

First Sentier Multi-Asset Real Return Fund

Formerly the Colonial First State Multi-Asset Real Return Fund-Class A

Quarterly Factsheet

30 June 2021

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	(2000 / 2006)
Heath Palos	Portfolio Manager	(2005 / 2020)

Product Overview

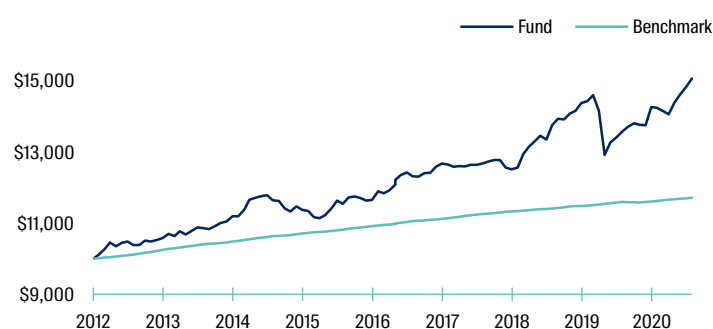
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (AS)	223 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (AS)	25,000
Management cost (p.a.)*	0.81%

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

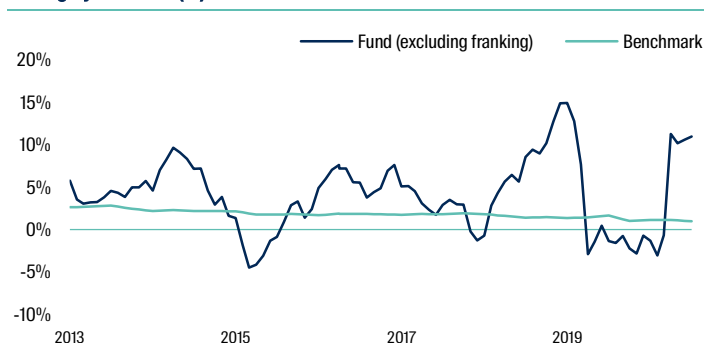
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	4.8	11.0	5.9	5.2	4.6	-	4.8
Benchmark return	0.3	1.0	1.3	1.5	1.7	-	1.8
Excess net return	4.4	10.0	4.6	3.7	3.0	-	2.9
Income return	3.2	8.3	4.8	4.3	4.3	-	3.8
Growth return	1.6	2.7	1.1	1.0	0.3	-	1.0

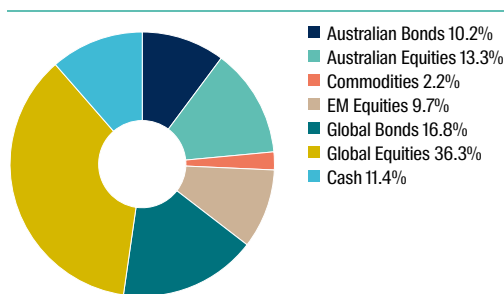
Growth of AUD 10,000 Investment Since Inception



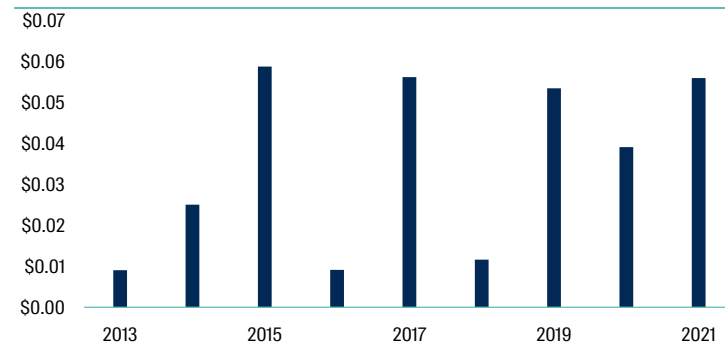
Rolling 1 year return (%)



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 2021

Data as at: 30 June 2021

Fund performance

The CFS Multi-Asset Real Return Fund posted a return of 4.75% (net of fees) for the second quarter of 2021, outperforming inflation (Australian CPI Trimmed Mean) by 4.44%. The most recent quarterly CPI print in Australia was 0.3% quarter-on-quarter (112% annualised) for March 2021.

Within the fixed income allocation, the fund delivered positive returns in the Neutral Asset Allocation (NAA) and in the Dynamic Asset Allocation (DAA) portions of the portfolio, adding 21 bps in total. The positive performance was attributable to a general decrease in rates, driven by a softening in inflation and growth expectations globally. The larger positive contributors to excess returns from active DAA tilts were well timed positions held in Canada and US government bonds futures, while the US and Australia were the largest contributors in the NAA.

Within equities, the asset class as a whole add just under 363 basis points to performance. Active DAA exposures added roughly 114 basis points of performance, largely driven by exposure to Switzerland and Australia. Japan and Turkey were a slight detractors from returns. In the NAA, Australia and the US were the largest contributors as they are structurally the largest allocations within the NAA. There were no equity based protection strategies undertaken within the portfolio. Foreign currency exposure within the portfolio increased over the quarter to around 44%. However, as the Australian dollar declined by 2.6% over the quarter, from 77.0 US cents to 75.0 US cents, the foreign exposures contribute about 76 basis points to the fund.

Market Review

Vaccines and new virus strains dominated headlines over the second quarter of 2021. Many developed nations have begun to open back up and ease on social distancing measures as the number of Covid-19 vaccines administered continues to climb. This has enabled activity levels to rise, unemployment to lower and for most risk assets to deliver strong returns. The continued recovery and increase in economic activity however has fuelled inflation in select markets. Meanwhile, after rising substantially in the first three months of the calendar year, bond yields in most major regions dipped lower in the June quarter. Overall, optimism continues to move with an upward trajectory as the global recovery continues to play out.

Global equity markets delivered strong returns over the quarter, supported by the acceleration in Covid-19 vaccinations administered across developed nations. While the UK and the US remain in the lead on this, Europe – which was previously lagging – is now catching up. European bourses reflected this positive news with strong returns. The tech-heavy NASDAQ Index in the US, led returns, rising by almost 9.5% in US dollar terms, as the US economy further opened up and eased mobility restrictions. To encourage further, the US posed a year-on-year growth reading of 6.4% for Q1 2021. In Asian and emerging markets, the rate of vaccinations by quarter end was still lagging the developed world, but the fortunately, the rate of infections appears to have slowed. Even in India, where the spread seemed out of control only recently, seems to have surpassed its peak.

In fixed income markets, bond yields changed direction from the first quarter and trended lower. The yield on 10-year Treasuries in the US dropped 27 bps over the period, to 1.47%. The move lower came in spite of a pickup in US inflation – consumer prices were up 0.6% in May and 5.0% on a rolling 12-month view, higher than consensus forecasts. Investors are trying to understand whether the recent spike is temporary, or a signal that inflationary forces are becoming more entrenched. For now, Federal Reserve officials are insisting that the recent rise in inflation will not persist. Other economic indicators were generally encouraging in the US. Employment continued to recover from the Covid shock, for example, and the ISM Services Index – a reasonable indicator of conditions and confidence levels among firms in services sectors – rose to its highest ever level. Government bond yields also closed the quarter lower in the UK and Japan, but edged higher in Germany. Some forecasters are expecting them to rise above zero by the end of this year as the vaccine rollout gathers pace. The President of the European Central Bank is expecting a "tale of two halves" for the European economy in 2021, and sees "good signs" for the second half of the year. These positive comments appeared to exert some upward pressure on bond yields in the region.

In Australia, concerns around the 'delta' variant picked up towards the end of June. While the number of cases throughout the period remained minimal throughout the period, the number of vaccines administered remains subdued. Economic indicators have been generally positive, but the issue of restrictions in several major locations towards the end of the period have clouded the outlook. Despite this, Australian Shares performed well with the S&P/ASX 100 Accumulation Index increasing by 8.5% over the three-month period, in local currency terms. In fixed income, ten-year Commonwealth Government Bond yields fell 26 bps in the June quarter, to 1.53%. This move helped the domestic fixed income market register steady positive returns over the period. Most important economic indicators have been encouraging – the unemployment rate has come down to 5.1%, for example. In fact, Australia is the only G20 country where employment has risen above pre-Covid levels. At the same time, the Reserve Bank of Australia meaningfully upgraded its forecasts for the economy in the latest Statement of Monetary Policy. Officials are now projecting a 5.25% GDP growth rate this year, and 4% growth in 2022. In spite of the upwardly revised growth projections, the Governor of the Reserve Bank has reiterated that interest rates are unlikely to be raised until 2024, at the earliest. Nonetheless, the improvement in the labour market has prompted some forecasters to predict a rate hike by late 2022/early 2023.

Portfolio positioning

As at the end of June 2021, the DAA increased exposure to equities above the NAA target of 45%, taking the overall exposure to a healthy overweight at 54.2%. The equity weight is 0.6% higher than it was at the end of March. Australia and the US remain the largest exposures and comprise about 27% of the portfolio, as we continue to have a concentration to developed over emerging market equities. As part of our NAA, we continue to hold our 5% allocation to global listed property and a 2% allocation to commodities. This is in line with our longer term economic growth and inflation outlook. Overall, the portfolio duration increased from the prior month and sits at around 2.5 years with a focus for developed over emerging markets. Within our DAA allocation, the largest contributors to duration are NZ and Norway, adding about 0.57 years. The portfolio remains allocated across the available asset universe with ample liquidity to adjust the risk in the portfolio.

Outlook

The tug-of-war between vaccine rollouts and new infections – particularly by the more contagious 'delta' variant – is still dominating focus from health officials, governments and policymakers globally. Both the UK and the US still lead the way in the race to immunising their populations although Europe has recently picked up the pace. China, Singapore and South Korea look to have this completed in the next few months, however Japan has not been as efficient. Many countries have begun to announce plans to return to 'normal' being dependent on a specified level of their population receiving the vaccine. As such, all eyes will be on the vaccination rates in each country to determine when an economic rebound will be complete. Quarterly GDP readings in major economies have been trending higher in the last six months, further providing encouragement. As immunity against the virus only increase, we expect economic growth to continue on this upward trajectory over the coming period.

Globally, policymakers still have the prospect of higher than expected inflation to consider, while ensuring any policy changes made are not premature and prohibit an efficient economic recovery. While changes in interest rates in the US and Australia are unlikely to occur anytime soon, concerns over tightening policy measures in China were bubbling at the end of June. While most investors expect that policy settings will change as economic conditions improve, many believe that improvements are not substantial enough to warrant considerable policy changes in the imminent future. Additionally, while bond yields had risen significantly at the beginning of the year, the first six months of 2021 saw volatility as they have returned to historically low levels by the end of June. We expect this volatility to continue as talk of inflation and tapering continues. This volatility is anticipated across both fixed income and equities, as the cost of borrowing hangs in the balance. While the path to recovery is still playing out, some more bumps in the road should be expected. Fortunately, while vaccine rollout programs have been encouraging economic activity these remain below pre-pandemic levels, particularly as it pertains to international travel and tourism.

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.

www.firstsentierinvestors.com.au

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Download Product Disclosure Statements from below website link.

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Total returns shown for the Fund or any Portfolio have been calculated using exit prices after taking into account all ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is no indication of future performance.

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