

First Sentier Wholesale Global Credit Income Fund



Formerly the Colonial First State Wholesale Global Credit Income Fund

Quarterly Factsheet

31 December 2020

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

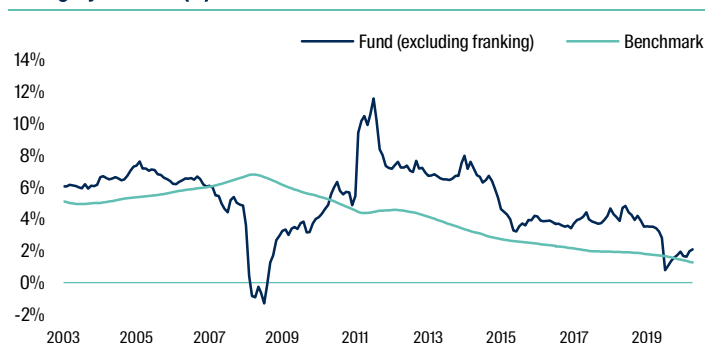
APIR code	FSF0084AU
Inception date	15 September 2000
Fund Size (A\$)	674 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	0.15% / 0.15%
Minimum investment (A\$)	5,000
Management cost (p.a.)*	0.62%

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

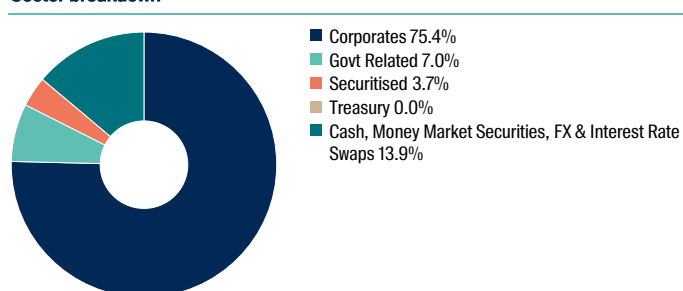
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	2.2	0.8	2.1	3.5	3.2	4.3	5.0
Benchmark return	0.0	0.4	1.3	1.5	1.8	2.4	4.0
Excess net return	2.1	0.4	0.8	2.0	1.4	1.8	1.0
Income return	0.0	0.5	2.0	4.7	4.7	5.0	5.4
Growth return	2.1	0.3	0.1	-1.2	-1.5	-0.7	-0.5

Rolling 3 year return (%)



Sector breakdown

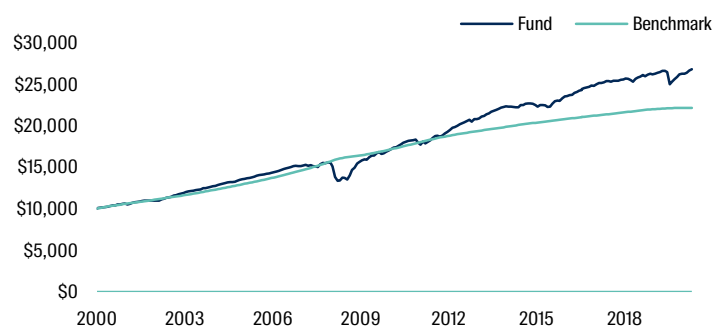
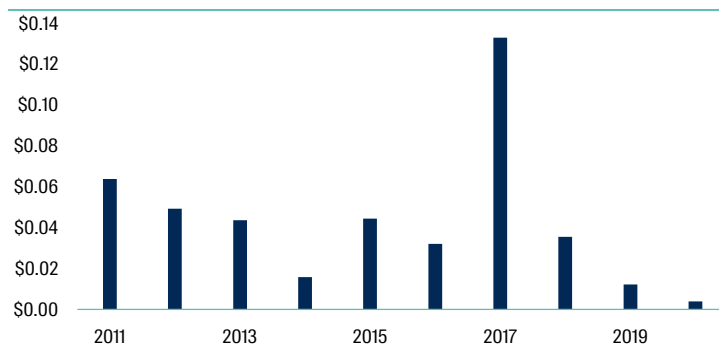


Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	6.1	3.8	3.2	2.8	2.9	3.7
Benchmark standard deviation (%)	0.1	0.2	0.2	0.2	0.4	0.5
Tracking error (%)	6.2	3.8	3.2	2.9	2.9	3.7
Fund Sharpe ratio	0.1	0.2	0.6	0.5	0.6	0.3
Information ratio	0.1	0.2	0.6	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 2020

Data as at: 31 December 2020

Fund Performance

Despite some fluctuations as confidence ebbed and flowed, credit spreads narrowed over the quarter. This assisted performance and helped the Fund appreciate by 2.2%. This was well ahead of a return of 0.0% from the bank bill benchmark.

Investment Grade spreads narrowed by 36 bps, to 1.00%, while High Yield spreads closed the quarter 134 bps lower, at 3.29%. Encouragingly, credit spreads are back to where they were a year ago. Ultimately, despite an uncomfortable pickup in volatility over the past 12 months, global credit has generated favourable returns for investors that persevered with the asset class during and after the Covid shock.

Market Review

Sentiment towards global credit was affected by a few different factors during the quarter.

Uncertainty associated with the US presidential election dominated attention for a period, and saw spreads widen slightly ahead of the vote. There was also a meaningful uptick in Covid cases in the northern hemisphere, which resulted in new lockdown measures being introduced in the US, Japan and Europe. Again, this eroded sentiment towards credit markets and other risk assets. On the positive side, however, a second financial stimulus program in the US was agreed. This was designed to support economic activity levels and was perceived to be a favourable development for credit globally.

Perhaps most importantly of all, there was finally some encouraging news on the Covid front. During November, several drug makers announced the successful development of vaccines against the virus. This prompted investors to suggest social distancing restrictions could be removed in 2021 and increased hopes that economic conditions will start to normalise in the months ahead. In turn, this could be supportive of the corporate earnings outlook and helped brighten sentiment towards risk assets. Regulators began to approve these treatments during December and the vaccines started to be rolled out.

Fund Activity

There was a fair amount of activity among individual positions, reflecting evolving relative valuations of securities. Credit spreads have moved a long way in a relatively short period of time, and not uniformly across different areas of the market. This underlines the need for diligence and ongoing active management of the portfolio. We reduced the Fund's investment in some names that have performed particularly well recently. Exposure to Bunge, ISSDC, Unibail and Ventas Realty was lowered, for example.

Irrespective of the prevailing market backdrop, we believe it is always prudent to maintain a high level of diversification in the portfolio. Exposures remain well spread, both geographically and by industry sector. Ultimately, a high level of diversification should help ensure any unexpected defaults do not have an out-sized influence on overall performance, and therefore mitigates investment risk. With that in mind, at the beginning of the new year the Fund was invested in over 300 issues, spread across 25 countries.

Market Outlook

As previously flagged, the US Federal Reserve's Corporate Credit Facility was withdrawn on 31 December. This program enabled the central bank to buy corporate bonds on the primary and secondary markets and was designed to ensure market stability was maintained during a prolonged period of Covid-related uncertainty. This facility – along with similar provisions from other major central banks around the world – provided important support to credit markets during 2020. Investors appeared comfortable investing in the asset class, in the knowledge that central banks would utilise the credit facilities and increase bond purchases to support valuations on any sign of weakness. In the event, only a fraction of the money set aside for the Federal Reserve's emergency lending programs was ever invested. Following initial dislocation in the March quarter, credit markets largely regained their poise during the year, alleviating the need for these unconventional support measures.

The removal of these programs should not necessarily be viewed as a negative for global credit, in our view. Central banks would likely step up again if spreads started to widen substantially, potentially providing a backstop for valuations. As we saw during March when the emergency lending programs were introduced, policymakers typically can and will respond rapidly and decisively when financial market stability is threatened.

With the implicit support removed, attention is likely to switch to other factor to see whether the recent credit rally can be sustained. Corporate bond markets enjoyed nearly US\$200 billion of new flows in 2020 and published flow data will remain well scrutinised. The additional yield on offer from corporate bonds may well remain appealing for investors.

More broadly, risk appetite seems likely to remain most affected by developments on the Covid front. The outlook for economic growth in the near term is dismal, and deteriorating rapidly. Having rebounded nicely in the September quarter from lockdown-affected contractions earlier in 2020, growth in major economies could conceivably dip back into negative territory in the near term due to lockdowns and other restrictions. That said, vaccines promise a brighter future, and could pave the way for a strong and sustainable rebound in economic activity levels later this year. For now, investors appear willing to look beyond the current downturn and towards a normalisation in activity levels and corporate profitability.

www.firstsentierinvestors.com.au

For further information

Head of Investment Sales and Key Accounts Chris King	+61 2 9010 5249	Business Development Manager - VIC/TAS Jack Heinz	+61 3 9225 5056
Key Account Manager - NSW Angela Vincent	+61 2 9010 5230	Key Account Manager - QLD Quin Smith	+61 4 5509 5505
Paul Sleiman	+61 2 9010 5393	Business Development Manager – QLD Julie Day	+61 4 6641 3176
Business Development Manager – NSW Justin Sultana	+61 2 9010 5326	Key Account Manager - WA/SA/NT Nathan Robinson	+61 4 0327 2440
Key Account Manager - VIC/TAS Nicholas Everitt	+61 3 9225 5055		

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.

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 2020

All rights reserved.