

First Sentier Wholesale Strategic Cash Fund

Formerly the Colonial First State Wholesale Strategic Cash Fund

Quarterly Factsheet

30 June 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

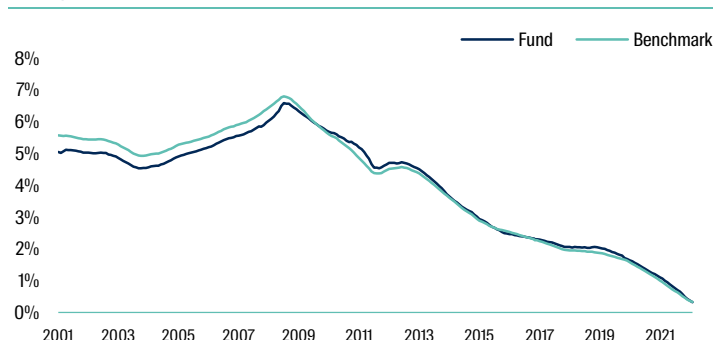
APIR code	FSF0075AU
Inception date	31 May 1998
Fund size (A\$ million)	7,763
Benchmark	Bloomberg AusBond Bank Bill Index
Buy/sell spread	Nil
Running yield	2.32%
Running yield Index	0.00%
Duration (Days)	47
Duration (Days) Index	45
Credit Duration (Years)	0.61
Credit Duration Index (Years)	0.13
Management cost	0.26% pa

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

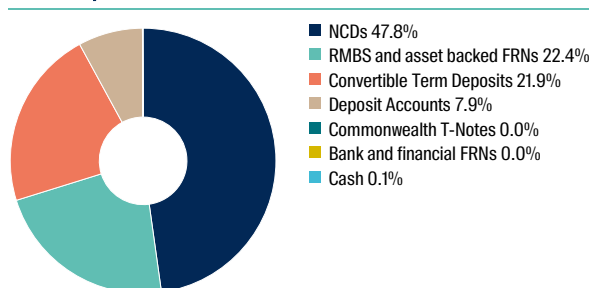
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.0	-0.2	0.3	1.0	1.3	1.8	3.8
Benchmark return	0.1	0.1	0.3	0.9	1.3	1.7	3.9
Excess net return	-0.1	-0.3	0.0	0.0	0.0	0.0	-0.1
Income return	0.1	0.1	0.4	1.0	1.3	1.8	3.7
Growth return	-0.1	-0.3	-0.1	0.0	0.0	0.0	0.0

Rolling 3 year return (%)



Fund composition



Maturity breakdown (%)

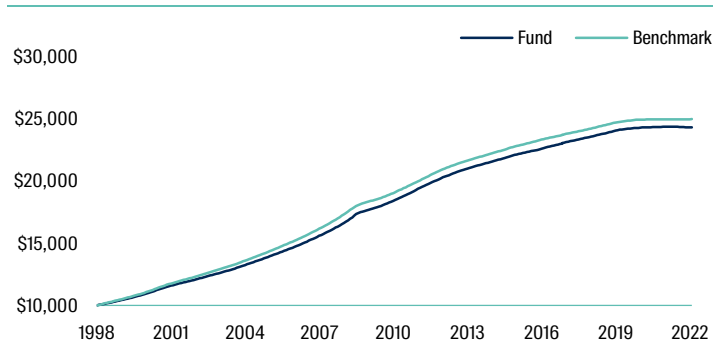
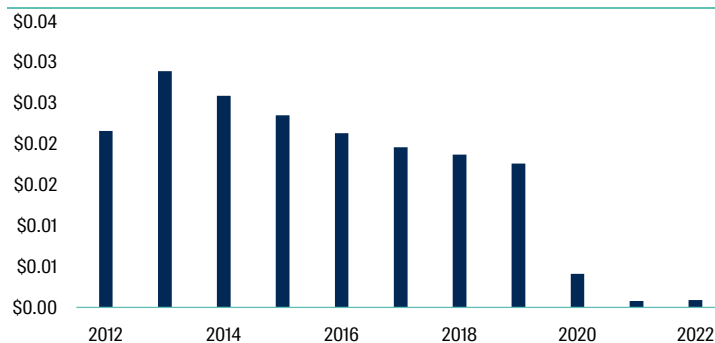
Grade	Weight
0 - 30 days	47.56
31 - 90 days	38.24
91 - 180 days	14.20
181 - 364 days	0.00

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 (%)	0.1	0.1	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	-3.3	-0.1	0.1	0.2	0.2	-0.2
Information ratio	-3.6	-0.1	0.3	0.4	0.5	-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: 30 June 2022

Fund Performance

The Fund returned 0.0% in the June quarter, net of fees. This was broadly in line with the 0.1% return from the bank bill benchmark.

Spreads on residential mortgage backed securities (RMBS) continued to widen, which hampered performance and resulted in adverse mark-to-market valuations in the Fund's RMBS exposures. Positively, the Fund's RMBS holdings should provide a significant return enhancement going forward owing to higher reference rates and wider trading margins. Accrual on holdings in term deposits is increasing too, providing support to overall performance.

Market Review

Bank bill yields skyrocketed over the period as investors upwardly revised their interest rate forecasts. Yields on one-, three- and six-month bank bills rose 1.13%, 1.58% and 1.97%, respectively. Australian government bond yields also continued to rise sharply. By the end of June, yields on 10-year Commonwealth Government securities had risen 0.82%, to 3.66%. Yields briefly traded above 4% in mid-June, but subsequently drifted lower following moves in other major bond markets globally.

The Reserve Bank of Australia raised official interest rates twice during the period, first by 0.25 percentage points in May and then by 0.50 percentage points in June. Policymakers explained that near-zero interest rates are no longer appropriate given rising inflation and the strong rebound in the economy following the Covid pandemic. Unusually, the Governor of the Reserve Bank of Australia made a television appearance in June, effectively telling Australians to expect much higher interest rates in the future.

Official data affirmed that inflationary pressures are gathering pace in Australia. Trimmed Mean CPI for the March quarter came in at 3.7%; comfortably above the Reserve Bank of Australia's target range. Perhaps even more importantly, there was general acknowledgement among economists and market participants that pricing pressures probably intensified further during the June quarter. The Reserve Bank of Australia also increased its estimate for inflation in the near term. Widespread pricing pressures are a global phenomenon, not helped by the ongoing war in Ukraine - which is affecting food and energy prices - and ongoing Covid-related disruptions in China, which are resulting in logistical issues and bottlenecks in global supply chains. That said, investors seem confident that the Reserve Bank of Australia will be successful in taming inflation through tighter policy settings, and that moderating demand levels in the economy will see CPI drop back into the Bank's 2% to 3% target range over time.

Fund Activity

In spite of the volatile market conditions, there were no meaningful changes to strategy or overall portfolio positioning during the period. It is worth noting, however, that we allowed the duration of the portfolio to drift lower. The proceeds from maturing investments were typically reinvested in shorter-dated securities. With official interest rates being lifted and with bank bill yields rising sharply, it is less desirable from a relative performance perspective for the Fund's duration to be longer than that of the benchmark.

Overall, 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 Outlook

Officials have indicated that policy settings will continue to be tightened in the months ahead. In turn, higher bank bill yields should meaningfully improve the income generation of the portfolio, as underlying investments will earn higher yields.

Policymakers have consistently suggested wage price inflation is an important consideration in their policy deliberations. With that in mind, it was interesting to note that wage growth in the March quarter was below consensus expectations and, more importantly, below current inflation levels. This suggests official borrowing costs in Australia might not be raised as high as some forecasters are anticipating.

Moreover, Australia has a high level of household debt relative to most other developed countries. The economy is therefore more sensitive than some others to rising interest rates and mortgage repayment costs. Again, this suggests the Reserve Bank of Australia might not be required to raise official cash rates as substantially as some other countries. Consumer confidence levels in Australia are already subdued and any further increases in borrowing costs might affect discretionary spending. Central bank officials must be mindful of this and will likely be wary of triggering a recession by raising borrowing costs too high and too quickly.

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