

# First Sentier Equity Income Fund



Formerly the Colonial First State Equity Income Fund-Class A

## Quarterly Factsheet

30 September 2023

### Portfolio Description

This Fund is suitable for investors seeking long term income and reduced volatility from Australian shares.

### Investment Strategy

The Fund's returns are generated from a number of sources directly or indirectly, including dividends, franking credits and capital returns from Australian shares, as well as income generated from equity options. The Fund uses equity options to modify the return profile of its Australian share holdings. The use of equity options in conjunction with Australian shares is expected to result in a greater proportion of the total return delivered as income and reduced volatility in returns. In the selection of Australian shares, investment opportunities are identified by detailed fundamental research, including a high number of company visits and utilising a proprietary database to analyse company financials. The Fund predominantly invests in Australian dollar denominated securities and therefore does not hedge currency risk. The Fund uses equity options to modify the return profile of its Australian share holdings, as well as for return enhancement and risk management purposes.

### Investment Objective

To provide a total return comprised of regular income, franking credits and some capital growth from Australian shares over the long term, delivered with consistently lower volatility than the S&P/ASX 100 Accumulation Index. The Fund aims to deliver risk adjusted returns that exceed the S&P/ASX 100 Accumulation Index before fees and taxes over a full market cycle.

### Key Investment Personnel and Experience (Industry / Firm)

Rudi Minbatiwala	Head of Equity Income	(2000 / 2000)
Jason Moodie	Senior Portfolio Manager	(1995 / 1997)
Marlon Chan	Senior Portfolio Manager	(2007 / 2007)

### Product Overview

APIR code	FSF1676AU
Inception date	01 August 2014
Fund Size (AS)	107 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	32
Buy / Sell spread	0.05% / 0.05%
Management fees and costs (p.a.)*	0.96%

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

### Top 10 Active Weight holdings

Stock
QBE Insurance
ResMed
Rio Tinto
Brambles
James Hardie
Computershare
Santos
Goodman Group
Bapcor
Corporate Travel Management

For Adviser use only

### Performance summary (% after fees and expenses)\*

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.1	13.0	8.4	6.1	7.5	-	5.9
Benchmark return	-0.7	13.7	11.9	7.3	8.5	-	7.3
Excess net return	0.6	-0.7	-3.5	-1.2	-0.9	-	-1.3
Net return (inc. franking)	0.2	14.0	10.0	7.7	9.1	-	7.6

Past performance is not a reliable indicator of future performance.

\* Performance is annualised for periods greater than one year.

### Income summary (% after fees and expenses)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Distribution return (ex. franking)	1.4	7.0	7.2	9.8	8.9	-	8.5
Franking credit return	0.3	1.0	1.6	1.6	1.6	-	1.6

### Volatility summary (%)

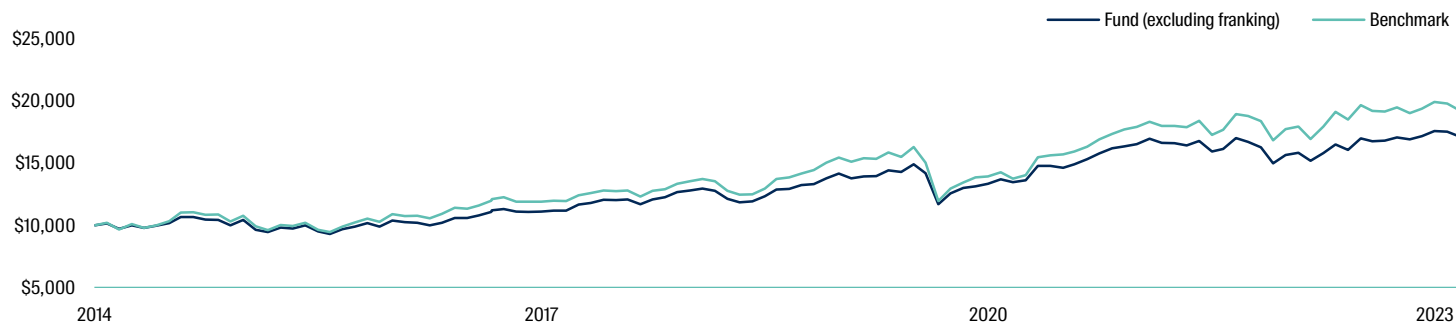
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund volatility (ex. franking)	9.1	11.1	13.5	11.9	-	11.8
Reference index volatility	12.2	13.2	16.1	14.2	-	14.0

### Rolling 1 year return (%)

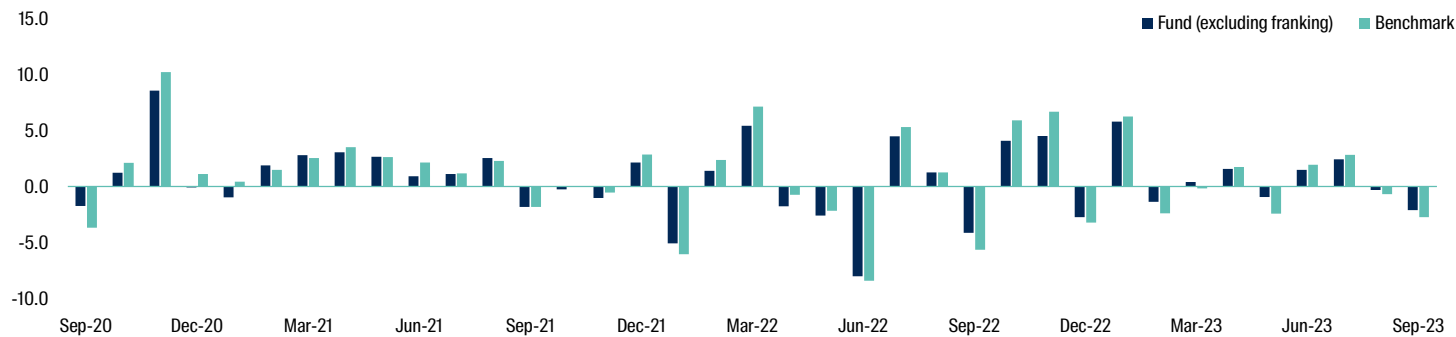


Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance. Data source: First Sentier Investors 2023 Data as at: 30 September 2023

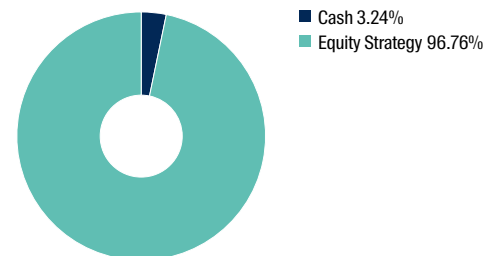
Growth of AUD 10,000 Investment Since Inception



Monthly returns vs benchmark (% excluding franking)



Invested exposure\*



\*Ignoring options

Market Review

The Australian equity market ended the September quarter with the S&P/ASX 100 Accumulation Index down -0.7%. This rather benign market retreat masks the significant volatility experienced over the month, as markets reacted to shifting macroeconomic themes. The market rise at the start of the quarter is attributed to increased belief in slowing inflation being able to deliver an economic soft landing, and speculation that the Chinese Government would provide further policy stimulus. In August and September the market narrative fluctuated between economic hard and soft landing and a significant amount of worry around higher rates for longer. This was reflected in US 10 year bond yields continuing to increase through the quarter.

The Energy sector (+9.5%) was by far the most positive performer in the market over the quarter led by Ampol Limited (+16.0%) whose share price run began after presenting a high quality 1H result, delivering double digit growth in their fuels and infrastructure division as well as strong sales volumes in their convenience retail network. Whitehaven’s Coal Limited (+13.3%) share price was also a strong contributor this quarter despite the NSW Government announcing an increase in coal royalties of 2.6% from July 2024. Company management have also confirmed that they will be participating in BHP’s divestment of their Blackwater and Daunia coal assets.

The worst performing sector over the quarter was the Health Care sector (-9.1%) largely driven by the fall in Resmed Inc (-27.9%). The company presented their 4<sup>th</sup> quarter result early in August demonstrating strong sales which unfortunately failed to translate into operating leverage with softer gross margins. Further, the market shifted its attention to the impact of GLPI weight loss drugs; Resmed was sold off on the premise that these drugs will be widely adopted, reducing the market for Resmed.

Over the quarter, the Reserve Bank of Australia did not raise rates once, rather, they kept rates at the 4.1% level reached in June. The RBA, like many other global central banks are currently at or near “peak rates” in this lifting cycle as they monitor relevant data to determine if more rate rises are required to further constrain inflation, should it start to run again. In a speech earlier in the month, new Governor, Michele Bullock, noted that the RBA would be closely watching the data flow each month. More recently, economic data has been softer and so there has been little catalyst to push the cash rate higher. There were few subtle changes to parts of the recent statement however, the RBA acknowledged that the monthly CPI indicator for July “showed a further decline”. It was again reiterated that inflation is too high and will remain so for some time yet. We will receive further guidance from the August monthly CPI data and the Q3 23 CPI released next month. Services and rent inflation remain the highest risks to inflation moving in the wrong direction.

Fund Performance

The Fund returned -0.1% for the September quarter, exceeding the benchmark return of -0.7%. This is a pleasing outcome and shows the Fund providing a performance cushion to the market fall. The options component performed as expected during the quarter by reducing the overall volatility of the Fund return.

The premium income received from selling single stock call options at strategic levels throughout the Fund provided a cushion to falling share prices and also reduces the participation in strongly rising share markets.

Stock selection had an overall positive contribution to performance over the quarter. The Fund's position in EML Payments (EML) contributed strongly after the company reported their FY23 earnings in August. The results showed a significant revenue beat driven largely by increased interest income earned from customer floats managed by the company and gains in their gifts and incentives business as well as the Australian GPR segment. Significantly, the new management team has set out its near term priorities as it seeks to maximise shareholder value in light of the challenges presented by regulators over the last 18 months.

The Fund has no exposure to pure coal companies and as such does not have a position in Whitehaven Coal (WHC) which detracted from performance as WHC rallied throughout the quarter. Conversely, the Funds overweight position in Santos Limited (STO) was beneficial to performance as oil prices rose over the period. The STO share price was also lifted after the company announced that it had agreed to sell a 2.6% interest in PNG LNG for US\$576 with an option for a further 2.4% later in 2024.

Our nil position in Wesfarmers Group (WES) contributed negatively to performance as its share price rose after presenting a FY23 result that surprised on the upside. The result showed continued demand from the consumer particularly across Kmart and Bunnings where it is evident that spending on the home is yet to be significantly impacted by recent increases in cost of living pressures. In the consumer space we prefer other companies less at risk from the impacts of falling discretionary household spending.

The Funds overweight position in Resmed was a negative contributor to performance as the share price fell over the quarter due to the reason mentioned above.

### Fund Activity

Over the quarter the Fund reduced its underweight in the bank sector by adding to its position in ANZ Bank (ANZ). Our preference remains for the higher quality banks of NAB and CBA, however we believe that, broadly, the credit quality of loan books of the domestic banks remains strong and they continue to be well capitalized. Reduced competition in loans and deposits means that net interest margin income is less likely to come under further pressure.

The Fund increased its current overweight position in QBE Insurance (QBE) over the quarter. The company provided a pre-reporting update, reaffirming its full year target of a combined ratio of 94.5% despite incurring some reserve strengthening across its US businesses and reporting higher reinsurance costs which remains an industry wide headwind. Nonetheless the continued strong top line growth and the better than expected investment income underpin the improving profitability position for the company. QBE remains our preferred insurance exposure. At the same time we have reduced our overweight position in Computershare Limited (CPU) over the month however the company is also expected to continue to benefit from a higher rate environment and remains an overweight position in the Fund.

APM Human Services International (APM) is a new position that was added over the quarter. It is a company that engages in job placement and health services through Government contracts, focusing on areas such as placing the disabled or the long term unemployed. While the company was founded in Australia it has since expanded to operate across North America, UK and other parts of the world. We believe the company will continue to grow both organically and through additional acquisitions as it has a strong and proven operating track record.

The Fund increased its overweight position in supply chain logistics company, Brambles Limited (BXB). BXB presented a solid set of FY23 results driven largely by pricing increases and stronger management of asset impairment. Recent years of strong sales growth has seen them able to pass through inflation costs as well as delivering a return on investments it has made in the last few years. Pleasingly, the company also provided FY24 guidance that was ahead of expectations including both higher sales and profit growth. We believe the company continues to have good momentum in expanding margins and improving asset efficiency.

### Market Outlook

Moving into the end of the year a large number of companies will be holding their AGMs. Given the uncertain macroeconomic backdrop, many companies deferred providing next year's guidance at their results. We expect the companies to do so instead at the AGM or to provide trading update for investors, which could mean the next two months will hold greater relevance in understanding what companies are expecting. There will be a strong focus on consumer behaviour as inflation continues to persist.

Higher longer term interest rates in the US would suggest that the market is concerned that inflation will remain elevated for longer. Certainly there have been visible elements to refer to, such as wage inflation pressures as evidenced in the high profile strikes in the auto and entertainment industries. Further industrial actions are expected in other sectors too, as employment conditions remain tight, and households attempt to offset their higher cost of living. A key focus for our Funds is balancing the composition of the portfolios between stocks that will benefit for higher interest rates and those that are longer duration and will have their valuation more impacted by a higher rate environment.

China will also be of focus from the perspective of the Funds resource exposures, as the government has signalled changes around its policy, particularly those pertaining to its property sector. The status of large builders such as Evergrande remain highly uncertain, with its large upcoming debt repayment obligations and significant backlog of unbuilt apartments; it remains to be seen whether these policy changes are sufficient in addressing these systematic issues. Property remains a large source of demand for steel, in turn impacting the expected demand for Australia's iron ore exports.

Following the reporting season, the Fund has increased the level of sold call positions written over the portfolio. We expect the additional sold call options will provide a smoother path of future returns, while also generating a healthy level of income. The focus on portfolio construction ensures that the Fund holds positions in stocks that perform well in an environment with higher interest rates,

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

#### For further information

Head of Wholesale - Aus/NZ		Business Development Manager - VIC/TAS	
Quin Smith	+61 455 095 505	Jack Heinz	+61 436 810 683
Key Account Manager - NSW		Business Development Associate - VIC/TAS	
Paul Sleiman	+61 4 2251 1231	Shannen Jacobsen	+61 457 227 728
Business Development Manager – NSW		Business Development Manager - QLD	
Nicole Kremastos	+61 431 187 910	Julie Day	+61 466 413 176
Emerson Bloom	+61 472 633 201	Business Development Associate - QLD/WA/SA/NT	
Amelia McKinnon	+61 435 719 998	Pam Evans	+61 458 864 686
Business Development Associate – NSW		Key Account Manager - WA/SA/NT	
Gabi Cheetham	+61 4 5788 1684	Nathan Robinson	+61 403 272 440
Key Account Manager - VIC/TAS			
Nicholas Everitt	+61 499 454 206		

This report has been prepared by and is issued by First Sentier Investors (Australia) IM Ltd (ABN 89 114 194 311, AFSL 289017) (**FSI AIM**) which forms part of First Sentier Investors, a global asset management business. First Sentier Investors is ultimately owned by Mitsubishi UFJ Financial Group, Inc (**MUFG**).

It is directed at persons who are professional, sophisticated or wholesale clients and has not been prepared for and is not intended for persons who are retail clients and must not be reproduced or transmitted in any form without the prior written consent of FSI AIM. A copy of the Financial Services Guide for FSI AIM is available from First Sentier Investors on its website.

This material contains general information only. It is not intended to provide you with financial product advice and does not take into account your objectives, financial situation or needs. Before making an investment decision, you should consider whether this information is appropriate in light of your investment needs, objectives and financial situation. 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. Past performance is no indication of future performance.

The product disclosure statement (**PDS**) or Information Memorandum (**IM**) (as applicable) for the First Sentier Equity Income Fund, ARSN 168 563 808 (**Fund**) issued by The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL 235150) (**Perpetual**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website. The target market determination (**TMD**) for the Fund is available from First Sentier Investors on its website and should be considered by prospective investors before any investment decision to ensure that investors form part of the target market.

MUFG, FSI AIM, Perpetual and their respective affiliates do not guarantee the performance of the Fund or the repayment of capital by the Fund. Investments in the Fund are not deposits or other liabilities of MUFG, FSI AIM, Perpetual or their respective affiliates, and investment-type products are subject to investment risk including loss of income and capital invested.

To the extent permitted by law, no liability is accepted by MUFG, FSI AIM, Perpetual or their respective affiliates for any loss or damage as a result of any reliance on this information. This information is, or is based upon, information that we believe to be accurate and reliable, however neither MUFG, FSI AIM, Perpetual nor any of their respective affiliates offer any warranty that it contains no factual errors. Any opinions expressed in this material are the opinions of FSI AIM at the time of publication only. Such opinions are subject to change without notice.

Copyright © First Sentier Investors (Australia) Services Pty Limited 2023

All rights reserved.

The indexes referred to in this document ("Index") are products of S&P Dow Jones Indices LLC and/or its affiliates and has been licensed for use by FSI AIM. Copyright © 2023 S&P Dow Jones Indices LLC, a division of S&P Global, Inc., and/or its affiliates. All rights reserved. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. For more information on any of S&P Dow Jones Indices LLC's indices please visit [www.spdji.com](http://www.spdji.com). S&P® is a registered trademark of S&P Global and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. Neither S&P Dow Jones Indices LLC, Dow Jones Trademark Holdings LLC, their affiliates nor their third party licensors make any representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and neither S&P Dow Jones Indices LLC, Dow Jones Trademark LLC, their affiliates nor their third party licensors shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.