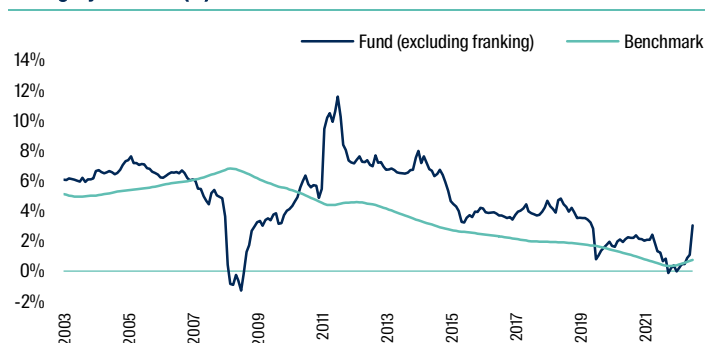
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	719 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	5,000
Management fees and costs (p.a.)*	0.62%

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

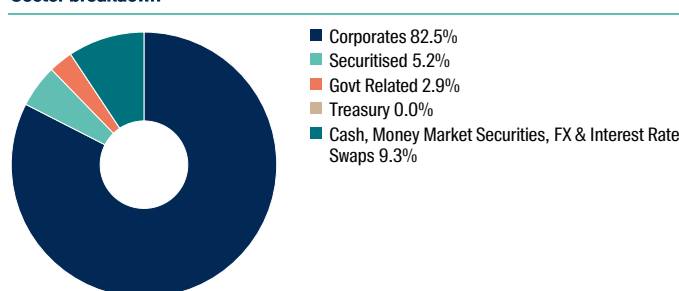
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.3	1.7	3.0	1.6	2.7	2.9	4.5
Benchmark return	0.8	2.0	0.7	1.1	1.3	1.7	3.7
Excess net return	0.5	-0.3	2.3	0.5	1.4	1.2	0.9
Income return	0.3	1.7	1.6	1.9	3.8	4.1	5.1
Growth return	1.0	0.0	1.4	-0.3	-1.2	-1.2	-0.5

Rolling 3 year return (%)



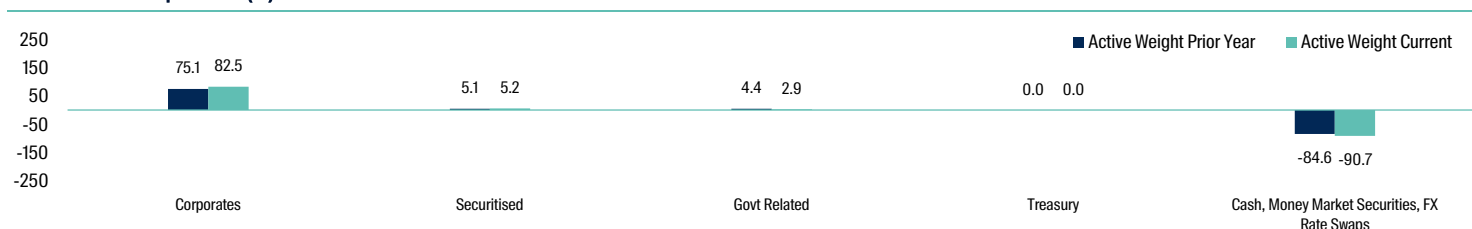
Sector breakdown

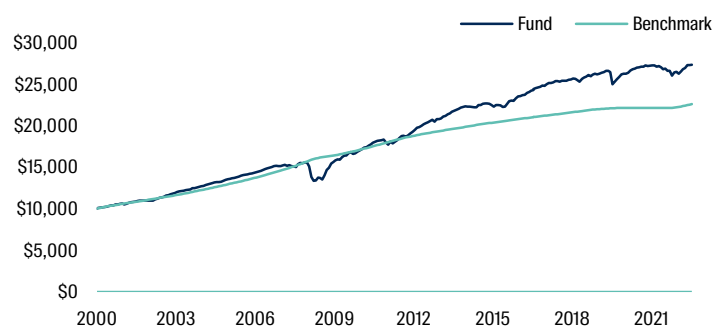
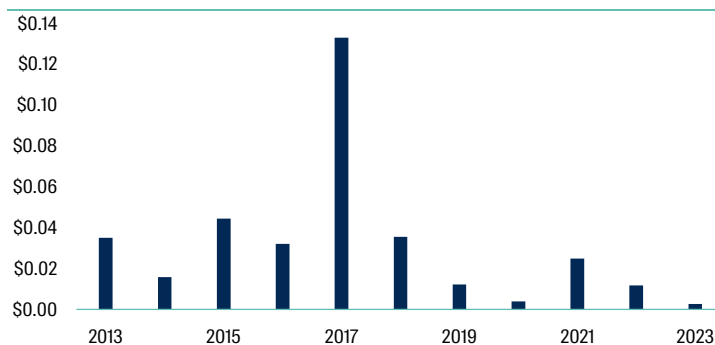


Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	3.5	2.5	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 (%)	3.3	2.5	3.4	3.0	2.7	3.6
Fund Sharpe ratio	-0.1	0.9	0.1	0.5	0.4	0.2
Information ratio	-0.1	0.9	0.1	0.5	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 2023

Data as at: 31 March 2023

Fund Performance

The Fund appreciated by 1.3% during the quarter after fees, supported by the receipt of coupon income. Returns were 0.5% ahead of the bank bill benchmark.

The favourable performance was partly due to value-adding active management during a period of volatility in March, in particular.

Market Review

Credit spreads narrowed in the first half of the March quarter, consistent with gains in major share markets and reflecting a general increase in risk appetite among investors. In fact, investment grade issues enjoyed their best January performance since 1975.

During this period, the release of the latest financial results from listed companies underlined that profitability is holding up quite well and that most firms remain in a healthy shape from a balance sheet perspective. Pleasingly, most companies still seem able to make regular coupon payments fairly comfortably, suggesting default rates will not rise significantly from current levels.

Sentiment deteriorated in March, however, owing to banking failures in Europe and the US. Credit spreads widened following the failure of SVB Financial Group. This was the second-biggest bank failure in the US in more than 20 years and caused panic in markets globally. Although the Federal Reserve hastily announced a new Bank Term Funding Program to arrest market fears about potential contagion affecting other US banks, market volatility persisted as Credit Suisse – a much larger bank, based in Switzerland – also ran into financial difficulty.

Thankfully, fears of a potential 'Global Financial Crisis II' had abated by quarter end, with confidence gradually being restored. This enabled spreads to retrace some of their lost ground from earlier in March, although they still widened modestly in the quarter as a whole. This was a headwind for performance, but the receipt of coupon income supported returns from the asset class and enabled the Fund to rise in value over the period.

Fund Activity

There was a fair amount of activity in the portfolio as we looked to take advantage of volatile market conditions, particularly during March. During this period we took profits from recent outperformers and reallocated the proceeds of these sales into cyclical names and banks that had struggled more than most during the banking crisis-related sell-off. These moves proved beneficial on the whole, with spreads subsequently retracing some of their earlier widening.

We also monitored the new issuance pipeline for new investment opportunities. The Fund participated in the issuance of new bonds from Regal Rexnord (US; electric componentry) and SK Hynix (South Korea; semiconductors), for example. Both of these deals were attractively valued in our view, with attractive yields that should add to the Fund's prospective income generation over time.

We will continue to monitor macroeconomic developments as well as the performance of individual companies and remain prepared to amend portfolio positioning as and when required to help preserve capital. For now the Fund remains very well diversified, both geographically and by industry sector. At the end of March, the Fund held exposure to nearly 430 issues, across 26 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

In spite of the wobble in the banking sector and associated volatility in the sector more broadly, the overall outlook for global credit was little changed in March. Company profitability continues to hold up quite well and most firms remain in a healthy shape from a balance sheet perspective. Cyclical companies are most exposed to a potential slowdown in activity levels as higher interest rates filter through to the real economy and expenditure, but importantly their balance sheet strength means they are well placed to withstand a moderate deterioration in profitability. Default rates are therefore not expected to increase significantly. This is important; assuming companies do not default, their payment of regular coupons will continue to support Fund returns through the receipt of coupon income.

The possibility of much higher interest rates remains the main risk for credit and other risk assets. Investors revised their interest rate forecasts lower during March, however. Generally speaking, there were assumptions that the banking failures would have caused unease among policymakers globally and that they might now be inclined to slow the pace of their interest rate tightening cycles. Inflation remains worryingly high in most key regions, but central bank officials must surely now be focused on maintaining stability in the financial system too.

www.firstsentierinvestors.com.au

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