First Sentier Wholesale Strategic Cash Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Strategic Cash Fund

Quarterly Factsheet

30 September 2023

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 (including asset backed 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 & Credit	(1983 / 1988)

Product Overview

APIR code	FSF0075AU
Inception date	31 May 1998
Fund size (A$ million)	5,274
Benchmark	Bloomberg AusBond Bank Bill Index
Buy/sell spread	Nil
Running yield	4.75%
Running yield Index	4.09%
Duration (Days)	51
Duration (Days) Index	45
Credit Duration (Years)	0.57
Credit Duration Index (Years)	0.12
Management fees and costs (p.a.)	0.36%

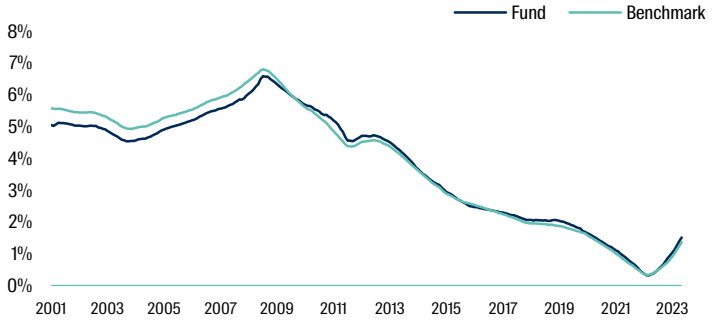
* Information on Management fees and costs (including estimated indirect costs) is set out in the Fund's PDS.

Performance Summary (%)

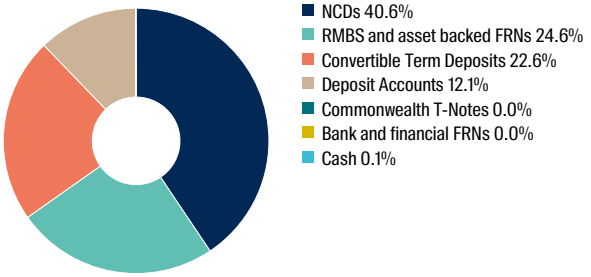
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.2	4.1	1.5	1.4	1.6	1.8	3.7
Benchmark return	1.1	3.6	1.4	1.3	1.4	1.7	3.8
Excess net return	0.1	0.5	0.1	0.1	0.1	0.1	-0.1
Income return	1.0	3.8	1.5	1.4	1.5	1.8	3.7
Growth return	0.2	0.3	0.0	0.0	0.0	0.0	0.0

Past performance is not a reliable indicator of future performance.

Rolling 3 year return (%)



Fund composition



Maturity breakdown (%)

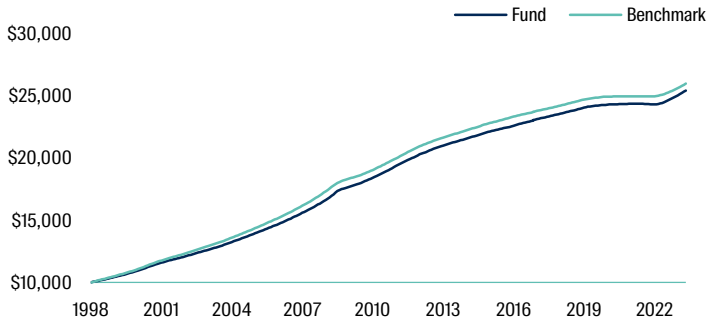
Grade	Weight
0 - 30 days	45.38
31 - 90 days	32.00
91 - 180 days	22.62
181 - 364 days	0.00

Risk Characteristics

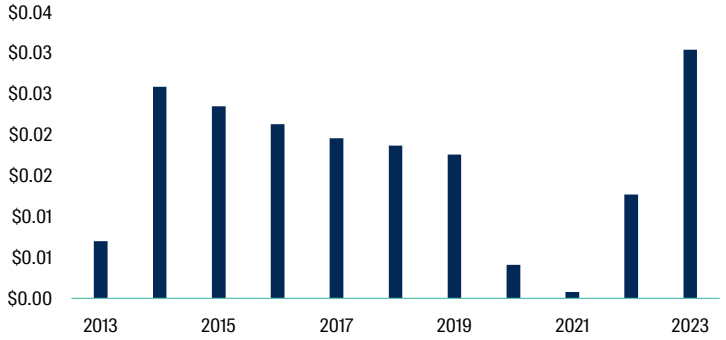
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	0.2	0.5	0.4	0.4	0.3	0.6
Benchmark standard deviation (%)	0.2	0.5	0.4	0.3	0.3	0.6
Tracking error (%)	0.1	0.1	0.1	0.1	0.1	0.1
Fund Sharpe ratio	3.5	0.3	0.3	0.3	0.2	-0.2
Information ratio	7.4	1.2	0.9	1.2	0.8	-0.7

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 2023 Data as at: 30 September 2023

Fund Performance

The Fund appreciated by 1.29% in the September quarter, a return that was 21 bps ahead of the bank bill benchmark. This extended the Fund's favourable recent performance track record; three quarters of the way through the calendar year, returns are more than 60 bps ahead of the benchmark.

Higher official interest rates have lifted prospective returns from short term investments including Term Deposits and Negotiable Certificates of Deposit. The Fund's allocation to residential mortgage backed securities (RMBS) also assisted performance during the quarter. Trading margins in this part of the market have narrowed, in turn increasing capital values.

Market Review

The latest data showed the Australian economy grew at an annual rate of 2.1% in the year ending 30 June. This was slightly slower than the 2.4% year-on-year growth rate in the March quarter, but was above consensus forecasts. In other news, nearly 65,000 new jobs were created in Australia in August following a surprise drop in employment in July. Again, this was well ahead of the consensus estimate.

Even more importantly, inflation in Australia increased in August. Headline CPI quickened to an annual rate of 5.2% in August, up from 4.9% year-on-year in the previous month, driven by higher housing, transport, and food costs. Fuel prices also rose more than 9% in August alone, which exerted further upward pressure on the overall CPI basket. All of this was unwelcome for Reserve Bank of Australia officials.

The new Governor of the Reserve Bank, Michele Bullock, was sworn in during September and left the official cash rate unchanged at 4.1% at her first meeting at the helm in early October. Official cash rates have now been unchanged at the past four Reserve Bank of Australia meetings, increasing suggestions that we might have seen the peak in official cash rates in this cycle. Like in other regions, however, investors are becoming much less confident that borrowing costs might start to come down in 2024.

Fund Activity

There were no meaningful changes to strategy or portfolio positioning over the period. The Fund remained invested in a diversified mix of Term Deposits, Negotiable Certificates of Deposit, and Deposit Accounts. A meaningful exposure to highly-rated RMBS was also maintained. In fact during the quarter we looked for opportunities to increase the Fund's exposure to this area of the market, as we continue to have a constructive view of Australian RMBS and the credit market more generally. For now, we remain comfortable with the Fund's RMBS exposures and believe the securities held will continue to provide suitable, risk-adjusted returns for the portfolio.

Overall, the aim is to identify and source investments with prospective yields over and above bank bill swap rates and to invest in the area of the yield curve that offers the best value for risk. 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 highly rated by ratings agencies as well as our own internal credit analysts.

Market Outlook

Bank bill yields fell slightly from their recent highs during the September quarter, but it is plausible they could increase again if the recent pickup in inflation in Australia and the US persists and forces central banks to consider even tighter monetary policy settings. The overall balance of probability suggests official cash rates in Australia will not be raised any further, but nobody can say with any degree of confidence.

More broadly, it was interesting to see moves in the shape of bond yield curves in key regions over the quarter. Generally speaking, yields on longer-dated securities rose more substantially than those on shorter-dated issues. The US Treasury curve remains inverted – with yields on 2-year notes above those on comparable 10-year bonds – but the gap has narrowed quite significantly. This could be an important indicator, as history suggests that inverted yield curves often flatten and then return to a 'normal' shape – with yields on longer-dated securities higher than those on shorter-dated issues – around the time that economic recessions begin. Time will tell whether that is the case this time around, although a sell-off in equity markets over the quarter suggests investors are contemplating the possibility.

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