

First Sentier Multi-Asset Real Return Fund



First Sentier
Investors

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

Quarterly Factsheet

31 March 2022

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 has an objective based approach that it implements through dynamic management across asset classes in order to maximise the likelihood of achieving the real return objective whilst minimising deviations from that target. This approach allows the portfolio to respond to changing market environments, both capturing opportunities and managing risks relative to the objective. The investment process integrates responsible investment (RI) considerations, utilising RI factors to generate a more consistent return profile over time in line with the overall objectives of the fund.

These RI factors include an extensive list of ethical (values) screens, proxy voting and proactive company engagement that contribute to long term return drivers and risk management.

The fund may use derivatives for risk management or return enhancement and may hedge some or all of its currency exposure.

Key Investment Personnel and Experience (Industry / Firm)

Kejal Somaia	Co-Head, Multi-Asset Solutions	(2000 / 2006)
Heath Palos	Portfolio Manager	(2005 / 2020)

Product Overview

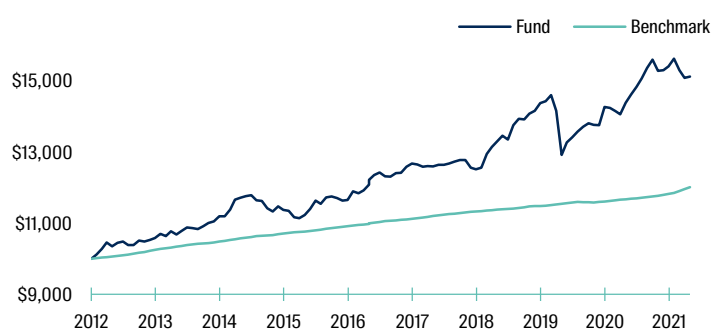
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (A\$)	215 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A\$)	25,000
Management cost (p.a.)*	0.81%

* 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	-3.3	5.1	4.3	4.4	3.5	-	4.4
Benchmark return	1.4	2.9	1.8	1.8	1.8	-	2.0
Excess net return	-4.6	2.2	2.5	2.6	1.8	-	2.5
Income return	0.8	4.6	4.8	4.1	3.8	-	3.6
Growth return	-4.1	0.5	-0.5	0.3	-0.2	-	0.8

Growth of AUD 10,000 Investment Since Inception



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.

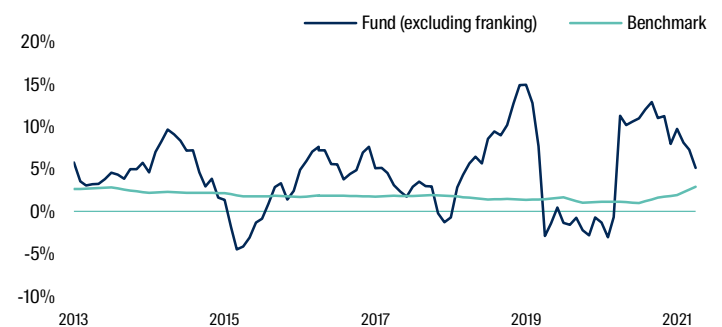
Data source: First Sentier Investors 2022

Data as at: 31 March 2022

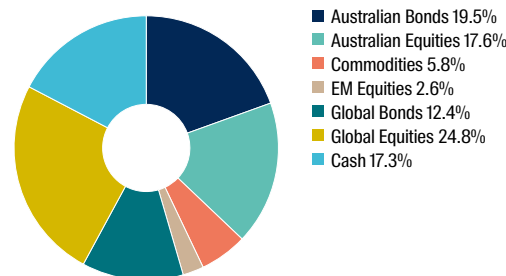
Investment Objective

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.

Rolling 1 year return (%)



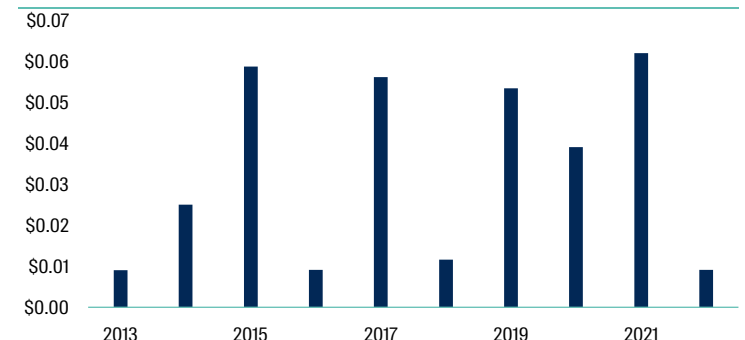
Asset allocation



RIAA Certification

The First Sentier Multi-Asset Real Return Fund has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestments.com.au for details.¹

Distributions



Fund performance

The First Sentier Multi-Asset Real Return Fund posted a return of -3.25% (net of fees) for the first quarter of 2022, underperforming inflation (Australian CPI Trimmed Mean) by -4.62%. The most recent quarterly CPI print in Australia was 1.0% quarter-on-quarter (2.6% annualised) for December 2021.

Within the fixed income allocation, the fund experienced negative returns in the Neutral Asset Allocation (NAA), detracting 86 basis points in total. The performance was attributable to an increase in rates and steepening of global yield curves, driven by the growing expectations that the US Federal Reserve will continue to raise rates at a steady pace. The larger detractors were positions held in French, US and Australian government bonds. The negative returns from fixed income assets were contained as we reduced duration exposures across both the neutral and dynamic asset allocations over the period.

Within equities, the asset class as a whole detracted just over 254 basis points from performance. Active DAA exposures detracted 140 basis points of that performance, largely driven by exposure to US and Swedish equity markets. Active positions in Hong Kong provided a positive contribution of 17 basis points. Within the NAA, US exposures were the largest negative contributors detracting over 83 basis points. Protective put options on the S&P 500 are also held in the portfolio to mitigate drawdowns in a significant sell off and these added 23 basis points over the period. Foreign currency exposure within the portfolio remained relatively stable over the quarter at 32%, in line with the global equity exposures within the NAA. The reductions implemented at the time of the last semi-annual review in Q4 2021 minimised the impact from foreign exposures, as the Australian dollar strengthened by 3% over the quarter, from 72.8 US cents to 75 US cents.

Market Review

Financial markets experienced a significant uptick in volatility over the first quarter of 2022, as Russian forces invaded Ukraine during February. While many economies were welcoming back a rise in activity as Covid-19 infections and restrictions eased, this conflict provided instability, weighing on both bond and equity markets. Alongside this, rampant inflation in key regions has trumped the transitory narrative, as policymakers have turned their focus to interest rate hikes. With borrowing costs likely to increase to ease the pressure on the rising costs of living, concerns around the implications on economic growth are emerging.

Despite a remarkable 2021, most major equity markets finished the quarter lower on the back of the war in Ukraine, ongoing supply chain disruptions and seemingly out of control inflation. Uncertainty has unsurprisingly surged in Europe, with the conflict in Ukraine placing pressure on both investor and consumer sentiment. As a large importer of Russian oil and gas, the higher energy prices could threaten economic growth in the region, particularly as other costs continue to rise too. The Euro Stoxx 50 finished the period 9.2% lower, in local currency terms. The German DAX in particular, contracted by 10.2%. Over in the US, the S&P 500 and the NASDAQ indices both moved lower by 4.6% and 9.10%, respectively. Overall, developed markets outperformed emerging but most returns were lacklustre. The UK FTSE 100 however seemed to buck the trend, rising by 1.8% over the period. This may be a result of the UK's lesser reliance on Russian commodities. The flash PMI survey was also better than expected, reflecting only modest headwinds from higher energy prices. Asian bourses experienced varied results. While Singaporean equities delivered strong returns, Japanese, Hong Kong and particularly Chinese equities did not fare so well. It was a poor quarter for Chinese equities, with the CSI 300 returning -14.5% in local currency terms. China's zero-Covid policy has meant that outbreaks and lockdowns have been detrimental to activity levels. The shutdown of manufacturing plants has further hurt global supply chains.

Government bond yields continued to rise sharply as investors revised their future interest rate expectations. This resulted in disappointing returns from most fixed income products. In fact, the quarterly return from US government bonds was the lowest since the early 1980s and among the worst on record. In March, the Federal Reserve raised US interest rates for the first time in more than three years. The Federal Funds rate was increased by 0.25 percentage points, lifting the target band to between 0.25% and 0.50%. More importantly, officials signalled that borrowing costs are likely to rise more aggressively than previously anticipated. Government bond yields rose worldwide as investors revised their future interest rate expectations, yielding poor returns from the asset class. Returns from other major bond markets – including the UK, Germany and Japan – were also subdued. The European Central Bank announced the pandemic purchase plan tapering is to be finalised by June. The Bank of England declared its commitment to ensure longer-term inflation expectations remain well anchored. Overall, quantitative tightening is high on investors' radar.

Over the first quarter, Australia also dealt with rising inflation and concerns of the war in Ukraine. Covid-19 hospitalisations saw an uptick as restrictions eased significantly across the country, but have trended lower towards the end of the period. PMI survey results have shown strength in activity levels, with the manufacturing PMI increasing from 53.2 in February to 55.7 in March – the highest level in 8 months. The services PMI lowered from 60 points to 56.2 points, reflecting a moderate slowdown most likely a result of the recent flooding and lingering Covid-related disruptions. While most other global equity markets struggled, domestic equities delivered solid results, as the S&P/ASX 100 Accumulation Index finished the quarter 3.0% higher, in local currency terms. The latest federal budget was announced, proposing cash support for Australian households to help soften the impact of rising living costs. While the increase in costs and retail prices have been eroding consumer sentiment, forecasts released alongside the budget expect unemployment to lower to 3.75% later this year. Annual wage growth is expected to rise above 3% for the first time in a decade. These conditions are likely to support the case for the Reserve Bank of Australia to increase the official interest rate. These expectations were reflected in the Ten-year Australian Commonwealth Government Bond yields, which soared 1.17% over the quarter, to 2.84%. This fed through to the Bloomberg AusBond Composite 0+ Year Index, which returned 5.9% – among the worst quarterly returns on record.

Portfolio positioning

As at the end of March 2021, the DAA underweight exposure to equities from last quarter was removed taking the overall equity exposure to 45% which is just below the NAA target of 46% due to protection strategy exposures. Australia and the US remain the largest exposures and comprise just over 30% of the portfolio, as we continue to have a concentration to developed over emerging market equities.

As part of our NAA, we hold a 6.7% allocation to global listed property and a 5.8% allocation to commodities. Commodities is marginal higher from the previous quarter and in line with our longer-term economic growth and inflation outlook.

Overall, the portfolio duration decreased considerably from the prior quarter and sits at around 0.6 years, which is relatively stable from 0.5 years as at the end of last quarter, with a preference for developed over emerging markets. We currently see limited opportunities to add value from shorter term tilts within government bonds so have reduced the Dynamic Asset Allocation (DAA) exposures over the period. We continually monitor and review our DAA views and will introduce more active positions within bonds when there is more scope to add value to the portfolio.

Outlook

Our outlook for financial markets remains cautious due to the escalated uncertainty associated with the conflict in Ukraine. With inflationary pressures already at higher than desired levels across several markets, the sanctions and need to diversify away from Russian energy supplies are only exacerbating the rising costs of living. All eyes are watching central bank officials, as the rollback of ultra-easy monetary policy settings appears likely to occur at a faster rate than previously anticipated. Several major markets have already seen interest rate hikes, including the UK, the US and New Zealand. Rhetoric from other banks suggest that others will follow soon. In Europe however, officials have indicated that while rate hikes will undoubtedly come, they are holding off for now. Germany, for example, recorded an annual inflation reading of 7.6%, which is the highest rate since 1981. Separately, there has been talk of gas supply rationing in Germany, as authorities try to reduce reliance on Russian energy imports. This could affect manufacturing output, in particular, and act as a headwind for growth in the region. Overall, the European Commission announced during the month a plan to reduce Russian gas imports by two-thirds by the end of the year. It will remain to be seen how effectively this plan will be able to be implemented and at such a short timeframe.

On the Covid-19 front, hospitalisations and restrictions continue to decline across most regions. In China and Hong Kong however, the rigid zero-Covid policy has seen the imposition of widespread restrictions across the country, including Shanghai, over March. These continue to hamper activity and confidence levels. In the US, where restrictions have significantly reduced and activity levels have made a substantial rebound, indicators have markedly improved. Over February, it was reported that 678,000 new jobs were created, beating consensus expectations. While unemployment is low at 3.8%, there are still labour shortages in some areas, pushing wages higher. Over the past 12 months, wages have increased by more than 5% in the US.

The rising yields environment continues to drive some caution among investors and place some pressure on equity valuations. Despite this, solid corporate balance sheets, coupled with enormous levels of pent-up demand, will likely remain supportive. With rates at multi-decade lows and rising inflation, the risks are to the upside in interest rates and the flexibility of objective-based strategies allows us to mitigate these risks relative to a static benchmarked approach to asset allocation.

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

For further information

Personal investors

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Download Product Disclosure Statements from below website link.

www.firstsentierinvestors.com.au/individual-pds

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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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