

# 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 2023

### 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

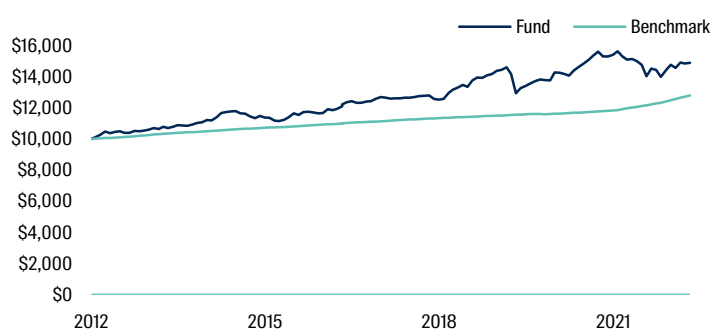
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (A\$)	192 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A\$)	25,000
Management fees and costs (p.a.)*	0.81%

\* 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	2.3	-1.5	4.8	3.4	3.9	3.6	3.8
Benchmark return	1.8	6.4	3.5	2.7	2.4	2.4	2.4
Excess net return	0.6	-8.0	1.4	0.7	1.5	1.2	1.4
Income return	0.7	1.1	3.9	3.5	3.4	3.5	3.4
Growth return	1.6	-2.7	1.0	-0.1	0.5	0.1	0.5

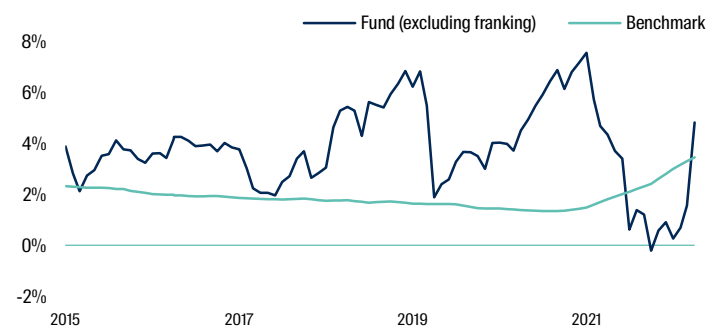
### Growth of AUD 10,000 Investment Since Inception



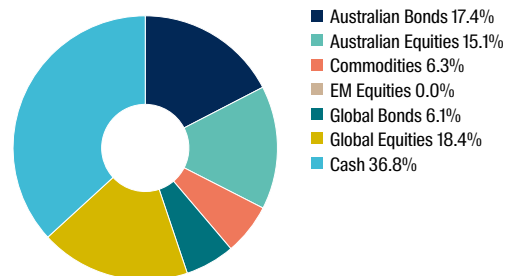
### Investment Objective

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 3 year return (%)



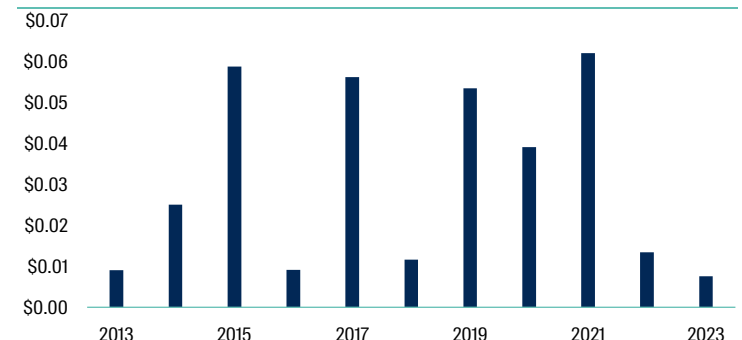
### Asset allocation



### 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](http://www.responsibleinvestments.com.au) for details.<sup>1</sup>

### 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 2023

Data as at: 31 March 2023

## Fund performance

The First Sentier Multi-Asset Real Return Fund posted a return of 1.91% (net of fees) for the first quarter of 2023, outperforming inflation (Australian CPI Trimmed Mean) by 0.30%. The most recent quarterly CPI print in Australia was 1.7% quarter-on-quarter (6.9% annualised) for December 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 (1.6%), corporate bonds (0.4%) and government bonds (0.3%) rose over the quarter.

DAA positions added (0.1%) over the quarter.

## Market Review

While the March quarter started optimistically, it was overall an eventful period for financial markets globally. Banking failures in the US and Europe caused panic among investors and saw equity markets weaken and credit spreads widen. Calm had been restored by quarter end, although the events provided a reminder that there would likely be some unintended consequences of central banks' actions over the past year or so. Dovish interest rate expectations pushed bond yields lower across most major markets.

The banking issues in the US and Europe prompted investors to recalibrate their future interest rate expectations. There are now expectations that the end of the policy tightening cycle is approaching in most major regions. Federal Reserve policymakers raised official interest rates by 0.25% in the February and March meeting, although many investors are now suggesting borrowing costs may have peaked. In fact, consensus forecasts are now suggesting interest rates will have been lowered by the end of this year, assuming inflation continues to ease and as policymakers respond to an anticipated slowdown in economic activity levels. The latest release of US inflation data – for the month of February – showed a further moderation in pricing pressures, suggesting that the increases in interest rates over the past year or so are having their desired effect. These interest rate expectations resulted in significant falls in government bond yields worldwide, which translated into strong returns from fixed income. The Bloomberg Global Aggregate Index returned more than 3% in USD terms over the period. In the US, 10-year Treasury yields closed 38 bps lower. Yields on shorter-dated securities dropped almost as significantly, although the yield curve remained inverted with 2-year yields still above those on longer-dated bonds. Some observers continue to suggest this is cause for concern, as curve inversions have historically been reasonably reliable indicators of economic recessions. For now, activity levels appear to be holding up reasonably well, but it seems likely that conditions will deteriorate as higher interest rates are digested. Government bond yields moved lower in Europe too, as investors revised their interest rate expectations lower. Yields also fell in Japan, where Japanese Government Bond yields are often relatively stable.

Global shares advanced over the March quarter, with the MSCI World Index returning nearly 7.4%. The period saw a fair amount of volatility, however, particularly in mid-March following the failure of SVB Financial Group; a small bank in the US. This was the second-biggest bank failure in the US in more than 20 years and caused panic in markets globally. The Federal Reserve hastily announced a new Bank Term Funding Program to arrest market fears about potential contagion affecting other US banks. Towards the end of the quarter, Credit Suisse – a much larger bank based in Switzerland, with 167 years of history – also ran into financial difficulty. The bank was subsequently acquired by rival UBS for a bargain-basement price to prevent its collapse. Other major banks in Europe – including Deutsche Bank, Commerzbank, and Societe Generale – experienced significant share price weakness as the news reverberated around the region. Thankfully, fears of a potential 'Global Financial Crisis II' had abated by quarter end, with confidence gradually being restored. In spite of the weakness in the Financials sector, European share markets made progress on the whole. Favourable performances from German and French stocks enabled the Euro Stoxx 50 Index to advance 13.0%. Asian bourses also performed well, with the Japanese Nikkei leading the way, up 7.5%. Hong Kong and Chinese shares also fared well, rising by 3.1% and 4.6% respectively. US shares were the standout performers, with technology stocks supporting the NASDAQ to gain 16.7%. Interest rate forecasts were revised sharply lower during the period, which helped support sentiment towards share markets. The S&P 500 also fared well, rising by 7.5%.

The Reserve Bank of Australia raised interest rates by a quarter of a percentage point at the February and March meetings, taking the official cash rate to 3.60%. Like in the US, consensus forecasts suggest this may be the peak in borrowing costs in this cycle. This view was bolstered when the latest inflation data was released, which showed a meaningful moderation in pricing pressures. Consumer prices rose 6.8% in the 12 months ending 28 February 2023 – still a high reading, but well below the January level and also below expectations. Policymakers subsequently left interest rates unchanged at the Reserve Bank's meeting on 4 April. The persistence of inflation and the tone of other data releases will determine the future interest rate path. Yields on 10-year Australian Commonwealth Government Bonds fell significantly as they closed the month 75 bps lower, at 3.30%. Australian fixed income funds typically fared well against this background – the Bloomberg AusBond Composite 0+ Year Index, against which many local bond funds are benchmarked, returned 4.6%. For now, overall conditions in Australia remain reasonably buoyant. More than 64,000 new jobs were created in February, for example, and the unemployment rate has fallen to 3.5%; close to the lowest ever level. Australian equities proved quite resilient, despite turbulent conditions in major offshore markets and given concerns about potential banking crises. The S&P/ASX 200 Accumulation Index closed the month 3.5% higher. The Australian dollar was little changed against the US dollar over the month. The AUD closed March at around 67 US cents, close to its average level over the past six months.

## 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 exposure to equities and commodities ended the quarter unchanged at 34% and 6%, respectively. The duration of the portfolio was 0.3 years at quarter end.

## Outlook

Widespread volatility has so far remained a prominent feature over 2023 to date, 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 in early 2022 to add a duration-hedged exposure to Investment Grade Credit. We are retaining this exposure, including hedging out the duration risk.

Meanwhile, the repricing in equity markets over 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. In particular, the recent banking crisis has led to some uneasiness among investors. 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, uncertain financial conditions and a strong US dollar. While China's zero-Covid policy had provided a drag on economic growth, this strategy is unwinding and

forecasters expect a sustained economic recovery this year. Despite lacklustre returns over 2022, emerging market equity valuations appear more attractive in a historical sense, and so as part of our most recent neutral asset allocation review we have reintroduced a small neutral allocation. 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 – albeit in smaller increments than seen throughout 2022 – as inflation appears stickier than previously thought. 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 2022 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](http://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](http://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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