

# Colonial First State Multi-Asset Real Return Fund-Class A

For Adviser use only

## Portfolio Description

The Fund provides exposure to a diverse range of investment types, allocating across a number of asset classes within the one portfolio.

## Investment Strategy

The fund's investment strategy is objective based, and implemented through a dynamically managed investment portfolio across asset classes in order to maximise the likelihood of achieving the real return objective whilst minimising deviations from that target. The investment approach allows the portfolio to respond to changing market environments, both capturing opportunities and containing risks relative to the objective. Derivatives may be used for risk management or return enhancement. The fund may hedge some or all of its currency exposure.

## Investment Objective

To deliver an investment return of 4.5% pa above inflation over rolling five-year periods before fees and taxes. Inflation is defined as the Reserve Bank of Australia's Trimmed Mean, as published by the Australian Bureau of Statistics.

## Key Investment Personnel and Experience (Industry / Firm)

Kejal Somaia	Co-Head, Multi-Asset Solutions	(2005 / 2006)
Heath Palos	Portfolio Manager	(2005 / 2020)

## Product Overview

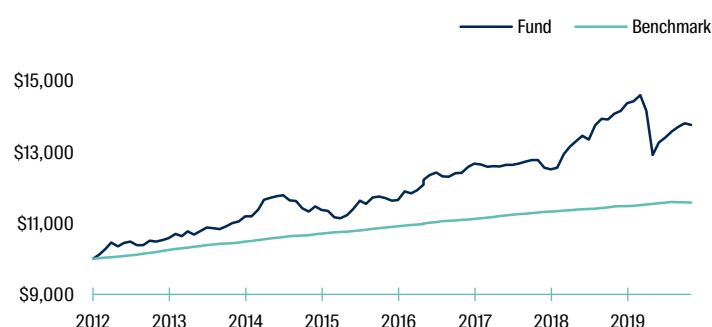
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (AS)	211 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (AS)	25,000
Management cost (p.a.)*	0.95%

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

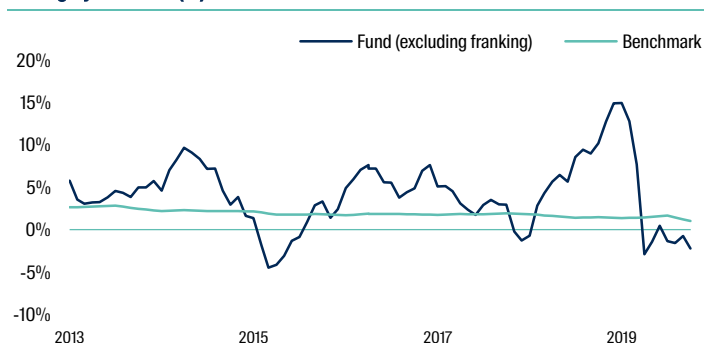
## Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.4	-2.2	3.5	3.7	3.8	-	4.0
Benchmark return	-0.1	1.0	1.5	1.6	1.8	-	1.9
Excess net return	1.5	-3.2	2.1	2.1	2.0	-	2.2
Income return	0.5	3.0	3.0	2.8	3.4	-	3.1
Growth return	0.9	-5.3	0.5	1.0	0.4	-	0.9

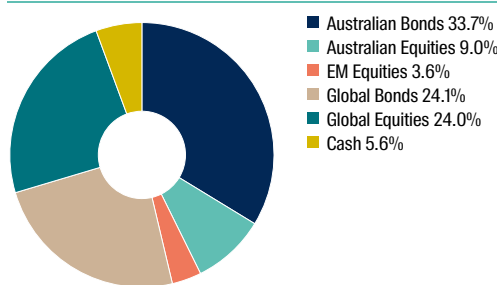
## Growth of AUD 10,000 Investment Since Inception



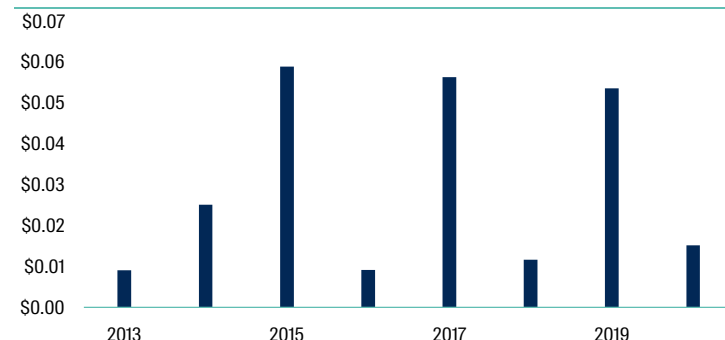
## Rolling 1 year return (%)



## Asset allocation



## 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 2020

Data as at: 30 September 2020

### Fund performance

The CFS Multi-Asset Real Return Fund posted a return of 1.42% (net of fees) for the third quarter of 2020, outperforming inflation (Australian CPI Trimmed Mean) by 1.55%. The most recent quarterly CPI print in Australia was -0.1% quarter-on-quarter (1.2% annualised) in June 2020.

Within the fixed income allocation, the fund delivered negative returns in the Neutral Asset Allocation (NAA), and positive returns in the Dynamic Asset Allocation (DAA) portions of the portfolio. The slight net negative performance was attributable to the increase in interest rates. The prominent contributors to excess returns from active DAA tilts were positions held in New Zealand and China.

Within equities, the asset class as a whole add just under 104 basis points to performance. Active DAA exposures added roughly 68 basis points of performance, largely driven by exposure to South Korea and the US. Singapore, Norway and Canada were slight detractors from returns.

The positive performance from the equities exposures was dampened by the derivative protection strategy that was in place in the portfolio which detracted 36 basis points. The protection strategies were undertaken in early February to mitigate the risk of the COVID-19 outbreak, and continued to generate a positive return over the year.

Foreign currency exposure has increased in the portfolio to around 26%, however, as the Australian dollar rallied by 3.75% over the quarter, from 69.0 US cents to 71.6 US cents, the hedging of foreign exposures contribute about 1% to the fund.

### Market Review

Over the third quarter of 2020, risk assets continued their upward trajectory before losing some ground in September, while bond yields globally were relatively unchanged. The rate of recovery and hopefulness in economic data varied between regions, as did the performance of equity markets. While the rate of Covid-19 infections in the US began to decline, in Europe a slight uptick emerged, damaging sentiment.

Gains were enjoyed by most global equities over Q3, with Asia and the US outperforming Europe and the UK. Asia was the top performing region with the MSCI Asia ex-Japan Index delivering a strong 10.8% rise in local currency terms, led by the Taiwanese IT sector. The Japanese TOPIX however lagged in the region, rising by 'only' 5.2% in local currency. Although September's decline in risk appetite led equity markets to tumble, the S&P 500 Index rose by 8.9% for the quarter, reflecting the recovery that the US economy is making, aided by the US Federal Reserve's accommodative policies. In Europe, equities generated flat returns, as the region's recovery remains uncertain as Covid-19 infections crept upward toward the end of the summer season. The MSCI Europe ex-UK Index rose by 1.8% in local terms. The UK stock market was the least impressive, with the FTSE 100 Index contracting by 4.0% in local currency terms. The reinstatement of localised lockdown measures and the lack of Brexit trade negotiation progress continues to erode prospects for the UK economy.

In fixed income markets, bond yields were relatively unchanged as sentiment remained optimistic due to the continued support from central banks and governments. Economies began to reopen and progress continued to be made in developing a Covid-19 vaccine. While September saw some of that optimism erode, government bond yield movements were mixed. As the accommodative policy expectations exerted downward pressure on bond yields, the increase in bond issuance to fund large Covid-related spending package sometimes pushed yields upward. In the US, meaningful gains in employment in August and September resulted in a substantial fall in the unemployment rate. At around 8%, however, the unemployment rate is around double the pre-Covid level, underlining the challenge facing officials. The US 10-year Treasury yields finished the month 3 basis points higher, and the UK 10-year yields rose by 6 basis points. Economic indicators depicted the challenging conditions present in all major markets. June quarter GDP results across Europe showed contractions, however the announcement of the EU's EUR750 billion pandemic recovery fund, improved sentiment. The German bund 10-year yield fell by 7 basis points, while Italian and Spanish 10-year bonds fell by 29bps and 22bps respectively. There are some signs of recuperation, as German industrial production edged higher in July, but remains 10% below 2019 levels. Similarly, manufacturing activity in Japan appears 20% down from last year.

Conditions in Australia are still subdued, as risk assets finished the quarter down and economic data releases portray a gloomy story. Australia has entered a recession for the first time in 30 years, as GDP declined by 7.0% in the June quarter, following the 0.3% contraction in Q1. Household spending diminished by 12% during the period, which had a particularly negative impact as consumer spending accounts for more than half of Australia's economy. Australian equities fared poorly, with the S&P/ASX 200 Index contracting by 0.4% over the period. In fixed income, the 10-year government bond yields lowered by 8 basis points, finishing the quarter at 0.79%. The yield on the 3-year note also declined to 0.16%, well below the Reserve Bank of Australia's 0.25% target. These moves provided positive returns for Australian government securities. Credit spreads also narrowed, as investors sought exposure to higher yielding investments. Australian inflation also turned negative in the June quarter with -0.3% year-on-year; the first negative print since the late 1990s. Even if economic activity levels ramp up, disinflationary forces are expected to persist. In commodities, most finished the period higher, with the exception of energy. Crude oil also lowered in September due to the uncertainty of an extension of OPEC supply cuts and concerns around the sustainability of the global growth recovery.

### Portfolio positioning

As at the end of September 2020, the DAA is increasing exposure to equities back above the NAA target of 33%, taking the overall exposure to 41.1%. The equity weight is 8.2% higher than it was in March. There are also protection options that were added to the portfolio in August, in both the Australian and US markets. We continue to have a concentration to developed over emerging market equities.

Overall, the portfolio duration was reduced over the quarter at to around 2.4 years and has a focus in developed over emerging markets.

The portfolio's posture towards equity exposures is cautiously overweight compared to the neutral allocation of 33%. This is an increase compared to previous months due to the easing of negative sentiment around COVID-19. The portfolio remains allocated across the available asset universe with ample liquidity to adjust the risk in the portfolio.

### Outlook

After months of enjoying strong gains, global equity markets have finally lost some ground, as the journey to recovery from the Covid-19 crisis continues. With central bankers reiterating that easy monetary policy is here to stay – if not loosen in some regions – governments have also retained a supportive stance. During September, US politicians continued to discuss details of yet another fiscal support program, for example. If approved, this could help support the world's largest economy in the months ahead. While the US may have seen a recent spike of new jobs created over August, activity levels are still subdued and the rate of unemployment may not yet be set on a downward trajectory. In the UK, the current furlough scheme comes to a wrap at October end, with a less generous support scheme set to arise. In Europe more positively, Covid-19 affected workers have been granted an extension for the current support measures. With lockdown measures being reimposed as the northern hemisphere heads towards winter, unemployment could face continued implications from this pandemic.

While the global technology sector had enjoyed stellar performance in recent months, the recent correction over September may keep investors wary as valuations remain high by historical standards. As pressure for a vaccine continues to mount, the potential for a vaccine-driven rotation could push growth stocks to underperform. Albeit, the wait for a vaccine continues, with US President Trumps claim of a vaccine by April 2021 seemingly uncertain.

The speculation on bond yields continues as they fall lower again. With interest rates staying low, the European Central Bank has followed the tune of the US Federal Reserve and has commenced targeting an average inflation rate.

As we look ahead, the fourth quarter of 2020 will be a lively end to an already eventful year. The US Presidential Election is set for early November, with associated fanfare continuing to build momentum. The debate for more fiscal stimulus by US Congress will hopefully come to a head. A UK and European free trade agreement will be finalised...or not. The biggest outstanding will of course be a vaccine, but Q4 may very well come and go without a successful vaccine. Until then, central banks and governments will need to continue to balance health concerns and the desire to relax restrictions and find an economic rebound.

The Multi-Asset Solutions team strongly believes that risk management is key in such volatile times, and within our disciplined investment process we will be still able to make qualitative overlays to manage our portfolios towards their respective investment objectives in a risk-controlled manner. Nobody can predict what the world will look like after the Covid-19 spread has passed, however, we are continually reviewing our longer-term economic outlook, and updating the data to reflect the latest policy measures taken by the central banks and governments. We will continue to monitor developments very closely with a view of managing the portfolio in a flexible and dynamic fashion to protect capital and seek out emerging opportunities from these market dislocations.

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