First Sentier Wholesale Strategic Cash Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Strategic Cash

Quarterly Factsheet

30 June 2021

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 and Global Credit	(1983 / 1988)

Product Overview

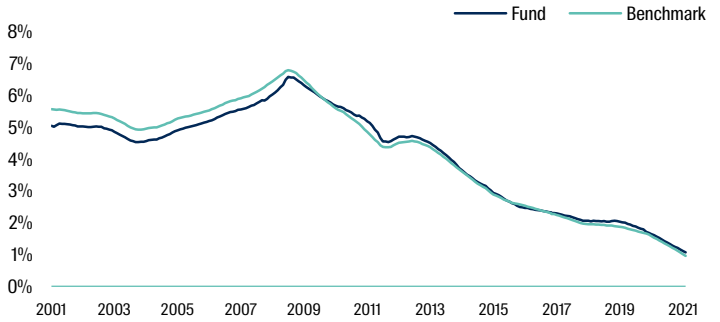
APIR code	FSF0075AU
Inception date	31 May 1998
Fund Size (A$)	5,514 million
Benchmark	Bloomberg AusBond Bank Bill Index
Buy / Sell spread	Nil
Minimum investment (A$)	5,000
Management cost (p.a.)*	0.41%

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

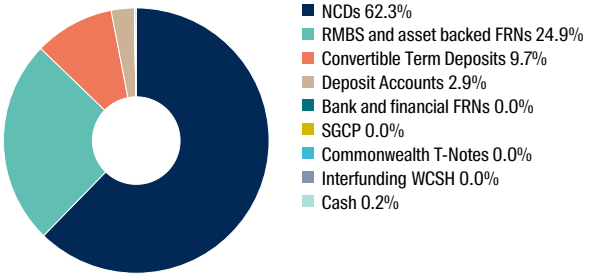
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.1	0.3	1.1	1.4	1.7	2.3	3.9
Benchmark return	0.0	0.1	1.0	1.3	1.6	2.2	4.0
Excess net return	0.1	0.2	0.1	0.1	0.1	0.1	-0.1
Income return	0.0	0.1	1.0	1.4	1.7	2.3	3.9
Growth return	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Rolling 3 year return (%)



Fund composition



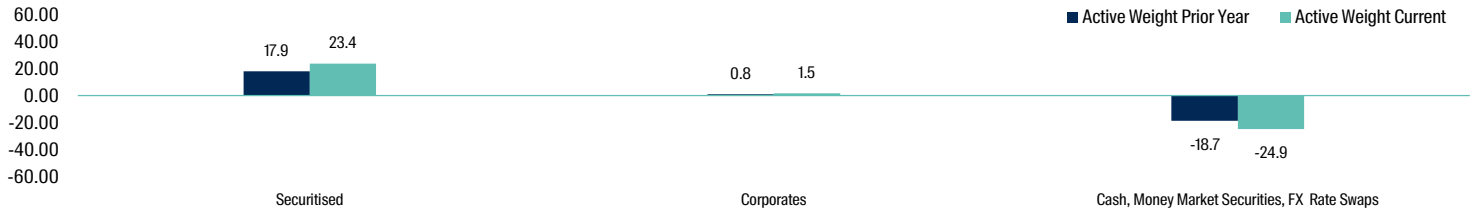
Maturity breakdown (%)

Grade	Weight
0 - 30 days	38.05
31 - 90 days	33.46
91 - 180 days	28.49
181 - 364 days	0.00

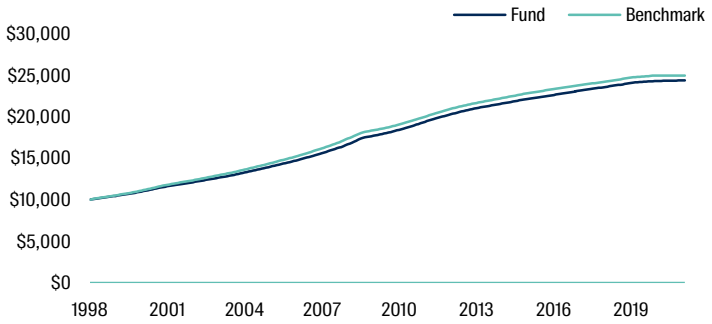
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	0.1	0.2	0.2	0.2	0.3	0.5
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	4.1	0.5	0.6	0.4	0.2	-0.2
Information ratio	4.0	0.9	1.5	0.9	0.8	-0.8

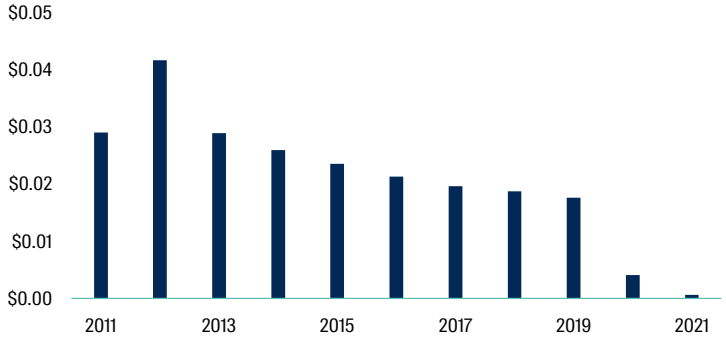
Fund active sector positions (%)



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 2021
Data as at: 30 June 2021

Fund Performance

The Fund continued to eke out modest gains in the June quarter, rising in value by 0.1% net of fees.

The steady positive return maintained the Fund's favourable performance track record in the FY21 year. The Fund appreciated by 0.3% in the year as a whole. Despite being well below the Fund's historic annual returns for the 20+ years since inception, this was a creditable performance relative to the benchmark. The Bloomberg AusBond Bank Bill Index returned just 0.1% over the year; comfortably the lowest annual return on record.

FY21 was a very unusual period for Australian money markets – probably the strangest since we started managing assets in this sector in the early 1990s – but pleasingly we were still able to identify investments offering yields over and above bank bill swap rates. Being able to source these securities and blending them together within a diversified portfolio helped drive performance and maintain the Fund's favourable long-term track record.

Market Review

The market started to reprice the likelihood of interest rate rises in Australia and elsewhere during 2022 and 2023, but this did not affect bank bill swap rates. Yields on 1- and 3-month bank bills were unchanged at 0.01% and 0.03%, respectively, while yields on 6-month bank bills edged lower over the quarter, to 0.07%.

Official cash rates in key regions are almost certain to remain on hold for at least the next year or two, but markets will continue to speculate on the possible timing of the start of the policy normalisation cycle – particularly if economic indicators remain encouraging. In turn, yields on bonds with maturities between two and five years are now starting to rise in many markets.

Investors have been focused on evolving inflationary trends for most of this calendar year, but attention appeared to intensify towards the end of the quarter. Overseas, there has been a modest change in the tone of official commentary; particularly from the US Federal Reserve, where officials reassessed their forecasts for US interest rates. Policymakers are now indicating that interest rates could be raised before the end of 2023 if inflation continues to rise and if the economy continues to recover as anticipated. This latest guidance is in stark contrast to the previous rhetoric, which suggested policy settings would be unchanged until the end of 2023 at the earliest. Separately, there was some speculation that officials may be considering reducing the scale of America's massive quantitative easing program; a move that could have implications for US Treasury yields and breakeven inflation rates in the months ahead.

Finally, there was an ongoing focus on the tug-of-war between vaccine rollouts and the spread of more contagious variants of the Covid-19 virus, and how the evolving pandemic might affect the pace of economic recovery in key regions. In Australia, the implementation of various lockdown restrictions nationwide had clouded the outlook somewhat by quarter end. For now, the latest lockdown restrictions have not affected sentiment towards local financial markets, although investors could become more perturbed if restrictions are in place for longer than is currently anticipated.

Fund Activity

To minimise risk and with capital preservation in mind, there remained 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. Unfortunately, prospective returns from these securities remain low, suggesting the Fund is unlikely to start generating more meaningful returns for the foreseeable future. That said, we will continue to monitor the new issuance pipeline to see whether any new securities can improve the existing diversification in the portfolio and help achieve the Fund's stated performance objectives.

Market Outlook and Positioning

If other central banks start removing some of the very accommodative policy settings that are in place, current interest rate guidance from the Reserve Bank of Australia could become increasingly dislocated from that of other policymakers worldwide. With that in mind, there was increasing anticipation about the Reserve Bank of Australia's meeting in early July, as officials indicated they would outline their plans for the next phase of policy action at this time. Australia's quantitative easing program continued during the June quarter, with the central bank buying around $5 billion of bonds per week on the open market to provide liquidity in the financial system.

On the interest rate front, the Governor of the Reserve Bank reiterated that economic conditions are unlikely to be strong enough to warrant a rate hike until at 2024, at the earliest. Nonetheless, the improvement in the labour market has prompted some forecasters to predict an interest rate hike by late 2022/early 2023.

At the end of June, the portfolio remained well diversified across a range of Negotiable Certificates of Deposit, Convertible Term Deposits, Deposit Accounts and Residential Mortgage Backed Securities.

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