First Sentier Wholesale Australian Share Fund

Formerly the Colonial First State Wholesale Australian Share Fund

Quarterly Factsheet

30 June 2023

For Adviser use only

Portfolio Description

The Fund invests in a broad selection of Australian listed companies, with between 30 to 40 stocks typically held in the portfolio.

Investment Strategy

We believe stronger returns are achieved by investing in growing companies that generate consistent returns and reinvest above their cost of capital. In-depth industry, stock and valuation analysis is the foundation of our process. The Fund predominantly invests in quality Australian companies with strong balance sheets, earnings growth and high or improving returns on invested capital.

Investment Objective

To provide long-term capital growth with some income by investing in a selection of Australian companies. The Fund aims to outperform the S&P/ASX 300 Accumulation Index over rolling 3 year periods before fees/taxes.

Key Investment Personnel and Experience (Industry / Firm)

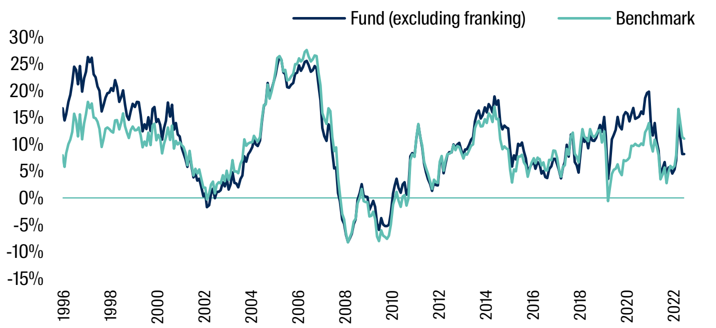
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0002AU
Inception date	31 December 1993
Fund Size (A$)	116 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	28
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A$)	5,000
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.

Rolling 3 year return (%)



Top 5 holdings

Stock
BHP Group
Commonwealth Bank
CSL
National Australia Bank
Xero

Sorted alphabetically

Performance Summary (%)

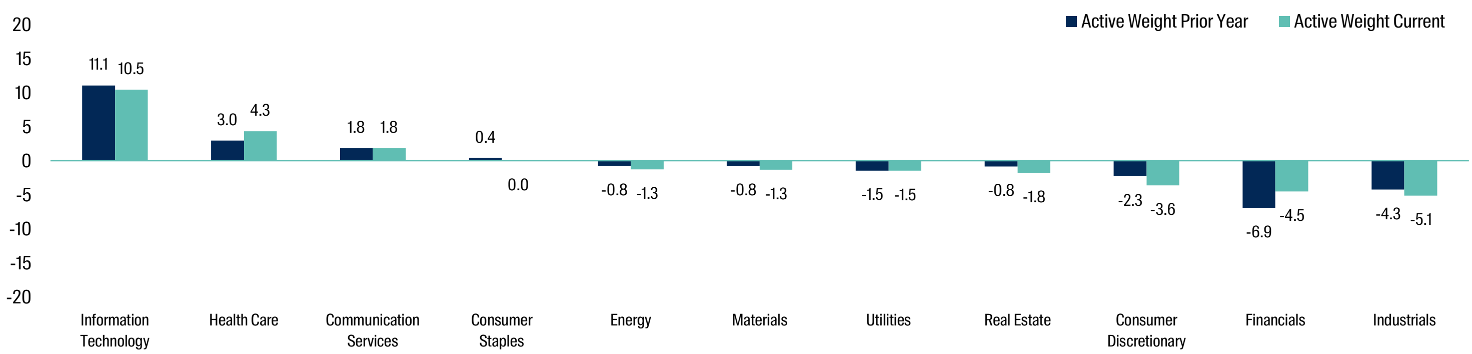
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	3.9	17.3	8.2	7.5	9.0	9.3	9.8
Benchmark return	1.0	14.4	11.1	7.1	8.9	8.5	8.5
Excess net return	2.9	2.9	-2.9	0.4	0.1	0.7	1.4
Income return	0.1	3.0	19.1	14.8	13.2	12.4	8.9
Growth return	3.8	14.3	-10.9	-7.3	-4.2	-3.2	0.9

Past performance is not a reliable indicator of future performance.

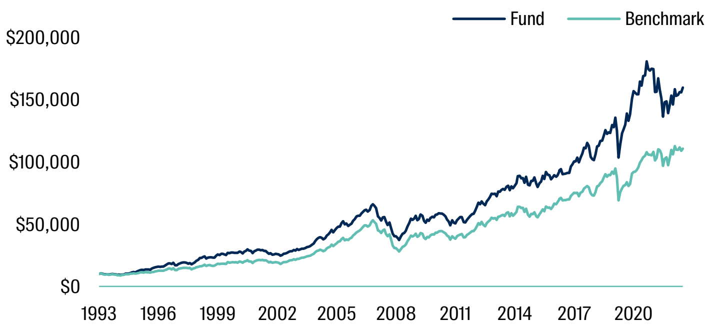
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	15.8	17.1	18.2	16.2	15.0	13.6
Benchmark standard deviation (%)	14.4	13.6	16.4	14.5	13.9	13.3
Tracking error (%)	4.9	7.7	6.8	6.1	5.4	4.2
Fund Sharpe ratio	0.9	0.4	0.3	0.5	0.5	0.4
Information ratio	0.6	-0.4	0.1	0.0	0.1	0.3
Beta	1.0	1.1	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	14.4	23.0	27.6	32.9	34.2	

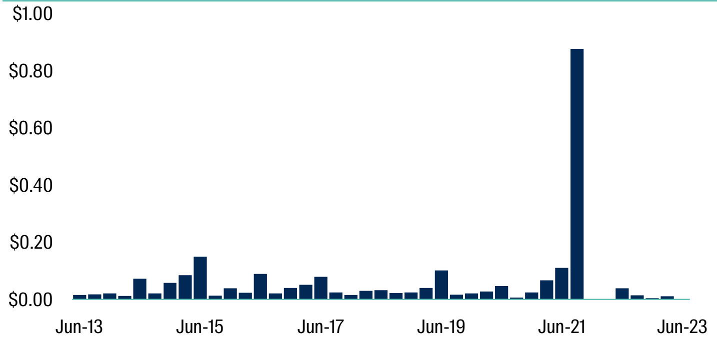
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	2.81%
Materials	0.51%
Consumer Staples	0.24%
Real Estate	0.11%
Communication Services	0.11%

Top 5 detractors to performance (3 months)

Sector	Attr.
Financials	-0.60%
Industrials	-0.20%
Utilities	-0.06%
Health Care	0.05%
Energy	0.07%

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 June 2023

Market Review

Australian equities finished the June quarter and financial year positively with a respective +1.0% and +14.4% gain albeit, masking the underlying volatility experienced by investors. Market movements in the S&P ASX 300 Accumulation Index over the quarter were dictated by a combination of domestic and international company announcements including a disappointing reporting season from the major banks in May, continuing bouts of mixed economic data, and persisting hopes that the global interest rate tightening cycle might be nearing its end.

The Information Technology sector was a bright spot for the market, surging +18.4% as investors embraced a preference for companies better positioned to deliver earnings growth in light of the growing risk of a slowing economy. Positive trading updates by Megaport (+75.2%), Life360 (+53.8%) and Xero (+33.0%) further bolstered the sector, with the former producing one of the strongest performance for the index. The sector has risen by over 30% over the past 12 months, consistent with strong moves in technology-related stocks overseas.

A stronger performance from AGL Energy (+34.3%) bolstered the Utilities sector (+5.5%) in the June quarter, offsetting softer contributions from Origin Energy (+1.4%) and APA Group (-1.4%). Investors embraced a favourable trading update with AGL management indicating that gross earnings for FY23 is expected to be at the upper end of its previous guidance between $1.33bn and $1.38bn.

Health Care stocks Imugene (-30.0%), Incannex Healthcare (-23.1%) and EBOS Group (-22.5%) all struggled and dragged the sector -3.1% lower. Index heavyweight CSL (-3.8%) was the greatest detractor, losing ground after the management team announced that full year net profits will be adversely affected by stronger-than-expected foreign exchange headwinds. Profit guidance for 2024 also fell short of market expectations.

Economic indicators in China pointed towards a potential moderation for bulk commodities, limiting gains within the Materials sector (-2.6%) in the June quarter. Whilst the outlook started to improve in June, given reports that China may be preparing policy changes and fiscal stimulus plans to support demand, mining constituents including BHP (-4.7%), South32 (-14.0%) and Rio Tinto (-4.5%) succumbed to downward pressure.

Fund Performance

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

Contributing to the Fund's outperformance were overweight positions in cloud accounting services provider Xero (XRO) and cloud connectivity services company Megaport (MP1). Xero rallied +33.0% higher in the June quarter with positive momentum stemming from a robust FY23 result (March Year End) that surpassed consensus expectations. A key highlight was the strong top line growth with revenue increasing +28% YoY supported by solid subscriber growth (+14% to 3.74m) and 10% lift in average revenue per user (ARPU). ARPU was supported by price increases, upgrades and strong uptake of platform adjacent products such as payroll and payments. Despite macro challenges faced in the past year, average monthly churn remains low at 0.9%, a testament to the sticky and vital services XRO provides and pleasingly, free cash flow also rose from FY21 NZ$2m to FY22 NZ$102m. We are of the belief that the new CEO's focus on profitability and disciplined cost controls are evident in XRO's target for operating expenses to fall from 82% to 75% of revenue in FY24 supporting further margin expansion, higher profits and greater free cash flow.

Megaport rallied +75.2% higher in the June quarter given its largely positive 3Q23 trading update made in April. In the result, the Company reported solid financial metrics including record monthly recurring revenue (MRR) which increased +14% QoQ, as well as positive growth across key KPIs for MCR and MVE. MP1 also flexed the benefits of its recently implemented initiatives including its cost out program, workforce resizing and recent Cloud VXC price increase resulting in Management citing that normalised earnings for FY23 and FY24 will be 'materially' above market expectations of $9M and $30M respectively, instead, guiding to be in the range of $16M-$18M and $41M-$46M. We were also pleased Management is working to rebuild its direct sales channel in order to reaccelerate sales momentum in support of solid market demand. Looking forward, we maintain our conviction in MP1 given they are the global leader in cloud connectivity, MP1's customers subscribe for more services over time, illustrating the power of the product; we are still early in the cloud migration journey and MP1 is a share gainer; and whilst the Company's 'self-help' measures have delivered immediate benefits, further benefits should continue to unfold.

Somewhat offsetting these positive contributions was the Fund's zero-weight position in major bank Australia and New Zealand Bank (ANZ) and overweight position in diversified miner Mineral Resources (MIN). Australia and New Zealand Bank rose +7.0% in the quarter, outperforming the broader market. The major bank released its 1H23 result in May, presenting a 12% increase in cash profit compared to 2H22. ANZ's net interest margin (NIM) increased by 7bps to

175bps however, similar to its peers, the Company indicated that the benefits of higher interest rates was decelerating as deposit and mortgage loan competition intensifies. Investors were also generally pleased with the proposed fully franked interim dividend of 81c (+9.5%). Later in the quarter, ANZ announced an agreement with the Queensland government as part of its proposal to acquire Suncorp Bank. The jobs and investment agreement promises to establish a 'tech hub' in Brisbane subject to the completion of the acquisition, following required approvals from the Australian Competition and Consumer Commission (ACCC) & Federal Treasurer.

Mineral Resources was driven -11.4% lower in the June quarter given a softer than expected 3Q23 exploration and mining activities report. MIN's 3Q23 result was driven predominantly by weaker performances from its lithium and mining services businesses culminating in guidance downgrades. Cost pressures were also evident in the result with costs guided to the upper end of its range for iron ore and guidance revised higher for its Mt Marion operations given delays in plant expansion and higher strip. The miner recovered some ground later in June with the announcement of a natural gas discovery at North Erregulla Deep-1 (NED-1) and positive early exploration results at Mt Marion. MIN also announced an early termination of its loss-making agreement with ganfeng which is therefore expected to be value accretive in the near term and has been seen positively. We remain attracted to the diversified miner given their strong capital management and robust growth pipeline that is expected to support robust medium and long term returns.

Fund Activity

During the quarter we participated in the IPO for a chemical distributor and added to our position in a biopharmaceutical company. We introduced the chemical distributor into the Fund given its long earnings track record, fully-franked dividend and emerging opportunity in the US market.

We also added to our holdings in a defensive biotechnology company. Continued strong rebound in plasma collections is driving stronger production and sales growth, albeit with a 12 month lag due to the long manufacturing cycle associated with plasma products. The Company recently reconfirmed guidance for FY23 with a small downgrade due to currency movements. They also provided guidance for FY24 that implies 15% profit growth. This was lower than market expectations due to a more gradual gross margin recovery vs forecasts. We remain confident the current cyclical rebound in plasma collections and strong pipeline of new product launches will support strong sales growth, margin expansion and profit growth for at least the medium term.

We exited our position Charter Hall (CHC) given our concern that the transaction market will remain depressed as commercial real estate goes through a re-pricing phase with valuations coming down. This is expected to impact CHC's FUM growth as vendor expectations are reset.

We also trimmed our position in a building materials producer, reflecting a change in positioning more so than a change in our outlook for the stock. The Company reported its FY23 result in May, with the result largely in line with expectations. The global manufacturer's FY23 adjusted net income of US$605.5m was in line with the company's guidance of US$600-620m. We drew three take-outs from the result: (1) the Company's margin performance is improving, with the company reporting improved margins in every region in 4Q23 compared with 3Q23; (2) its margin outlook appears strong, with the company's guide for 1Q24 well above market expectations; and (3) while the stock remains cautious on the outlook, it nonetheless believes it can hold margins above 25%. Looking forward, we believe we are nearing the bottom in end-market demand across the stock's key exposures. However, the outlook remains uncertain.

ESG Activity

The Australian Growth Equities team researched two ESG thematics during the quarter – corporate Australia's approach to traditional owner relationships and free prior and informed consent (FPIC), and the risks associated with carbon offsets and their place in transition plans. There is little research on both areas in an Australian context and FPIC in particular has the potential to materially impact miners and energy companies.

Carbon offsets have become controversial because of whistleblower claims that some offset projects are fraudulent or ineffective, with actual emissions from some projects (particularly forestry) being smaller than claimed. At the same time, companies have been turning to offsets to meet their voluntary or compulsory emissions reduction requirements. Some companies are relying on offsets to reduce emissions in the short term. Our preference is for companies to physically reduce as many emissions as they can, with offsets bought as a last resort for emissions that are hard to abate.

Australia's two largest oil and gas producers, Woodside Energy Group (WDS) and Santos (STO), held their annual general meetings during the quarter and both were controversial because of their growth plans. We voted against the re-election of Ian Macfarlane to the Woodside board but supported all other resolutions at Santos and Woodside. Our vote against Macfarlane was driven by our disappointment with Woodside's transition plan and the Company's reluctance to meaningfully address weaknesses in the plan, particularly its approach to Scope 3 emissions. We also identified weaknesses in both companies' approach to executive pay and encouraged them to address these.

We held meetings with Woodside and Santos' chairmen and climate teams during the quarter, along with meetings specifically on ESG with the four major banks, BHP Group (BHP), Rio Tinto (RIO), Endeavour Group (EDV) and Cleanaway (CWY).

We also progressed our collaborative engagement with JB Hi-Fi (JBH) on modern slavery and participated in a Climate Action 100+ meeting with Qantas (QAN).

Market Outlook

Although showing more cracks in its armour, inflation remains a challenge for global central banks. Services inflation in particular, continues to run hot as local housing prices begin to lift, rents increase in line with tight supply and increasing migration, and consumers continue to prioritise travel over other forms of discretionary spending supported by pent-up COVID savings buffers. As a result the market is coming to the conclusion that restrictive monetary policy will be required for longer.

Despite near-term earnings expectations decreasing, price to earnings multiples have increased over the last few months, largely driving year-to-date market gains and reflecting the market's focus on finding companies that offer long-term growth opportunities. This has also been evidenced by a recent reversal of style leadership with the MSCI Australia Growth Index outperforming its value counterpart in the calendar year to date. This is in contrast to 2022 where value stocks benefited from the economic recovery and associated rapidly rising interest rate environment. As the market landscape evolves to be centred on the gradual global economic slowdown, investors such as ourselves are looking for high quality, market-leading companies with distinctive products/services and strong structural tailwinds that 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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