First Sentier Wholesale Strategic Cash Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Strategic Cash Fund

Quarterly Factsheet

31 March 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)

Product Overview

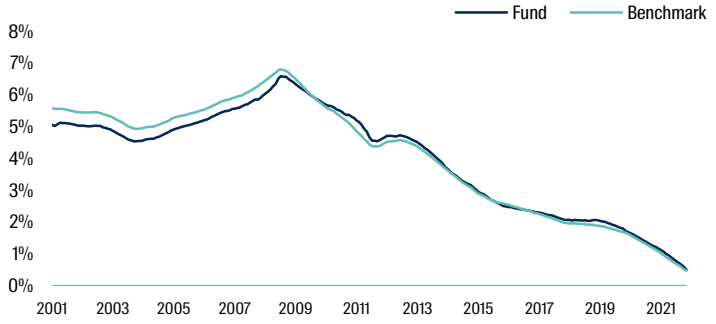
APIR code	FSF0075AU
Inception date	31 May 1998
Fund size (A$ million)	8,898
Benchmark	Bloomberg AusBond Bank Bill Index
Buy/sell spread	Nil
Running yield	0.93%
Running yield Index	0.00%
Duration (Days)	65
Duration (Days) Index	45
Credit Duration (Years)	0.63
Credit Duration Index (Years)	0.12
Management cost	0.26% pa

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

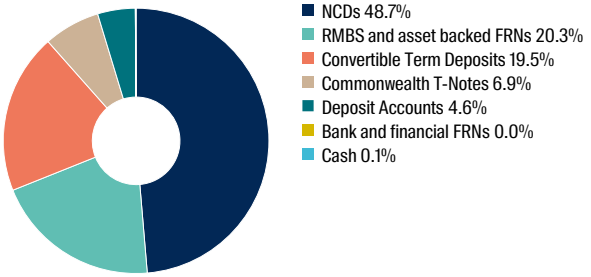
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.1	-0.1	0.5	1.1	1.4	1.9	3.8
Benchmark return	0.0	0.0	0.5	1.0	1.3	1.8	3.9
Excess net return	-0.1	-0.1	0.0	0.1	0.1	0.1	-0.1
Income return	0.0	0.1	0.6	1.1	1.4	1.9	3.8
Growth return	-0.1	-0.2	-0.1	0.0	0.0	0.0	0.0

Rolling 3 year return (%)



Fund composition



Maturity breakdown (%)

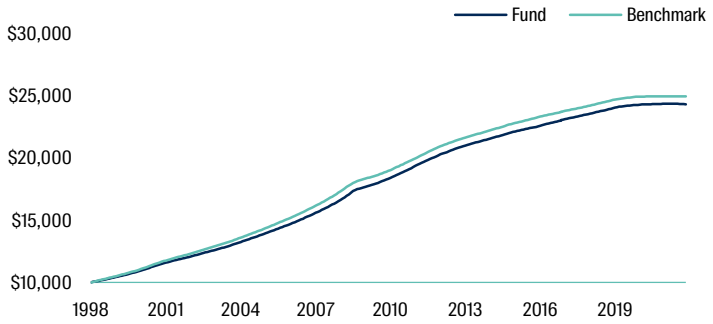
Grade	Weight
0 - 30 days	35.38
31 - 90 days	27.89
91 - 180 days	36.73
181 - 364 days	0.00

Risk Characteristics

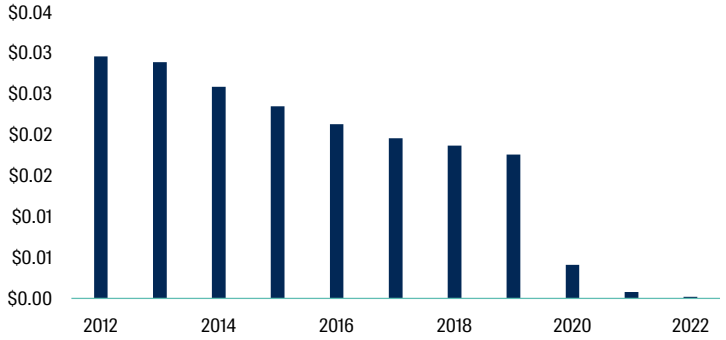
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	0.1	0.2	0.3	0.3	0.3	0.6
Benchmark standard deviation (%)	0.0	0.2	0.2	0.2	0.3	0.6
Tracking error (%)	0.1	0.1	0.1	0.1	0.1	0.1
Fund Sharpe ratio	-1.4	0.2	0.2	0.2	0.2	-0.2
Information ratio	-1.4	0.3	0.6	0.5	0.6	-0.9

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 March 2022

Fund Performance

The Fund declined in value by 0.03% over the quarter, a return that was slightly behind the 0.01% return from the bank bill benchmark. Spreads on residential mortgage backed securities (RMBS) continued to widen, which hampered performance. In fact RMBS spreads have now widened in four of the past five months, resulting in adverse mark-to-market valuations in the Fund's RMBS exposures and, in turn, negative returns from the portfolio.

The moves in the RMBS market largely tracked volatility in the broader Australian credit market, where spreads have risen owing to the prospect of rising borrowing costs and escalating geopolitical tensions. Assuming margins stabilise, the RMBS holdings will provide a significant return enhancement given both the expected higher reference rates and trading margins.

Thankfully, accrual on the Fund's holdings in term deposits and Negotiable Certificates of Deposit provided some support to overall performance.

Market Review

Bank bill yields rose substantially over the quarter, gaining momentum in March in particular. Three- and six-month bank bill yields rose 0.16% and 0.49%, respectively, reflecting evolving interest rate expectations. By quarter end, the market was anticipating an Australian interest rate hike in either May or June – much earlier than previously expected. Moreover, investors suggested the cash rate could be lifted as high as 1.75% by the end of this calendar year.

Forecasts released alongside March's Federal Budget provided grounds for optimism regarding the Australian economic outlook. Officials expect unemployment to fall to 3.75% later this year – from 4.0% currently – and annual wage growth to rise above 3% for the first time in a decade. If these forecasts prove accurate, the Reserve Bank of Australia is more likely to follow other central banks and start raising official interest rates in the months ahead.

Returns from the broader Australian fixed income market were poor. Both duration and spread impacts contributed to the negative market outcome, with rates rising and spreads widening. Ten-year Australian Commonwealth Government Bond yields soared 1.17%, to 2.84%, which fed through to the Bloomberg AusBond Composite 0+ Year Index. The Index was down nearly 6% in the first three months of 2022 – a record low quarterly return.

Fund Activity

Despite subdued returns recently, we remain comfortable with the Fund's exposure to RMBS. Underlying loan repayments are being supported by low unemployment, relatively low mortgage rates and a rebounding economy. Encouragingly, arrears remain below five-year averages. In fact, during the quarter the Fund invested in selected new RMBS issued by high-quality financial firms.

There were no changes to strategy or overall portfolio positioning during the period. The aim is to identify and source investments with prospective yields over and above bank bill swap rates. Throughout the quarter the portfolio remained well diversified across a range of Negotiable Certificates of Deposit, Convertible Term Deposits, Deposit Accounts and Residential Mortgage Backed Securities.

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.

Market Outlook

There is an increasing belief that the Reserve Bank of Australia will be forced to raise official borrowing costs this year. Policymakers are insisting that current policy settings remain appropriate for now, but are under increasing pressure to amend their views with inflation running above target and showing no sign of abating. This suggests bank bill yields could continue to rise and that returns will remain subdued.

That said, anticipation of an increase in cash rates should feed through to higher bank deposit rates. Over time this should help lift the Fund's performance, although for now returns seem likely to remain below long-term averages. Nonetheless, 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.

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