

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 September 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

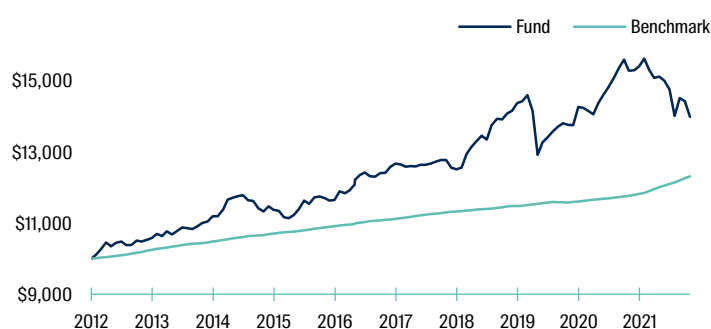
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (A\$)	186 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A\$)	25,000
Management fees and costs (p.a.)*	0.81%

* 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	-0.2	-8.5	-0.2	2.4	2.9	-	3.4
Benchmark return	1.4	4.7	2.4	2.1	2.0	-	2.1
Excess net return	-1.6	-13.2	-2.6	0.3	0.9	-	1.2
Income return	0.0	1.3	3.9	3.5	3.2	-	3.4
Growth return	-0.2	-9.8	-4.1	-1.1	-0.3	-	0.0

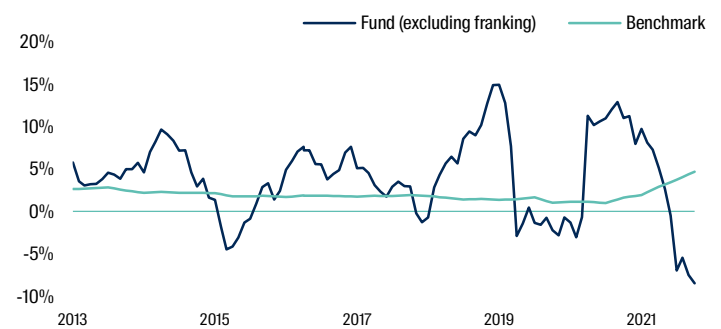
Growth of AUD 10,000 Investment Since Inception



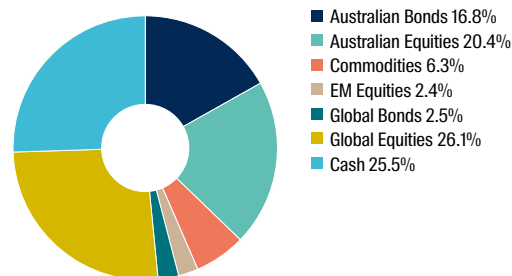
Investment Objective

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 (%)



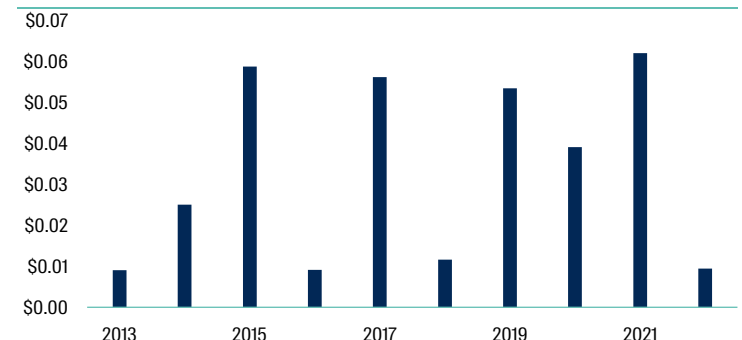
Asset allocation



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 September 2022

Fund performance

The First Sentier Multi-Asset Real Return Fund posted a return of -0.20% (net of fees) for the second quarter of 2022, underperforming inflation (Australian CPI Trimmed Mean) by -1.63%. The most recent quarterly CPI print in Australia was 1.5% quarter-on-quarter (4.9% annualised) for June 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 (-0.6%) and commodities (-0.3%) fell over the quarter, while corporate bonds were a positive contributor (0.3%) as corporate spreads to government compressed.

DAA positions added (0.3%) over the quarter.

Market Review

Despite a rally in July for both equity and bond markets, both endured large sell offs for the rest of the quarter, as the prospect of a looming recession grew. With inflation readings still printing at high levels across most major economies, central banks have reinforced their commitment to control rising costs through monetary policy tightening. Consumer confidence across the UK, US and Europe have plummeted. Both equity and fixed income markets delivered negative returns in the face of lower consumer confidence, higher borrowing costs and rising rates.

Volatility in fixed income markets was remarkable over the September quarter. Major markets such as the US, UK and Europe saw multiple interest rate hikes as central banks endeavour to tame rising inflation. With inflation remaining high and appearing stickier in nature than previously anticipated, central bankers have inferred that more monetary policy tightening may be required. Against this background, US Treasury yields continued to rise, resulting in unfavourable returns from the US and global bond markets. The UK gilt market in particular saw significant volatility, as yields rose by 186 bps and finished the quarter at 4.08%. The unexpected announcement of tax cuts in the governments 'mini budget' in September prompted suggestions that interest rates would need to be steeply raised in order to offset anticipated inflation impacts of looser fiscal policy. This prompted gilt yields to skyrocket. In Europe, the conflict with Russia is continuing to hamper economic conditions. A major pipeline running from Russia to Germany was damaged, following alleged acts of sabotage from Russia, swelling concerns about energy supply in the northern hemisphere winter. The prospect of energy supply rationing across households and businesses is particularly concerning as factory closures could further erode GDP growth. The Eurozone manufacturing PMI fell further into contractionary territory in September, with production falling for a fourth straight month and at the fastest pace since May 2020. With these things considered, it is unsurprising that Euro area consumer confidence dropped to a new all-time low during the quarter. In global credit markets, spreads trended lower towards the middle of August, but widened sharply again by the end of September as recession fears unnerved credit investors. Despite some intra-quarter volatility, spreads finished the quarter only 5bps wider, supported by the fact that default rates remain very low by historic standards. It does however seem reasonable to assume that some companies will struggle as economic activity levels moderate and as higher borrowing costs start to bite.

Most major equity markets enjoyed a rally over the first half of August, but this momentum took a sharp reversal due to the increasing probability of a recession owing to rising borrowing costs and ongoing secondary impacts of Russia's invasion of Ukraine. There were reports of heavy selling, and substantial outflows from equities in most major regions. In the US, the S&P 500 Index shed 4.8%. As a result, the Index registered a third straight quarter of declines and is now down by around 25% in the calendar year to date. Technology stocks weakened too, with the NASDAQ declining 4.1%. Losses in 2022-to-date are now more than 32%. European bourses closed the period sharply lower too, amid ongoing concerns about growth in the region. There is a realistic chance of energy disruptions in the coming winter, with Russia already allegedly limiting gas supplies. The Euro Stoxx 50 Index closed the quarter 4.0% lower, with Spanish, German and Swiss stocks all down sharply. The FTSE 100 Index in the UK declined by 3.8%. Asian markets were hampered by Chinese growth concerns. China's CSI 300 closed the quarter 15.2% lower, and there were even more substantial losses in Hong Kong - the Hang Seng dropped 21.2% and has now lost around 45% of its value since March last year. Stocks in emerging markets struggled too, as investors reined in their risk appetite. The MSCI Emerging Markets Index slumped 12.5% and is now down nearly 29% in the calendar year to date.

Australian borrowing costs saw further increases, as the Reserve Bank of Australia lifted the official interest rate three times over the quarter, moving the rate from 0.85% in June to 2.35% at the end of September. Despite these increases, the reaction by the yield on the 10-year Commonwealth Government bond appeared subdued, increasing by 'only' 23 bps over the quarter. This increase was much less than the 150bps rise in official interest rates, suggesting investors are starting to moderate their 'terminal rate' expectations i.e. the maximum level of interest rates anticipates in the current cycle. While offshore bourses trended lower, the S&P/ASX 200 Accumulation Index managed to finish the quarter almost flat, increasing by 0.4% over the period. In positive news, over 33,000 new jobs were created in August, which was encouraging following the surprise drop in employment in July. The Australian dollar slumped 7.3% against the US dollar over the period. This primarily reflected US dollar strength that rose in September, rather than serious weakness in the Australian dollar. The exchange rate closed September at 64.0 US cents. This was the lowest level since the Covid crisis more than two years ago, when the Australian dollar briefly traded as low as 57.4 US cents.

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 49% which was a decrease of 11% from June. We continue to hold selective exposures to global equity markets equities such as China, South Africa and Germany.

Overall, the portfolio duration and commodity exposure remained stable at close to zero years and 6% respectively.

Outlook

Volatile conditions across financial markets continue to prevail as we enter the fourth quarter of 2022. With central banks trying to tame persistently high inflation through interest rate hikes all while the conflict in Ukraine continues to place pressure on European energy supplies and disrupt supply chains, we continue to hold a cautious outlook. Government bond yields have been steadily increasing from the ultra-low levels seen during the Covid-19 pandemic in response to interest rate hikes. With more monetary policy tightening expected before 2022 comes to a close, bond yields may have some more volatility and room to move yet. Inflation levels across major economies are still high and remain a focal point for central bank policymakers. While all of these matters have been bubbling away over the year, the prospect of recession appears to be growing significantly. With winter approaching in the northern hemisphere, Europe's impending energy crisis could tip the economy over the edge. According to a Bloomberg poll, there is now an 80% probability of recession in 2023 with several consensus forecasts referring to a European recession as the base case.

Despite these elevated levels of uncertainty, global corporate earnings still appear more resilient than expected. While default rates still appear to be at historically low ranges, the subsequent increases in borrowing costs may soon unmask deeper issues. As interest rates rise, bond yields have continued to follow suit, 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 rest 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 a sizable level of pent-up demand in economies following the lockdowns and investors are wondering whether this will be sufficient to support current valuations. With interest rates still sitting at relatively low levels compared to history coupled 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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