First Sentier Concentrated Australian Share Fund

First Sentier Investors

Quarterly Factsheet

30 September 2023

For Adviser use only

Portfolio Description

The Fund is suitable for investors seeking long-term capital growth from a concentrated portfolio of Australian stocks.

Investment Strategy

The Fund's investment strategy is based on the belief that, over the medium-to-long term, stock prices are driven by the ability of management to generate excess returns over their cost of capital in their chosen industry. The Fund invests in a concentrated selection of high quality companies with strong balance sheets and earnings in the S&P/ASX 300 Accumulation Index. The Fund invests in Australian companies and therefore doesn't hedge currency risk. The Fund may use derivatives for efficient portfolio management as well as risk management purposes.

Investment Objective

To provide long-term capital growth by investing in a concentrated portfolio of 15 - 30 stocks. The Fund aims to outperform the S&P/ASX 300 Accumulation Index over rolling three-year periods before fees and taxes.

Key Investment Personnel and Experience (Industry / Firm)

Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	PIM0760AU
Inception date	09 August 2022
Fund Size (A$)	1 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	27
Buy / Sell spread	0.20% / 0.20%
Management fees and costs (p.a.)*	0.50%

* A performance fee is entitled to be charged for the Fund and payable out of the assets of the Fund. Information on the Management fees and costs (including estimated indirect costs) and performance fee is set out in the Fund's PDS.

Top 5 holdings

Stock
BHP Group
Commonwealth Bank
CSL
National Australia Bank
Xero

Sorted alphabetically

Performance Summary (%)

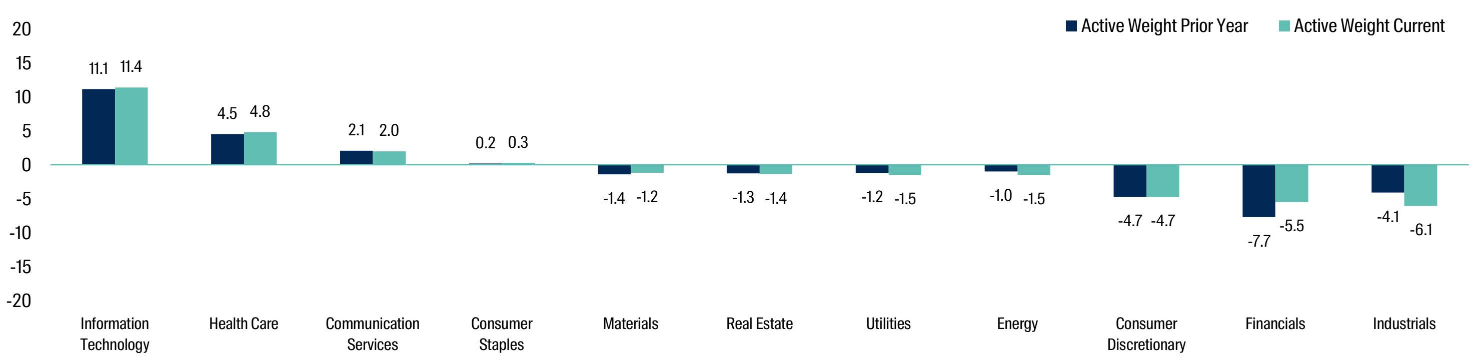
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.1	15.3	-	-	-	-	5.6
Benchmark return	-0.8	12.9	-	-	-	-	5.0
Excess net return	0.8	2.4	-	-	-	-	0.7
Income return	1.0	2.7	-	-	-	-	3.3
Growth return	-1.0	12.6	-	-	-	-	2.3

Past performance is not a reliable indicator of future performance.

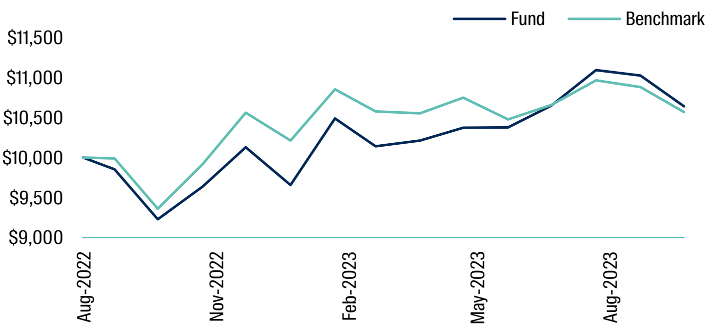
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	13.1					14.0
Benchmark standard deviation (%)	12.3					13.1
Tracking error (%)	4.7					4.6
Fund Sharpe ratio	0.9					-0.4
Information ratio	0.5					0.1
Beta	1.0					1.0
Cashflow adjusted turnover (%)	15.6					15.2

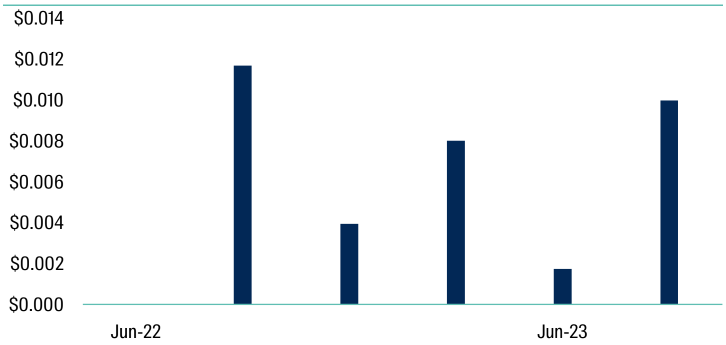
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	0.87%
Real Estate	0.49%
Materials	0.33%
Health Care	0.27%
Communication Services	0.12%

Top 5 detractors to performance (3 months)

Sector	Attr.
Consumer Discretionary	-0.46%
Financials	-0.36%
Energy	-0.31%
Utilities	0.02%
Industrials	0.04%

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

Market Review

Australian Equities started the September quarter positively with broad-based gains fuelled by improving inflation-related data and better-than-expected earnings results from large cap companies in the US. However, July gains were slowly eroded as the debate that interest rates may need to remain higher for longer ramped up and dampened sentiment. August reporting season also saw heightened intra-day volatility despite earnings beats and misses being fairly even. Forward-looking earnings guidance and the tone of outlook statements proved to be more significant in influencing sentiment towards particular stocks and sectors. By quarter end, the S&P ASX 300 Accumulation Index was down -0.8%, the first quarterly decline since June 2022.

The Energy sector was a standout performer in the September quarter, rallying +11.6%. Energy-related shares were buoyed by higher oil and thermal coal prices. WTI Crude rose by almost 30% after Saudi Arabia and Russia announced they will maintain supply cuts for the remainder of the calendar year. These moves are on top of production cuts already announced by OPEC+ and helped drive the oil price to a one year high, above US$90/barrel. Uranium miners were also bolstered by improving commodity prices and were amongst the best performers for the sector with Deep Yellow, Boss Energy and Paladin Energy rising by 74.2%, 56.5% and 50.7% respectively.

Consumer Discretionary (+5.6%) stocks performed well in August reporting season. The rising cost of living for customers and higher cost bases weighed on earnings growth for retailers with many also reporting negative comparable sales growth for the first few weeks of FY24 trading, however investors seemed reassured that cost pressures will start to ease and that earnings will recover in the medium term.

The Health Care sector (-9.0%) was a notable laggard, reflecting disappointing trading updates from ResMed (-27.9%), Sonic Healthcare (-14.6%) and CSL (-8.9%). Previously dubbed COVID-beneficiary Sonic Healthcare saw its full year results impacted by these business segments softening whilst its pandemic-related costs and headcount remained too high. These negative contributions more than offset more positive performances by Pro Medicus (+27.3%) and Cochlear (+12.2%).

Consumer Staples (-5.8%) stocks also tended to underperform the broader market. Endeavour Group, Coles and a2 Milk were amongst the worst performers for the quarter, all declining between 13% and 16%. In August, Coles disappointed investors with higher-than-expected operating costs, a decline in gross margins, and a 20% increase in stock loss from theft.

Fund Performance

The Concentrated Australian Share Fund outperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the September quarter.

Contributing to the Fund's outperformance were overweight positions in healthcare imaging software company Pro Medicus (PME) and cloud connectivity services company Megaport (MP1). A high quality FY23 earnings result and new contract win in the September quarter underpinned a rise in +27.3% Pro Medicus. PME delivered strong double digit growth across a number of key financial metrics including a 34% increase in revenue and +36% rise in EPS. Pleasingly, PME produced an EBIT margin of 67% and Management anticipates that these solid margins are to remain broadly in line with these levels in the near term, reiterating the highly scalable operating leverage within the business. Another key takeout was the improvement of PME's implementation speed, the Company actioned 8 cloud-based implementations in the year. As cloud adoption continues to accelerate we believe PME will be well positioned to capitalise on new opportunities. Later the in quarter, PME announced a new $140M, 10-year contract with not-for-profit IDN Baylor Scott & White, the largest of its kind in Texas and one of the largest in the United States. We were also encouraged to see that the new contract included PME's 'full-stack' of products Visage 7 Open Archive, Visage 7 Workflow and Visage 7 Viewer, which has been a trend in a number of new contracts won in FY23. The 'full-stack' trend underscores PME's growing penetration of the North American market as well as further validating PME's unique and market leading imaging technology. In our view, the deal re-emphasises PME's robust business model and reiterated to us that the Company is still in the early stages of capturing market share in a large addressable with short to medium term drivers being continued innovation and development in key growth areas including cardiology, a healthy contract pipeline with leads gained from the recent Radiological Society of North America (RSNA) conference, growing demand from existing and new customers for PME's full stack of products and ramp up of large contracts.

Megaport (+63.0%) rose strongly the September quarter following two reasonably positive updates in July. Firstly, MP1 came to market early to upgrade its FY23 and FY24 guidance, while also announcing strong cash flow outcomes. Later in July, MP1 announced its 4Q23 Quarterly Update which we believe was a robust update. Although the quarterly update meant that the FY23 result was then largely pre-released, positive sentiment further compounded in August. The key driver of the strong performance was driven by the Company's update to its FY24 EBITDA guidance which is now expected to fall in the range of $51M to $57M and is an impressive increase of ~152%-182% versus MP1's FY23 earnings of $20.2M. Additionally, FY24 revenue was guided to $190M to $195M and Management confirmed that it expects to be net cash flow positive for the entirety of FY24. On other metrics, MP1 delivered 40% revenue growth YOY and indicated that aggregate customer lifetime value increased to 30% and is reflective of an increase in customers (+8%) and Customer Lifetime Value with customers on average using MP1's services for 9 years. Moving forward, we maintain our conviction in MP1 given the Company is the global leader in cloud connectivity, we believe enterprises and Governments are still early in the cloud migration journey and MP1 is a share gainer, with its customers subscribing for more services over time, illustrating the power of the offering.

Somewhat offsetting these positive contributions was the Fund's overweight positions in logistics solutions company WiseTech Global (WTC) and medical device maker ResMed (RMD). WiseTech Global declined -18.4% in the September quarter due to disappointing FY24 EBITDA guidance that was materially below market forecasts and disappointingly overshadowed the strong FY23 earnings result. WTC guided to revenue and EBITDA growth of 27%-34% and 18%-27% respectively, missing expectations given the dilutive margin impact of recent acquisitions and a step up in R&D reinvestment. We were encouraged by WTC's strong FY23 financial performance which included revenue increasing +29% to $817M and underlying earnings rising to $417M. During the year, WTC secured six new Large Global Freight Forwarder (LGFF). We remain bullish on the long-term trajectory of the stock given recent acquisitions of leading US landside logistics software companies Envase (trucking) and Blume (rail, intermodal). These acquisitions provide WTC with a leading and unique position in the highly fragmented US landside logistics software market. This segment is highly complementary to their core freight forwarding operations and significantly expands WTC's total addressable market. Accelerating contract wins post-COVID with major global freight forwarders including UPS and FedEx and more recently a global rollout of customs module with Kuehne & Nagel (world's largest freight forwarder) has reinforced our conviction in the WTC as the unrivalled market leader.

ResMed (-27.9%) produced a broadly solid FY23 result in August with 21% revenue growth driven by both devices and masks, operating profit growth of 14% and strong cash flows. However, the fourth quarter featured a further decline in gross margins in contrast to guidance for improving margins. Gross margins fell 30bps during the quarter due to FX headwinds and an unfavourable product mix caused by a step down in sales of high margin ventilators. The fumbled guidance and poor explanations triggered a sharp selloff in the in share price. Also weighing down the share price is market concerns about the longer term impact on RMD's growth from anti-obesity GLP-1 medications such as Ozempic/Wegovy. These medicines have proven very effective in reducing weight in clinical trials and have created a lot of buzz and uptake over the last 1-2 years. Given that 70% of obstructive sleep apnea (OSA) incidence is due to obesity, these drugs have the potential to reduce the population of OSA sufferers and shrink the market. However, there are a number of real world hurdles facing these drugs (including high cost, unpleasant side effects, low adherence, and high discontinuance rates) that limit their effectiveness in achieving long term sustained weight loss necessary to eliminate OSA.

Fund Activity

In the September quarter we took the opportunity to increase our position in an insurance broker. As Australia's #1 Insurance Broker the Company has benefited from the 11-13% premium increases. We added to our position in the Company as it continues to benefit from these insurance premium increases without the downside of meeting the increased claims arising from weather events in Australian and New Zealand over the past years.

We added to our holding in a diversified miner after it experienced a pullback in share price due to the decrease in lithium prices. The Company has a heavy development pipeline of mining services, iron ore and lithium in FY24 but from FY25/26, capex should decrease materially with free cash flow increasing as the projects come on line.

During the quarter we have also taken some profit in an Information Technology constituent following its strong share price outperformance. The Company is the global cloud connectivity leader via its Network as a Service (NaaS) model, delivering connectivity to cloud service providers (CSPs) in North America, Europe and Asia-Pacific. Enterprises are still early in their cloud migration journey, and we see a long runway ahead as enterprises benefit from cloud's flexibility, agility and security. We expect the Company to benefit from this long growth runway, particularly given its market leadership position.

Similarly, following a digital payments company's share price rally we have trimmed our position. The market has taken the recent announcements on strategy quite positively and we are also supportive of a review of the business assets, including the actions taken so far on the unprofitable Irish-regulated business unit. We continue to hold a position in the Information Technology constituent as we still think that at the current share price, the rest of the prepaid business is being undervalued.

ESG Activity

August reporting season highlighted a few ESG themes, notably relating to safety and climate change. Sadly, six listed companies reported two fatalities over the last year (BHP, Downer (DOW), Nickel Industries (NIC), Perenti (PRN), South32 (S32) and Woolworths Group (WOW)). Some of these were contractors. There were also single fatalities at another 7 companies. Consequently, we met with the executives of companies we own to discuss the circumstances that led to these fatalities and the initiatives that are needed to reduce the risk of fatalities in future.

As most of Australia's largest listed companies have now set climate targets, the focus has largely shifted to the credibility of transition plans and the challenges associated with delivering on the targets that have been set. While many companies are on track, others are noting higher project costs or regulatory or supply chain delays.

We also observed a shift among some heavy emitters. With federal government policy on emissions clearer, some companies commented that they now have the investment certainty to invest. Bluescope (BSL) said that supportive government policy underpinned its decision to upgrade and reline its blast furnace at Port Kembla while Orica (ORI) upgraded its emissions targets as a result of decarbonisation projects it has on foot.

Of the many meetings we held with companies during the quarter, we specifically raised ESG issues with 22 of these companies, including BHP, Rio Tinto (RIO), Qantas (QAN), WDS, Santos (STO), WOW, Wesfarmers (WES) and CSL. The issues raised included climate change, emissions reduction targets, policy risk, decarbonisation challenges, modern slavery due diligence, nature-related risks, safety and relationships with traditional owners.

There were only four shareholder meetings at companies held by the Growth Equities team during the quarter. We supported all resolutions in line with management.

Market Outlook

Macro uncertainty resurged as a driver of market returns in September with the interest rate debate firmly at the wheel. Higher energy prices coupled with hawkish commentary from the FED and resilient economic data continued to fuel the argument that interest rates will need to remain restrictive for longer, prolonging the fight against inflation. The challenging economic outlook implies that cost pressures may continue to persist in the near term and company earnings expectations have lowered as a result. This was reflected in the first quarterly decline in the market's P/E NTM multiple. Whilst, August reporting season demonstrated that many companies have been successful in passing on costs to customers through pricing, defending their gross margins. This will be far more challenging in a slowing economic environment, especially for cyclical stocks, increasing the necessity to right-size headcount and reduce spending amidst weakening demand.

As the market responds to the gradual global economic slowdown we continue to adhere to our long-term investment process and place our conviction in growing companies which generate consistent returns and can reinvest above their cost of capital. We believe that high quality, market-leading companies with distinctive products/services and strong structural tailwinds will be better placed to navigate the uncertainties of the future.

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.

Turnover is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling stocks to meet outflows rather than related to active management of the portfolio.

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