

First Sentier Multi-Asset Real Return Fund

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

Quarterly Factsheet

31 March 2021

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's investment strategy is objective based, and implemented through a dynamically managed investment portfolio across asset classes in order to maximise the likelihood of achieving the real return objective whilst minimising deviations from that target. The investment approach allows the portfolio to respond to changing market environments, both capturing opportunities and containing risks relative to the objective. Derivatives may be used for risk management or return enhancement. The fund may hedge some or all of its currency exposure.

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.

Key Investment Personnel and Experience (Industry / Firm)

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

Product Overview

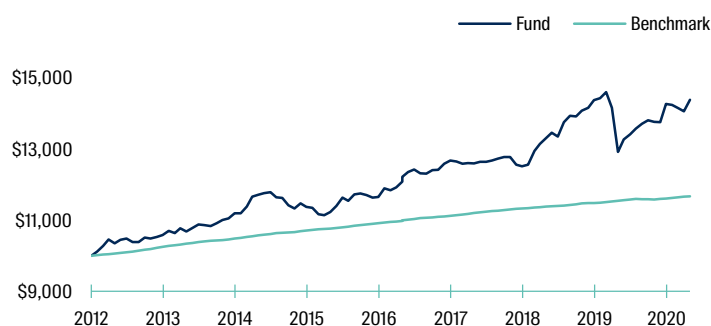
APIR code	FSF1422AU
Inception date	03 December 2012
Fund Size (AS)	219 million
Benchmark	AU CPI Trimmed Mean
Buy / Sell spread	0.20% / 0.20%
Minimum investment (AS)	25,000
Management cost (p.a.)*	0.81%

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

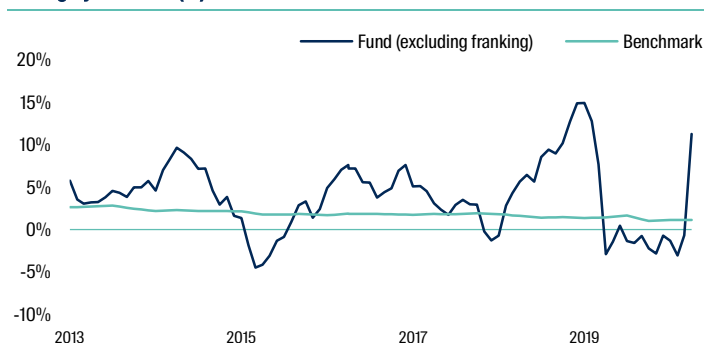
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.0	11.3	4.5	4.8	4.2	-	4.3
Benchmark return	0.4	1.1	1.4	1.6	1.7	-	1.8
Excess net return	0.6	10.1	3.1	3.3	2.5	-	2.5
Income return	2.0	6.1	3.9	3.6	3.9	-	3.5
Growth return	-1.0	5.2	0.6	1.2	0.3	-	0.8

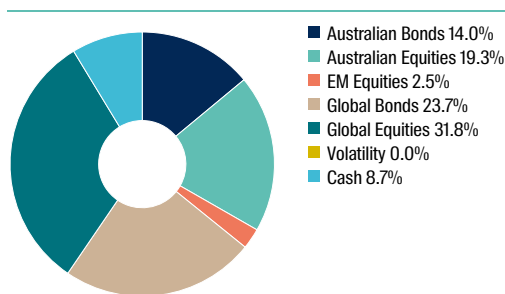
Growth of AUD 10,000 Investment Since Inception



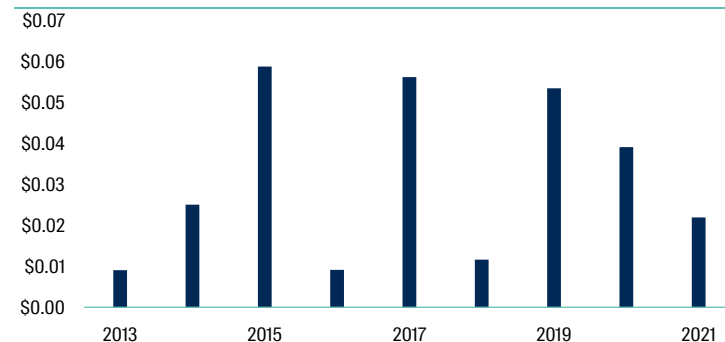
Rolling 1 year return (%)



Asset allocation



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 2021

Data as at: 31 March 2021

Fund performance

The CFS Multi-Asset Real Return Fund posted a return of 0.98% (net of fees) for the first quarter of 2021, outperforming inflation (Australian CPI Trimmed Mean) by 0.55%. The most recent quarterly CPI print in Australia was 0.4% quarter-on-quarter (1.2% annualised) for December 2020.

Within the fixed income allocation, the fund delivered negative returns in the Neutral Asset Allocation (NAA) and in the Dynamic Asset Allocation (DAA) portions of the portfolio. The negative performance was attributable to the increase in rates. The positive contributors to excess returns from active DAA tilts were well timed positions held in Korean and Czech government bonds, while France and Australia were the largest detractors in the NAA.

Within equities, the asset class as a whole add just under 303 basis points to performance. Active DAA exposures added roughly 160 basis points of performance, largely driven by exposure to Singapore and the Netherlands. Malaysia was a slight detractor from returns.

The positive performance from the equities exposures was dampened by the derivative protection strategy that was in place in the portfolio which detracted 4 basis points, before being closed early in the period. The protection strategies were undertaken in early February 2020 to mitigate the risk of the Covid-19 outbreak, and generated a positive return last year.

Foreign currency exposure has decreased in the portfolio to around 33%, as we held a qualitative long AUD positions in the portfolio. However, as the Australian dollar declined by 1.25% over the quarter, from 77.7 US cents to 77.0 US cents, the hedging of foreign exposures contribute about 5 basis points to the fund.

Market Review

The first quarter of 2021 saw volatility for bonds and equities alike, as Covid-19 vaccination programs marched on in several markets, while others continue to experience subsequent outbreaks. Inflation fears mounted in February as the approval of the large US fiscal stimulus package was finally obtained, enabled after the Democrat victory in Georgia earlier in the year. These concerns prompted a sharp rise in bond yields from the ultra-low levels of 2020, which spooked equity investors with the prospect of increased borrowing costs. By the end of the period, bond yields were sizably higher than they were at the beginning of the year and equity markets overall were buoyed by a value-led rally.

Equity markets have come a long way since the sharp contractions faced last year, with the MSCI World Index rising by 79%, leading it to surpass its pre-pandemic highs by 18%. Over the quarter, Japanese equities led returns, up by 9%, followed closely behind by the MSCI Europe ex-UK Index despite Europe's low vaccination rates and subsequent lockdowns faced throughout the period. In fact, an increase in infections was seen in Europe toward the end of March which raises concerns around the region's recovery. Even still, business surveys indicate improvements during the period as manufacturing activity ramped up across Europe, the UK and the US. The service sectors in the UK and the US also made sizeable improvements in line with that of consumer confidence however the sector in Europe remains suppressed. The laggards for the quarter were emerging markets as well as Asia ex-Japan as value stocks enjoyed most of the rally.

Fixed income markets saw a change in tune as bond yields rapidly picked up in February. US Treasury yields rose by 83 bps over the three month period, finishing March at 1.74%, significantly higher than the lows of 0.5% seen in August 2020. Similarly UK gilts and German bund yields rose by 65 and 28 bps. Overall, these yield increases led government bonds to deliver negative returns. Markets continue to focus on fears of inflation, in particularly in the Eurozone where prices rose by 0.9% in March. The gradual reopening of services sectors in most regions following the relaxation of social distancing restrictions augurs well for company profitability. At the same time, the overall lower borrowing costs mean companies can generally service their debt repayment obligations more comfortably. Even though many firms have increased their net debt by issuing new bonds, in many cases repayment costs have not actually increased much, if at all.

The recovery in Australia continues to make good progress, demonstrated by the quarterly GDP print for December 2020 which was announced to have risen 3.1%. While GDP levels remain lower than before than pandemic, this is ahead of consensus forecasts. In fixed income, domestic benchmark 10-year government bond yields moved almost as much as that of the Treasury yields, rising by 82 bps over the three months. Australian credit spreads traded in a less dramatic range however, rising by 5 bps. Inflation expectations continued to mount in Australia, with 10-year BEIs rising to 2.09%. Despite the vaccination program not moving as fast as some offshore economies, the social distancing measures have been highly effective in minimising the number of infections. Employment trends have been encouraging as job advertisements in Australia rose by 7.4% from February to March. In domestic equities, sentiment remained generally upbeat over the period, buoyed by February's strong earnings season. Despite the return of lockdowns and border controls towards the end of March, improving economic data combined with ongoing stimulus plans supported the local equity market. The S&P/ASX 100 Accumulation Index closed the quarter 4.5% higher in AUD terms.

Portfolio positioning

As at the end of March 2021, the DAA is increasing exposure to equities and is above the NAA target of 45%, taking the overall exposure to 53.6%, a healthy overweight to growth within the portfolio. The equity weight is 9.1% higher than it was in December due to the investment signals expressed in the DAA. The protection options that were in the portfolio in both the Australian and US markets were closed during the period. We continue to have a concentration to developed over emerging market equities.

Overall, the portfolio duration decreased significantly from the prior quarter and sits around 2.7 years and has a focus in developed over emerging markets.

The portfolio remains allocated across the available asset universe with ample liquidity to adjust the risk in the portfolio.

Outlook

The Covid-19 vaccination program remains in great focus across the globe, with the expectation that the increase in immunity across the global population will lead to the end of this era of social distancing, restrictions and border closures. In fact, the rate of vaccinations in the US has already exceeded President Biden's original 100 million goal so instead he has doubled it to 200 million before April-end. Unfortunately in Europe, the rate of vaccinations is lagging behind and by the end of March new lockdowns were imposed in places like France and Italy as daily infections increased.

Alongside this, investors hold a watchful eye on inflation, after bond yields faced a sudden uptick throughout the first quarter of 2021. A meaningful increase was seen in the Eurozone inflation in March and many are still concerned that the size of the stimulus in the US, combined with the large amount of savings being accumulated, could cause a pickup too. Despite these concerns, the US Federal Reserve has kept messaging consistent and believes inflation will not rise sustainably above target and that rate rises will not be expected prior to 2024.

Overall, the first quarter of the year has been encouraging for equity markets while returns from fixed income markets lagged behind. As key equity markets however have seen incredulous rebounds since the sharp sell offs from a year ago, the expectations for growth across the rest of the year are not as strong. Further, while Treasury yields have risen significantly since the lows of 2020, there could still be more room to rise.

It remains to be seen how the economic recovery will eventually play out. Early indicators from vaccine rollout programs have been encouraging so far however economic activity is still suppressed, particularly as it comes to international travel and tourism. Further, as we have seen in the first quarter of the year, volatility could strike at any moment as it has done so with both the equity and bond markets. Similar themes are likely to continue as the recovery will be divergent among sectors and regions.

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

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.

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