

First Sentier Wholesale Strategic Cash Fund

Formerly the Colonial First State Wholesale Strategic Cash Fund

Monthly Factsheet

31 January 2022

For Adviser use only

Portfolio Description

The Fund provides a regular income stream from investments in money market securities, with a low risk of capital loss.

Investment Strategy

The fund's strategy is to invest in high quality money market securities, with predominantly short maturities, to achieve a very stable income stream. The fund invests in assets that offer value-for-risk by taking into account economic analysis and market trends. Derivatives may be used for risk management.

Investment Objective

To provide a regular income stream from investments in money market securities with a very low risk of capital loss. The fund aims to outperform the returns of Australian money markets over rolling three year periods as measured by the Bloomberg AusBond Bank Bill Index before fees and taxes.

Key Investment Personnel and Experience (Industry / Firm)

Tony Togher	Head of Fixed Income, Short Term Investments & Global Credit	(1983 / 1988)
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Product Overview

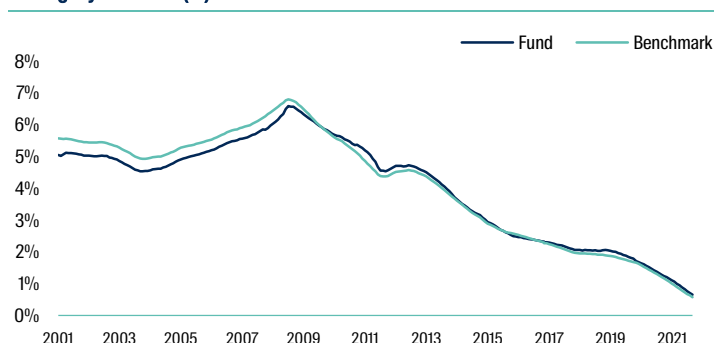
APIR code	FSF0075AU
Inception date	31 May 1998
Fund size (A\$ million)	8,944
Benchmark	Bloomberg AusBond Bank Bill Index
Buy/sell spread	Nil
Running yield	0.44%
Running yield Index	0.00%
Duration (Days)	62
Duration (Days) Index	45
Credit Duration (Years)	0.53
Credit Duration Index (Years)	0.12
Management cost	0.26% pa

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

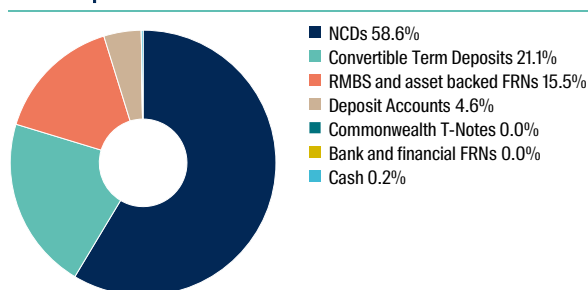
Performance Summary (%)

Period	1mth	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.0	0.0	0.1	0.7	1.2	1.5	2.0	3.8
Benchmark return	0.0	0.0	0.0	0.6	1.1	1.4	1.9	3.9
Excess net return	0.0	-0.1	0.1	0.1	0.1	0.1	0.1	-0.1
Income return	0.0	0.0	0.1	0.7	1.2	1.5	2.0	3.8
Growth return	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0

Rolling 3 year return (%)



Fund composition



Maturity breakdown (%)

Grade	Weight
0 - 30 days	28.69
31 - 90 days	47.10
91 - 180 days	24.21
181 - 364 days	0.00

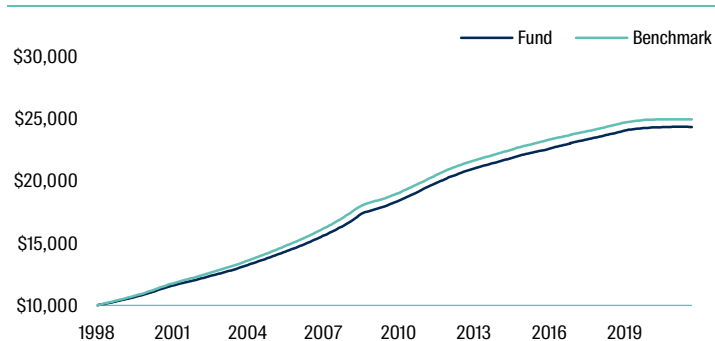
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	0.1	0.2	0.3	0.3	0.3	0.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.3	0.6
Tracking error (%)	0.1	0.1	0.1	0.1	0.1	0.1
Fund Sharpe ratio	0.6	0.4	0.4	0.3	0.2	-0.2
Information ratio	0.6	0.7	0.9	0.8	0.8	-0.8

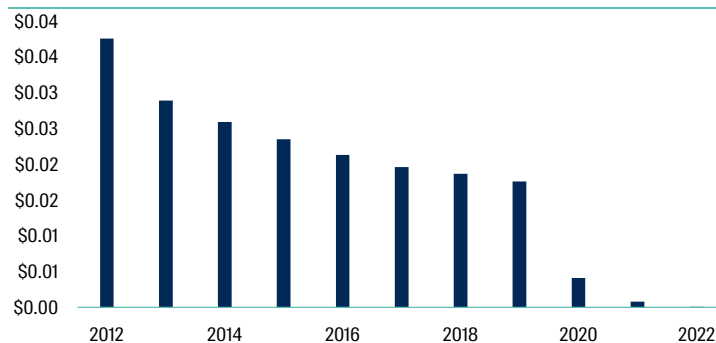
Fund active sector positions (%)



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 January 2022

Fund Review

The Fund appreciated by 0.03% in January, a return that was 2 bps ahead of the bank bill index benchmark. Accrual on the Fund's holdings in term deposits and NCDs provided support to overall performance. Following two months of widening, spreads on residential mortgage backed securities were more stable over the month – accordingly, this allocation did not have a meaningful influence on performance in January. Some of the Fund's excess cash could be deployed in the residential mortgage backed securities market in the months ahead. Collateral performance remains excellent, with repayments being supported by low unemployment, still relatively low mortgage rates, and a rebounding economy. Trading margins are 20-30 basis points wider than the lows in the second half of 2021, and should provide suitable risk-adjusted returns. With this in mind, we await the restart of primary market activity in February.

There were no changes to strategy or overall portfolio positioning during January. The aim is to identify and source investments with prospective yields over and above bank bill swap rates. To minimise risk and with capital preservation in mind, there remains a focus on the quality of all securities held in the portfolio. All are AUD-denominated, and are highly rated by ratings agencies as well as our own internal credit analysts.

Market Review

One- and three-month bank bill yields were little changed in January, although yields on six-month bank bills rose a further 4 bps, to 0.25%. This reflected some anticipation of an increase in the Australian cash rate within the next few months; possibly as soon as May.

Headline inflation quickened to 3.5% year-on-year, while the Reserve Bank of Australia's preferred measure – the trimmed mean – rose to an annual rate of 2.6%. The Reserve Bank of Australia is expecting inflation to continue to trend higher in the near term. CPI seems likely to be above the 2-3% target range in early 2022, due to a combination of effects including higher petrol costs and pricing pressures associated with supply chain disruptions. Officials seem reasonably relaxed with the increases, however, with the latest official guidance suggesting higher inflation prints will be temporary, rather than being more structural in nature. Inbound migration following border re-openings should help ease current tightness in the labour market, conceivably taking some heat out of wage pressures and, in turn, discretionary spending. Pandemic-related bottlenecks in global supply chains are also expected to ease in due course, which could further reduce pricing pressures in some industry sectors. Accordingly, at this stage, policymakers seem unconvinced that inflation is 'sustainably within the target band' – the stated hurdle for interest rates to be raised. We therefore believe the Reserve Bank is likely to be more patient than current market pricing suggests when it comes to raising cash rates.

Officials have again made specific reference to stronger wage outcomes being required for inflation to be sustainably within the target range. With the unemployment rate projected to fall only modestly during 2022, the central case appears for only a gradual pick-up in wages. All of this suggests interest rates could start to be raised in Australia in 2023, rather than this year. At this stage, consensus expectations for four interest rate hikes in Australia this year therefore seem unusually high, in our view.

In other news, it was confirmed following the Reserve Bank's meeting at the end of January that the current asset purchase program will be terminated in February. The central bank has been buying \$4 billion of bonds on the open market per week, and is now believed to own more than a third of all Australian Commonwealth Government Bonds on issue. It remains to be seen how Australian bonds will behave when this very large, price-insensitive buyer withdraws from the market.

Overseas, investors continued to focus on rampant inflation and, in turn, potential changes to monetary policy settings in key regions. Most importantly, with inflation running seemingly out of control, it has become clear that interest rates in the US will be raised sooner rather than later. Headline CPI has risen to an annual rate of 7.0%, the highest level in nearly 40 years. Consequently, by month end five interest rate increases in the US had been priced in to markets; a more aggressive tightening cycle than had previously been anticipated. These evolving expectations saw bond yields rise in all major regions, and hampered returns from fixed income markets.

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