Colonial First State Wholesale Indexed Australian Bond Fund

First Sentier Investors

Quarterly Factsheet

30 September 2023

For Adviser use only

Portfolio Description

The fund invests in a wide range of Australian bonds issued by the Commonwealth Government , State Governments, supranational entities and corporates.

Investment Strategy

The fund is passively managed and holdings closely replicate those of the benchmark. Accordingly, activity in the portfolio is limited to index rebalancing and the reinvestment of coupons and maturities.

Investment Objective

To closely track the returns of the Bloomberg AusBond Composite 0+Yr Index over rolling one-year periods (before fees and taxes and assuming income is reinvested)

Key Investment Personnel and Experience (Industry / Firm)

Stephen Cooper	Head of Australian and New Zealand Fixed Income	(1995 / 2013)

Product Overview

APIR code	CMI0102AU
Inception date	31 January 1999
Fund Size (A$)	1,792 million
Benchmark	Bloomberg AusBond Composite 0+ Yr Index
Number of stock holdings	550
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A$)	5,000
Management fees and costs (p.a.)*	0.31%

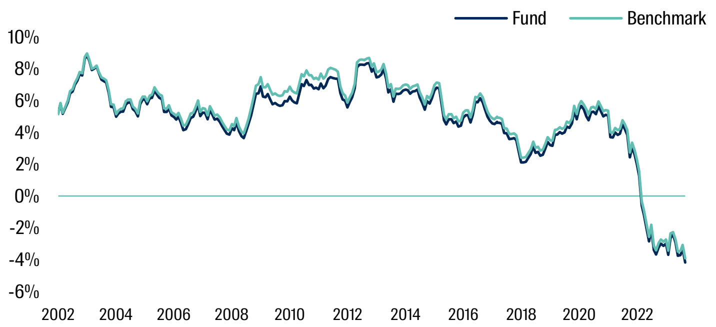
* Information on Management fees and costs (including estimated indirect costs) is set out in the Fund's PDS.

Performance Summary (%)

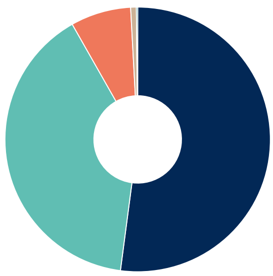
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.4	1.3	-4.2	0.1	0.4	2.0	4.3
Benchmark return	-0.3	1.6	-3.9	0.3	0.7	2.3	4.5
Excess net return	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Income return	0.0	0.0	0.9	2.1	2.4	3.0	4.7
Growth return	-0.4	1.3	-5.1	-2.1	-2.0	-1.0	-0.4

Past performance is not a reliable indicator of future performance.

Rolling 3 year return (%)



Sector breakdown



- Treasury 52.1% (52.6%*)
- Govt Related 39.7% (39.2%*)
- Corporates 7.4% (7.5%*)
- Securitised 0.7% (0.7%*)
- Cash, Money Market Securities, FX & Interest Rate Swaps 0.2% (0.0%*)

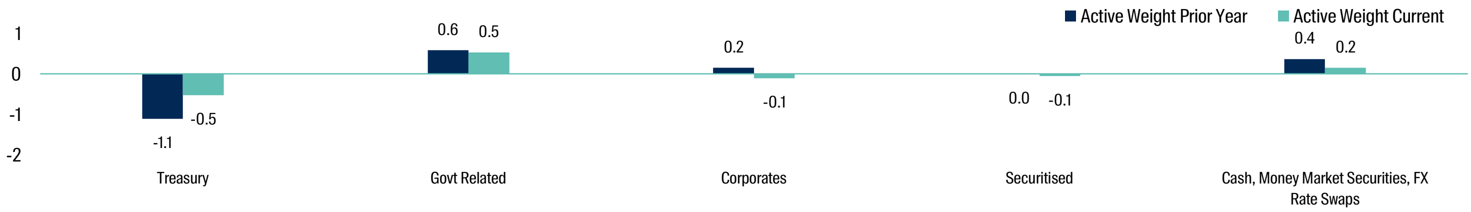
*Benchmark weight

Risk Characteristics

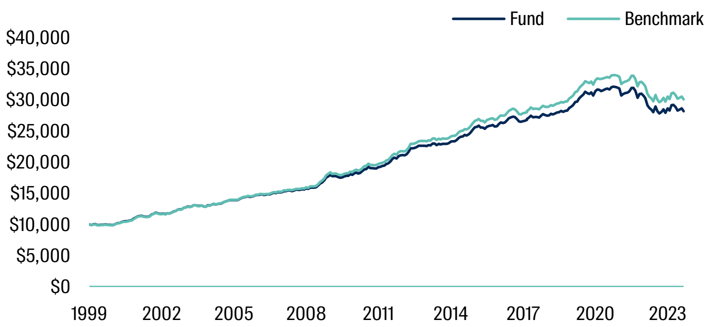
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	5.9	6.0	5.3	4.7	4.2	3.5
Benchmark standard deviation (%)	5.9	6.1	5.3	4.7	4.2	3.5
Tracking error (%)	0.0	0.1	0.3	0.2	0.2	0.2
Fund Sharpe ratio	-0.4	-0.9	-0.2	-0.2	0.1	0.2
Information ratio	-6.3	-3.2	-1.1	-1.3	-1.6	-1.4
Beta	1.0	1.0	1.0	1.0	1.0	1.0

Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark.

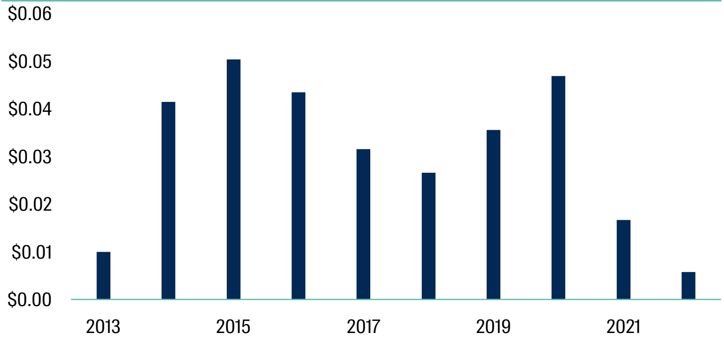
Fund active sector positions (%)



Growth of AUD 10,000 Investment Since Inception



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: 30 September 2023

Fund Performance

Yields on 10-year Australian Commonwealth Government Bonds closed the quarter up 0.46%. The upward pressure on yields resulted in negative returns from the domestic fixed income market and the Fund declined in value by 0.4%, after fees.

As anticipated, performance was broadly in line with the benchmark Bloomberg AusBond Composite 0+ Yr Index over the period. The product is designed so that returns should always remain close to those of the benchmark.

Market Review

The latest data showed the Australian economy grew at an annual rate of 2.1% in the year ending 30 June. This was slightly slower than the 2.4% year-on-year growth rate in the March quarter, but was above consensus forecasts. In other news, nearly 65,000 new jobs were created in Australia in August following a surprise drop in employment in July. Again, this was well ahead of the consensus estimate.

Even more importantly, inflation in Australia quickened in August; this was an unwelcome development for Reserve Bank of Australia officials. The new Governor of the Reserve Bank, Michele Bullock, was sworn in during September and left the official cash rate unchanged at 4.1% at her first meeting at the helm in early October. Official cash rates have now been unchanged at the past four Reserve Bank of Australia meetings, increasing suggestions that we might have seen the peak in interest rates in this cycle. Like in other regions, however, investors are becoming much less confident that borrowing costs might start to come down in 2024.

Fund Activity

The Fund is passively managed and holdings closely replicate those of the benchmark. Accordingly, Fund activity is limited to index rebalancing and the reinvestment of coupons and maturities.

Market Outlook

Most investors – ourselves included – were surprised by the magnitude of the market moves in the September quarter. Investors had arguably been too quick to price in the possibility of interest rate cuts, but the ferocity of the move in sovereign bond markets worldwide was nonetheless quite remarkable.

As well as the spike in outright yields, there was an interesting move in the shape of yield curves in key regions towards the end of the quarter. Generally speaking, yields on longer-dated securities rose more substantially than those on shorter-dated issues. The US Treasury curve remains inverted – with yields on 2-year notes above those on comparable 10-year bonds – but the gap narrowed quite significantly during the month. History suggests that inverted yield curves often flatten and then return to a 'normal' shape – with yields on longer-dated securities higher than those on shorter-dated issues – around the time that economic recessions begin. Time will tell whether that is the case this time around, although the recent sell-off in risk assets suggests investors are contemplating the possibility.

Closer to home, Australian Commonwealth Government Bonds appear over-sold with yields on 10-year bonds trading up towards 4.50%. That said we are wary of the possibility of yields moving higher still, particularly if the recent pickup in inflation in Australia and the US persists and forces central banks to consider even tighter policy settings. Employment trends will continue to be closely monitored, as a meaningful moderation in inflationary pressures seems unlikely while job growth and wage growth are so strong. The overall balance of probability suggests official cash rates in Australia will not be raised any further, but nobody can say so with any degree of confidence.

www.firstsentierinvestors.com.au

For further information

Head of Wholesale - Aus/NZ

Quin Smith +61 455 095 505

Key Account Manager - NSW

Paul Sleiman +61 4 2251 1231

Business Development Manager – NSW

Nicole Kremastos +61 431 187 910

Emerson Bloom +61 472 633 201

Amelia McKinnon +61 435 719 998

Business Development Associate – NSW

Gabi Cheetham +61 4 5788 1684

Key Account Manager - VIC/TAS

Nicholas Everitt +61 499 454 206

Business Development Manager - VIC/TAS

Jack Heinz +61 436 810 683

Business Development Associate - VIC/TAS

Shannen Jacobsen +61 457 227 728

Business Development Manager - QLD

Julie Day +61 466 413 176

Business Development Associate - QLD/WA/SA/NT

Pam Evans +61 458 864 686

Key Account Manager - WA/SA/NT

Nathan Robinson +61 403 272 440