

First Sentier Multi-Asset Real Return Fund



First Sentier
Investors

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

Quarterly Factsheet

30 June 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)
Andrew Harman	Senior Portfolio Manager	(2008 / 2008)

Product Overview

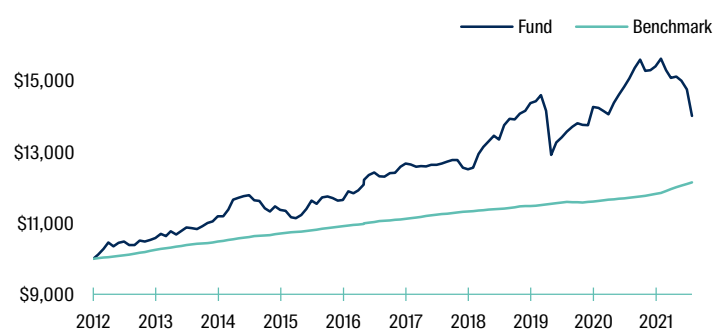
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (A\$)	197 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A\$)	25,000
Management cost (p.a.)*	0.81%

* 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	-7.3	-7.0	0.6	2.6	2.5	-	3.5
Benchmark return	1.1	3.7	2.1	1.9	1.9	-	2.0
Excess net return	-8.4	-10.7	-1.5	0.7	0.7	-	1.5
Income return	0.0	1.3	4.1	3.7	3.2	-	3.5
Growth return	-7.3	-8.3	-3.5	-1.0	-0.7	-	0.0

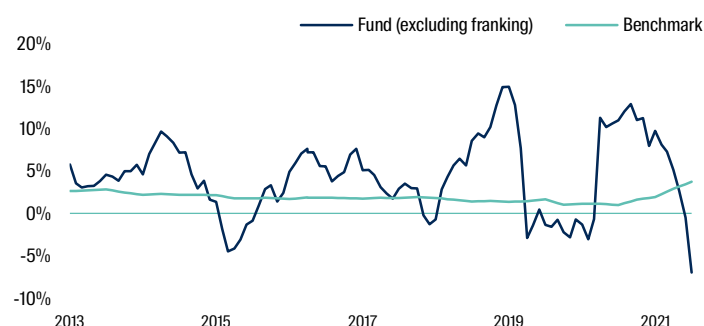
Growth of AUD 10,000 Investment Since Inception



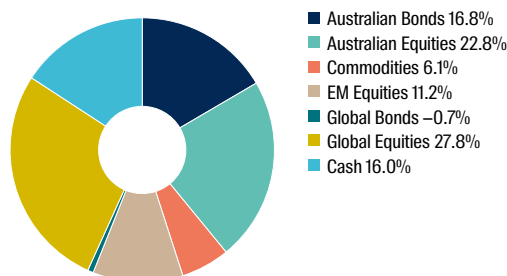
Investment Objective

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 (%)



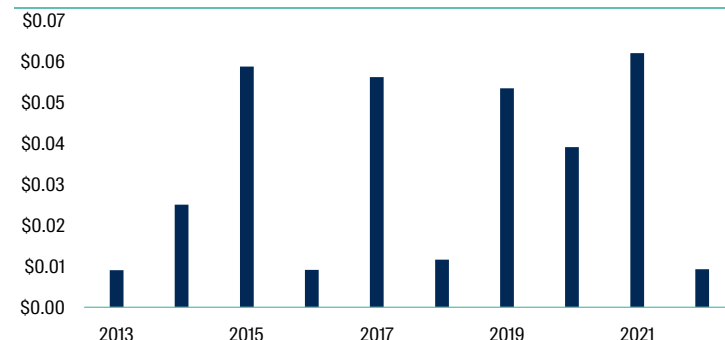
Asset allocation



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



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 First Sentier Multi-Asset Real Return Fund posted a return of -5.06% (net of fees) for the second quarter of 2022, underperforming inflation (Australian CPI Trimmed Mean) by -5.42%. The most recent quarterly CPI print in Australia was 1.4% quarter-on-quarter (3.7% annualised) for March 2022.

Within our investment process we have two building blocks. The first, which we call Neutral Asset Allocation (NAA), sets longer-term asset allocations. The second part, which we call Dynamic Asset Allocation (DAA), allows us to exploit shorter-term opportunities and better manage portfolio risk. The NAA is expected to deliver the majority of performance over the investment horizon, although this will vary over short-time periods such as one month.

The NAA provided a negative performance contribution as equities (-4.2%), corporate bonds (-0.3%) and commodities (-0.8%) fell over the quarter.

DAA positions detracted from performance (-2.0%) over the quarter, which was driven by preferred exposure to global equities such as the US and India.

Market Review

To date, 2022 has been miserable for financial markets, with weakness experienced by most asset classes. In the face of rising interest rates and high inflation, the bellwether S&P 500 Index in the US endured its worst H1 performance since the early 1960s, delivering a return of -20.0%. These factors have also pushed government bond yields higher, providing poor returns for fixed income investors. While the ease of Covid-19 related restrictions has provided an increase in mobility, prospect of higher borrowing costs and the general increase in the cost of living has prompted a significant deterioration in consumer confidence over the last few months.

Disappointing returns over the quarter and over June in particular rounded out a disappointing first half of the year for major share markets. Collectively, the MSCI World Index shed 14.3% in the three months to June as investors focused on the worsening economic outlook in key regions. Weakness in the US set the tone, with the S&P 500 Index and NASDAQ, declining by 16.1% and 22.4% respectively. The S&P 500 Index is now down 20.0% in the year to date, while the NASDAQ is down nearly 30%. Technology shares tend to be quite sensitive to interest rate movements, and have therefore been hampered by the sharp rise in borrowing costs this year. Various other market sectors were down sharply in June too. Cruise lines, for example, were hampered by rising fuel prices and a deterioration in consumer sentiment. Returns were poor in Europe too. The German and French markets were both down more than 11%, while the Italian market closed around 14.9% lower. The Spanish IBEX and the UK's FTSE 100 were relative outperformers, down 'only' 4.1% and 4.6% respectively. Asian markets were the best performers. The Japanese and Singaporean markets lowered by 5.1% and 7.5% respectively, but Chinese shares appreciated. The CSI 300 Index jumped 6.2% as Covid-related restrictions started to be lifted. A lockdown was removed in Shanghai, a city with a bigger population than the whole of Australia. Finally, shares in Hong Kong marked the 25th anniversary of Chinese rule with a solid performance over June, pushing the quarterly return to only lose a little ground, down 0.6%. Like on the Chinese mainland, sentiment has improved following the gradual relaxation of strict Covid-related mobility and travel restrictions.

Major government bond markets delivered negative returns, as yields continue to rise in line with actual interest rate hikes as well as expectations. Like in the equity market, developments in the US continued to set the tone. In the June quarter alone, the Federal Funds rate increased twice - by a 0.50 percentage point in May, followed by a 0.75 percentage point lift in June. These changes are a clear affirmation that officials will continue to tighten policy settings quite significantly in the months ahead pushed yields higher in the US and elsewhere. Following weakness over the period, US Treasuries recorded their lowest H1 return since the 1700s. This underlines just how extraordinary bond market moves have been in the past few months. Over the Atlantic, the European Central Bank indicated in June that it would cease its bond purchase program, removing a key pillar of support for local financial markets. Thereafter, investors are expecting interest rates to be raised. A 0.25 percentage point move is most likely as officials start to move official borrowing costs above zero. Caution is required; raising interest rates too much, too fast would risk strangling growth in some of the weaker countries in the Eurozone, in particular. In many key regions, these concerns eroded sentiment towards credit markets. A deterioration in consumer sentiment does not augur well for profitability among companies whose revenues are reliant on discretionary spending. Many consumers are feeling the squeeze from the rising costs of living as well as negative real wage growth. Moreover, higher official interest rates will increase the cost of debt for firms when new bonds are issued. Higher repayment costs could become an issue for the most indebted companies, or those that experience a material drop in revenues and profitability. Credit spreads widened in both the investment grade and high yield sub-sectors against this background, as investors priced in the likelihood of an uptick in defaults worldwide.

The unpredictable economic background continued to affect sentiment and dictated Australian equity market movements in the June quarter. Pressure continued to mount over the period, as higher-than-expected inflation prints in the US and Europe sparked speculation that interest rates would continue to be raised worldwide. The associated drop in consumer sentiment helped drive the S&P ASX 200 Accumulation Index down 11.1%. Official interest rates increased twice over the period, by 0.50 percentage points in June, following May's 0.25 percentage point hike. 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. The Governor of the Reserve Bank of Australia made an unusual television appearance, effectively telling Australians to expect much higher interest rates in the months ahead. Government bond yields skyrocketed, with the benchmark 10-year bond rising by 82 basis points, to 3.66%. The Treasury is forecasting a further pick-up in inflation, from the 5.1% annual rate seen in the March quarter. Like elsewhere, food and energy prices are rising particularly strongly. The latest survey of households suggests Australians are expecting inflation to reach nearly 7%, eroding their purchasing power. The local labour market remains quite strong, with firms continuing to hire following the relaxation of Covid-related restrictions. More than 200,000 jobs have been created in Australia in 2022-to-date, although wage growth is currently not keeping up with inflation.

Portfolio positioning

We undertook our semi-annual NAA review in May 2022. Due to the current environment, portfolio positioning has focused on the balance between equities and bonds, and continuing to reduce the risk to rising interest rates. We decreased the allocation to Australian and global bonds and re-allocated a large portion of this to investment-grade credit. The remainder of that reallocation has been spread across Global Listed Property, Australian Equities and Commodities. The next scheduled review will be in November 2022.

The exposure to equities ended the quarter at 60% which was an increase of 15% from March. The holding in S&P 500 put options was sold as they moved toward their expiration date. We continue to hold selective exposures to emerging market equities such as India and South Africa.

Over the quarter, the portfolio duration decreased from 0.6 to 0.1 years and commodities remained stable at 6%.

Outlook

Our outlook for financial markets remains cautious. Investor sentiment appears delicate as 2022 to date continues to provide volatility across most asset classes. While the global economy seems to remain relatively resilient, the exorbitant levels of inflation are placing pressure on consumers across the world. With central bankers determined to combat inflation through use of monetary policy, accompanying this is the concern that rapidly rising interest rates will slow global economic growth. Multiple interest rate hikes are anticipated across most major markets before the end of the year. Europeans are juggling these issues in addition to the war in Ukraine which has had widespread effects. In China, the 'zero-Covid' policy has finally started to ease however; the effect of these extended lockdown measures is still likely to negatively impact the country's official 2022 GDP growth target.

Global corporate earnings have been stronger than expected, but the removal of the fiscal and monetary tailwinds will reveal whether deeper issues have been masked. Labour markets have improved markedly, while the rising cost of living is placing additional pressure on wage inflation.

Bond yields continue to rise, although longer-term expectations remain within historically low ranges. A key risk is that a stagflation regime persists after the current supply-chain issues have been resolved through the entirety of 2022 and beyond. The rising yield environment continues to drive some caution among investors, exerting downward pressure on equity valuations. Although corporate balance sheets remain solid and there is still an enormous level of pent-up demand in economies following lockdowns, investors are wondering whether this will be sufficient to support current valuations. We have adopted a cautious approach and began reducing the equity weight in our portfolios in January 2022, having previously introduced protection in October 2021 in recognition of these broad-based risks. With rates still close to all-time lows and with persistently high inflation, the risks are to the upside in interest rates. Thankfully, the flexibility of our objective-based strategies allows us to mitigate these risks. We will continue to rebalance the portfolio as opportunities present themselves over the coming months, balancing both risk and return outcomes.

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 how long volatile financial market conditions will go on for, 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

Speak with your Financial Adviser whether our products are appropriate, in light of your investment needs, objectives and financial situation.

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.

The product disclosure statement (**PDS**) and Information Memorandum (**IM**) for the First Sentier Multi-Asset Real Return Fund, ARSN 161 207 165 (**Fund**) issued by Colonial First State Investments Limited (ABN 98 002 348 352, AFSL 232468) (**CFSIL**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website. The target market determination (**TMD**) for the Fund is available from First Sentier Investors on its website and should be considered by prospective investors before any investment decision to ensure that investors form part of the target market.

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