

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 December 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

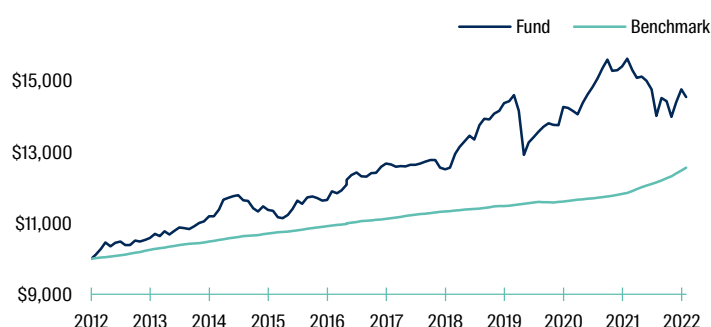
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (A\$)	192 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A\$)	25,000
Management fees and costs (p.a.)*	0.81%

* 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	4.0	-6.9	0.3	2.8	3.5	3.6	3.7
Benchmark return	2.0	6.0	3.0	2.4	2.2	2.3	2.3
Excess net return	2.1	-12.9	-2.7	0.4	1.2	1.3	1.4
Income return	0.4	1.2	3.5	3.3	3.3	3.4	3.4
Growth return	3.6	-8.1	-3.2	-0.5	0.2	0.2	0.3

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.

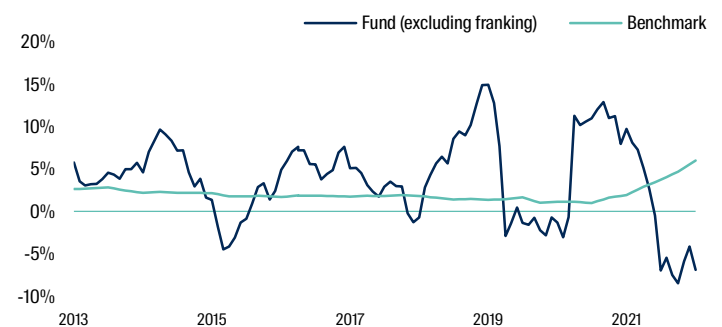
Data source: First Sentier Investors 2022

Data as at: 31 December 2022

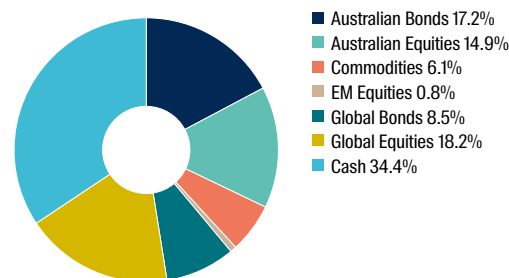
Investment Objective

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 (%)



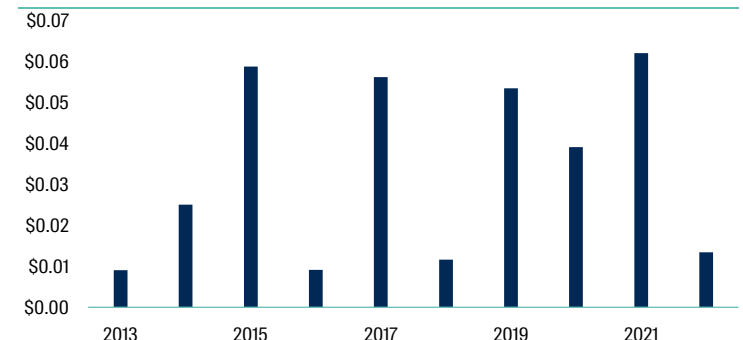
Asset allocation



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 4.01% (net of fees) for the fourth quarter of 2022, outperforming inflation (Australian CPI Trimmed Mean) by 2.05%. The most recent quarterly CPI print in Australia was 1.8% quarter-on-quarter (6.1% annualised) for September 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 positive performance contribution as equities (2.5%), corporate bonds (0.8%) and commodities (0.3%) rose over the quarter.

DAA positions added (0.3%) over the quarter.

Market Review

The fourth quarter provided some relief to a year of miserable returns for financial markets. Despite the temporary improvement in performance, investor sentiment remains dampened by the probability of recessions across major economies in 2023. Calendar year returns across both equity and fixed income markets have been dismal, as central banks have been determined to tame inflation by rising interest rates, leading the increase in bond yields to detract from performance.

While selling pressure told hold again in December, global share markets fare reasonably well in October and November despite the negative market tone seen throughout most of the year. As a result, the MSCI World Index increased by 7.5% in local currency terms for the quarter, however finished the calendar year down 16.3%. The MSCI Emerging Markets Index outperformed, expanding by 9.20% for the three-month period, however falling by 21.8% for the year in local currency terms. As ever, moves in the US set the tone for other markets. The S&P 500 Index rose by 7.6% for the quarter, while the technology-heavy NASDAQ closed the same period 1.0% lower. Corporate earnings remain quite resilient for now, but a deterioration in profitability seems increasingly likely in 2023 as economic activity levels moderate. This prospect is eroding investor sentiment and weighing on equity valuations. In Europe, the Euro Stoxx 50 closed the quarter 14.3% higher, supported by German, Italian and French stocks. In Asia, Hong Kong's Hang Seng Index (+14.9%), and to a lesser extent, China's CSI 300 Index (+1.8%) benefited from an anticipated relaxation of virus-related restrictions in China. By the end of December, Covid-19 case numbers were estimated to be around one million per day, but officials are still expected to relax current rules following the Lunar New Year celebrations at the end of January.

Significant bond yield moves continued throughout the final quarter of the year. While most major markets have seen an increase over 2022, benchmark ten-year UK gilt yields moved 42 bps lower. Most other major markets however saw bond yields rise, resulting in negative returns from global fixed income markets. Ten-year yields in major markets typically rose between 200 and 300 bps over the year, making 2022 one of the worst years for fixed income on record. Movements were particularly substantial for German bund yields, which rose 46bps to 2.57% as investors priced in the likelihood of further interest rate hikes. Inflation remains above 10% year-on-year in both the Eurozone and the UK, essentially forcing policymakers to continue tightening policy settings. The prospect of a recession continues to weigh on the region, plagued by high price pressures as well as the conflict in Ukraine, which has shown no signs of dissipating. In the US, 10-year Treasury yields rose 5 bps, to 3.87%, but remained slightly below their peak above 4% that was in October. The release of inflation data for the month of November provided further evidence that US inflation might have peaked. Headline inflation rose just 0.1% over the month, bringing the annual rate down to 7.1%, from 7.7% in the previous month. The Federal Funds rate was increased by half a percentage point, as expected, following four previous 0.75% hikes. While additional hikes are anticipated, some commentators predict that this is also nearing its peak. Interestingly in Asia, the Bank of Japan changed its yield curve control policy. Previously the Bank of Japan had limited yields on 10-year Japanese Government Bonds to 0.25%, but the ceiling was lifted to 0.50% in mid-month. The change was seen by many as a possible first step in moving away from the ultra-loose monetary policy settings that have been in place for years and which have become increasingly dislocated from other major regions. Japanese Government Bond yields immediately spiked to their highest levels since 2015. The yen also strengthened meaningfully against the US dollar, registering its biggest daily gain against the greenback this century and clawing back some of its lost ground from earlier in the year.

In Australia, official cash rates lifted three times over the quarter, by a further 0.75% in total to 3.10%. Like their counterparts at offshore central banks, Reserve Bank of Australia officials remain determined to dampen inflation. CPI is currently running at an annual rate of 6.9%. Consumer confidence surprisingly improved a little, but remains well below 2021 levels and not too far above its lowest levels since the early-1990s. Like most economic forecasters, Australians seem to be preparing a tough year in 2023. Despite the challenging outlook, employment trends remain quite resilient. More than 60,000 new jobs were created in November – including more than 34,000 full-time positions, as well as nearly 30,000 part-time workers, which might be seasonal in nature – and the unemployment rate remained at an all-time low of 3.4%. For now, high levels of employment are supporting growth. The Australian economy expanded at an annual rate of 5.9% in the September quarter; the second-highest reading since the 1980s. In fixed income, the yield on the 10-year Commonwealth Government bond rose 17 bps, breaking through the 4% level and closing the quarter at 4.05%. Yields reached 4.20% in June and October, but had previously not traded above 4% since 2014. The Bloomberg AusBond Composite Index returned 0.4% over the period, unable to counteract the losses of 2022, which as a whole is nearly down 10%. The local equity market – the S&P ASX 200 Accumulation Index – rose by 9.4% over the month, closing out a volatile year down -2.0%. Selling pressure emerged in December owing to deteriorating investor sentiment and increased volatility in bond markets, as financial market participants continued to digest oscillating inflation and interest rate expectations. The Australian dollar strengthened against the US dollar over the period by 6.45%, finishing at 68 US cents by month end. It did however slightly weaken against other majors and declined in value by 1.1% against a trade-weighted basket of other currencies.

Portfolio positioning

We undertook our semi-annual NAA review in November 2022. The cash allocation was increased within the neutral allocation by 10%. We have reduced our allocation to both Australian and Global Developed equities in order to support this reallocation. We have also reintroduced a small allocation to Global Emerging Market equities of 2%. This allocation provides the portfolio with an increase in diversification, but keeps the portfolio's exposure between Australian and Global assets evenly split. The next scheduled review will be in May 2023.

The exposure to equities ended the quarter at 34%, which was a decrease of 15% from September. Within our DAA allocation, we have selective exposures to global equity markets in Malaysia, Thailand, and the European Union, as well as government bonds in Japan, Italy, and Switzerland.

Overall, the portfolio's duration increased from zero to one year, and commodity exposure remained stable at 6%.

Outlook

Widespread volatility was a prominent feature of financial markets this year and we expect this to continue in 2023, bringing an ongoing dispersion of returns and greater investment opportunities. In particular, we note that higher interest rates can be beneficial for fixed income and corporate bond investors through higher income. Having said that, we also recognise the prospect of increased exposure to duration in a rising rate environment can erode some of the attractiveness of this asset. In corporate debt markets, defaults are increasing from historically low levels and are expected to reach long-term averages, with Europe and emerging markets leading the way. The market however has already priced this in and we took advantage of the credit spreads widening earlier this year to add a duration-hedged exposure to Investment Grade Credit. We are retaining this exposure into 2023, including hedging out the duration risk.

Meanwhile, repricing in equity markets in recent months is leading to pockets of valuation opportunities emerging. However, these opportunities need to be considered in the context of ongoing volatility and the potential for deteriorating economic conditions. Global markets have seen selloffs and while valuations are more attractive than they were at this time last year, we are taking a cautious approach. Over the past 12 months, emerging market equities have underperformed developed; weighed by higher inflation, financial conditions and a strong US dollar. While China's ongoing zero-Covid policy has provided a drag on economic growth, this strategy is approaching an end. While this exit is speculated to be bumpy, valuations in these markets appear more attractive in a historical sense, and so we have sought further diversification within equities by reintroducing a small allocation to emerging markets. We are retaining all currency exposures from global equity allocations to provide diversification in a risk off scenario but will review this regularly as currency divergence is increasing relative to recent years.

We expect central banks to continue to implement quantitative tightening measures, including increasing interest rates in 2023 – albeit in smaller increments than in 2022 – as evidence of inflation growth remains but continues to plateau. While tightening has resulted in downward pressure exerted on equity valuations, corporate balance sheets have so far remained solid. Recession warnings have been gaining momentum, particularly as the US 2-year and 10-year yield curve spent a large portion of the year inverted – a phenomenon often viewed as a recessionary indicator. Nonetheless, most recent macroeconomic data releases have not been as dire and so we remain cautiously optimistic. Thankfully, the flexibility of our objective-based strategies allows us to mitigate these risks and balance short-term dynamics with longer-term views, particularly relative to a static benchmarked approach to asset allocation.

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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