

First Sentier Wholesale Concentrated Australian Share Fund



Formerly the Colonial First State Wholesale Concentrated Australian Share Fund

Quarterly Factsheet

30 June 2021

For Adviser use only

Portfolio Description

The Fund invests in a concentrated selection of Australian listed companies, with between 20 to 30 stocks typically held in the portfolio.

Investment Strategy

The Fund's 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 generally invests in high quality companies with strong balance sheets and earnings in the S&P/ASX 300 Accumulation Index. The Fund predominantly invests in Australian companies and therefore does not hedge currency risk.

Investment Objective

To provide long-term capital growth by investing in a concentrated portfolio of 20-30 securities. 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)

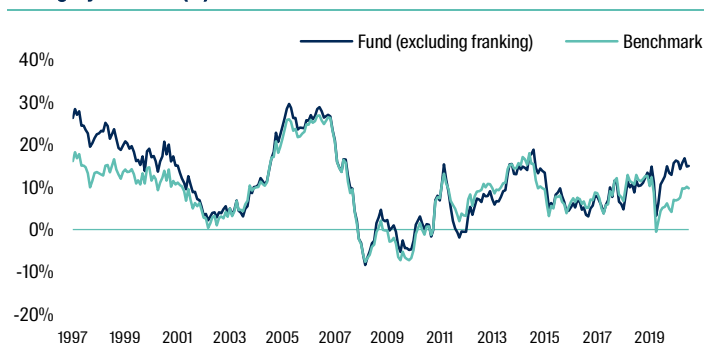
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0016AU
Inception date	20 December 1994
Fund Size (AS)	220 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	29
Buy / Sell spread	0.20% / 0.20%
Minimum investment (AS)	5,000
Management cost (p.a.)*	0.96%

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

Rolling 3 year return (%)



Top 5 holdings

Stock
Afterpay Touch
BHP Group
Commonwealth Bank
CSL
National Australia Bank

Sorted alphabetically

Performance Summary (%)

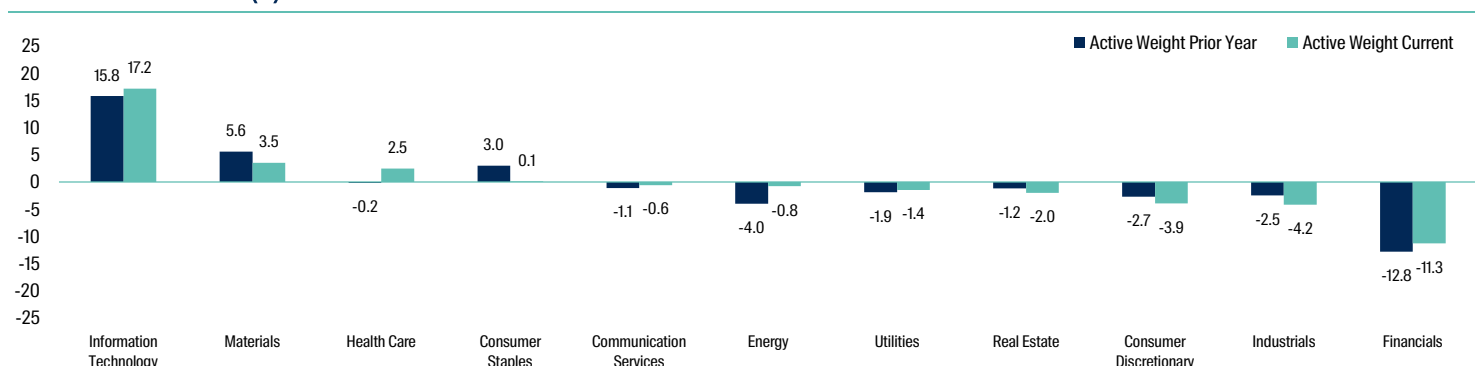
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	9.5	33.6	15.0	14.1	11.6	10.9	12.4
Benchmark return	8.5	28.5	9.7	11.2	8.8	9.5	9.9
Excess net return	1.0	5.1	5.2	2.8	2.8	1.4	2.5
Income return	0.0	1.3	2.2	2.6	2.7	3.1	7.7
Growth return	9.5	32.3	12.8	11.5	8.9	7.8	4.7

Risk Characteristics

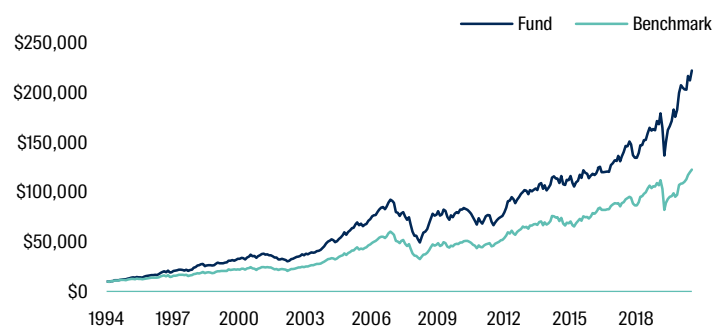
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	13.8	17.9	15.2	15.0	14.8	13.9
Benchmark standard deviation (%)	10.4	17.3	14.4	14.2	13.5	13.0
Tracking error (%)	8.9	6.5	5.8	5.3	5.8	4.8
Fund Sharpe ratio	2.4	0.8	0.8	0.7	0.6	0.6
Information ratio	0.6	0.8	0.5	0.5	0.2	0.5
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	22.7	40.7	49.6	57.9	53.1	

The benchmark from inception was the S&P/ASX 100 Accumulation Index, from 11 June 2013 the S&P/ASX 200 Accumulation Index, from 8 June 2020 the S&P/ASX 300 Accumulation Index.

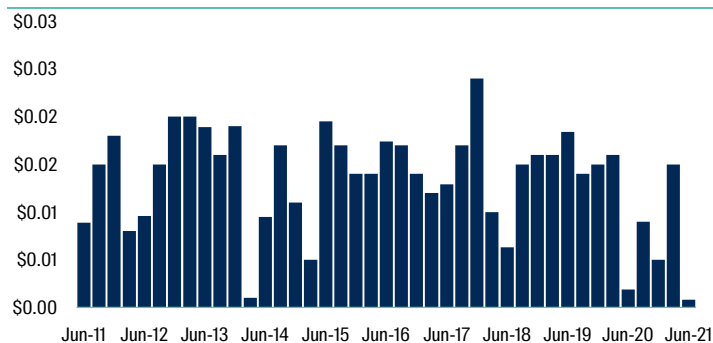
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Health Care	0.64%
Real Estate	0.42%
Information Technology	0.34%
Communication Services	0.25%
Energy	0.17%

Top 5 detractors to performance (3 months)

Sector	Attr.
Industrials	-0.34%
Consumer Discretionary	-0.28%
Consumer Staples	-0.21%
Materials	0.04%
Financials	0.14%

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: 30 June 2021

Market Review

Rising earnings expectations was a consistent theme throughout the June quarter as economic data improved and global PMIs reached touching distance of, or in some regions even set, record highs. Higher than expected inflation data temporarily drove equities lower in May, however investors were quick to realise its likely transitory nature given the price declines experienced in 2020. Leading into quarter end, Australian equities continued to move higher as inflation fears subsided, commodity prices rallied and long-term bond yields moved lower. By the end of the quarter, the S&P/ASX 300 Accumulation Index has risen +8.5% with each month contributing positively.

While subsiding inflation concerns and lower bond yields were beneficial for the Information Technology sector (+12%), constituents largely rose off the back of positive stock-specific updates and improved earnings expectations. The electronics design software company Altium (ALU) was the best performer, rising +39% after receiving a takeover offer from the US software company Autodesk. While the offer valued ALU at more than a 40% premium to the previous day's closing price, ALU's board voted to reject the proposal on the basis that it undervalued the business' growth prospects. Australia's largest Buy-Now-Pay-Later (BNPL) firm Afterpay (APT) rallied +16% given a positive third-quarter trading update, which highlighted strong growth in underlying sales as active customers and merchants continued to rise, and news of its latest product expansion. APT will selectively offer virtual cards to US-based customers, enabling them to use Afterpay at the most popular and largest merchants in the country.

Strong performances from the gaming manufacturer Aristocrat Leisure (ALL) and the Australian conglomerate Wesfarmers (+12%) drove the Consumer Discretionary sector +12% higher. A positive first-half result contributed to the 26% rally experienced by ALL. The trading update detailed above-market bookings growth in digital, margin expansions in both the gaming and digital segments, and group earnings growth of more than 18% year-on-year. With more than 60% of earnings generated from its Bunnings business, Wesfarmers has benefited from the ongoing strength in Australia's housing market and renovation activity.

The majority of constituents in the Utilities sector (-5%) declined in the June quarter. AGL Energy fell -15% as it downgraded its FY21 guidance, cancelled its special dividend program and confirmed its intention to separate its electricity generation and retailing businesses. Origin Energy, which recently transitioned from the Energy sector to Utilities, declined -4% following a downgrade to earnings guidance as it experienced continued headwinds in its energy markets business and an adverse price movement in a gas supply contract.

The Energy sector (-2%) also underperformed despite normalising OECD stockpiles, a result of improving demand and OPEC+ supply cuts, pushing oil and gas prices higher. Beach Energy (BPT) fell -28% as its third-quarter result highlighted lower production, lower sales volumes and a 25MMboe downgrade to its Western Flank oil and gas reserves (about 5% of total reserves).

Fund Performance

The Wholesale Concentrated Australian Share Fund outperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the June quarter and continues to deliver attractive levels of excess returns over longer periods as our be-spoke fundamental research process allows us to identify high quality, growth stocks that we believe will generate superior returns for our investors over time.

Contributing to the Fund's outperformance were the overweight positions in the cloud connectivity services provider Megaport (MPI) and the leading radiology software provider Pro Medicus (PME). MPI rallied +66% in the June quarter as it benefited from a strong third-quarter result and an investor update that showcased its latest product offering. The third-quarter result highlighted ongoing growth in installed data centres, customers and ports thanks to its global footprint and high-quality network. As a result, MPI delivered a 10% increase in underlying monthly recurring revenue, its second highest quarterly increase ever. Management noted that the strong demand had continued into the next quarter as the digital transformation accelerates. In June, MPI showcased its latest evolution of the Megaport Virtual Edge (MVE), which covered: its SD-WAN solution, in collaboration with various industry leading vendors; case studies for both small and large enterprises; expected pricing; and MPI's sales plan. With MPI's network serving as the 'underlay' over which SD-WAN providers can sell networking services, and having already inked deals with four major vendors that account for ~50% of the SD-WAN market, MPI is well-positioned to benefit from a fast-growing industry as enterprises increasingly use cloud-based technology.

PME rallied +42% through the June quarter as it announced an eight-year contract with The University of Vermont Health Network (UVM) and a research collaboration agreement with Mayo Clinic. The contract with UVM will see PME's core Visage 7 product implemented on a transaction-based model across UVM's six hospitals with a minimum guaranteed contract value of A\$14m. The research agreement with Mayo Clinic, one of the leading academic healthcare networks in the US, will focus on the development and commercialisation of Artificial Intelligence in radiology. Both deals validate PME's unique and market leading imaging technology and opens the door for future growth opportunities.

Somewhat offsetting these positive contributions were the overweight positions in the payment solutions provider EML Payments (EML) and the travel companies Webjet (WEB) and Qantas (QAN). A letter from the Central Bank of Ireland, which raised regulatory concerns in regards to EML's AML/CTF risk procedures at its PFS Card Services business, pushed EML -29% lower over the quarter. While the regulator's investigation poses additional risks to EML, we believe the magnitude of the market's reaction, with the company falling -46% on the day, was unwarranted as it priced in the worst case scenario – EML losing its licence to operate in Europe. We believe that this outcome is unlikely given our view that, having found inconsistencies with EML's risk/control protocols compared to other businesses, the regulator will likely direct EML to improve these processes – potentially through a fine. While there is some risk that revenue growth could be slightly impacted in the near term from delays in new customer programs, the impact is unlikely to reach the significant levels initially priced in by the market. We continue to believe EML is well-placed to benefit from the economic recovery as well as growth from new product offerings. We added to our position in EML on the back of the market overreaction and have benefited from its +35% recovery since.

Travel companies, such as QAN (-8%) and WEB (-12%), experienced weakness through the quarter as worsening conditions in India threatened the prospect of normalising international travel and domestic coronavirus cases resulted in the return of lockdown laws and border closures. While there may be a short-term hit to revenue, we believe travel will rebound quickly as borders reopen and vaccine rollout programs continue.

Fund Activity

Through the June quarter, we shifted the mix of Energy exposure within the Fund while also increasing existing positions in several Health Care companies. These purchases were partly funded by some profit taking of the Fund's Real Estate holdings.

In the Energy sector, we added to an existing position in an Australian oil and gas producer, which has a high quality management team and a strong pipeline of development projects, given the improving demand outlook as countries progress with their vaccine programs.

We took some profit in the property investment and funds management company Charter Hall (CHC). CHC is a high beta property fund manager that's leveraged to asset values and known in the market as the marginal price setter. The recent spike in bond yields has put pressure on the name given that REIT's have historically been negatively correlated with changes in bond yields - due to the fact that they own/manage long duration assets. Positively, the 1H21 result and outlook were in-line with market expectations.

Market Outlook

While the end of the 2021 Financial Year will mean investors will start to transition their focus towards the upcoming reporting season, coronavirus-related data and vaccine rollout programs will continue to be at the forefront of the market's attention as countries respond to the Delta strain. Recent volatility in bond markets and changes to interest rate commentary reiterate the need for investment managers to remain nimble in their approach as information can quickly change.

Our outlook for the economy is positive as we expect that the very large fiscal and monetary stimulus programs, combined with a strong wealth effect, will continue to filter through the economy for some time to come. As a result of international border closures, we believe the limitations on skilled immigration will elongate the cycle and prevent an inflationary boom from happening. If growth is measured but positive as we expect, conditions for growth stocks to perform well are evenly balanced and stock selection and individual stock earnings results will determine relative performance.

Headline inflation will likely peak around circa 4% over the next 2-3 quarters due to the base effects from negative prices a year ago. As we move into CY22, our view is that inflation will plateau back to the 2% level and will remain low. This is due to the absence of demand-pull inflation as consumer and enterprise spending is increasingly directed to software, tech equipment and research and development spending that have a zero marginal cost of production. It is this structural headwind that bodes well growth companies that can run their own race and generate growth and a high return on invested capital.

Notwithstanding a generally positive but changeable macro-economic outlook, we are maintaining an open mind to investing and a focus on be-spoke research. This approach has guided us towards companies that are running their own race – strong franchises that are capable of increasing market share, growing earnings and generating superior returns on capital.

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. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over the past five years.

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.

www.firstsentierinvestors.com.au

For further information

Head of Investment Sales and Key Accounts

Chris King +61 2 9010 5249

Key Account Manager - NSW

Angela Vincent +61 2 9010 5230

Paul Sleiman +61 2 9010 5393

Business Development Manager – NSW

Justin Sultana +61 2 9010 5326

Key Account Manager - VIC/TAS

Nicholas Everitt +61 3 9225 5055

Business Development Manager - VIC/TAS

Jack Heinz +61 3 9225 5056

Key Account Manager - QLD

Quin Smith +61 4 5509 5505

Business Development Manager – QLD

Julie Day +61 4 6641 3176

Key Account Manager - WA/SA/NT

Nathan Robinson +61 4 0327 2440

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**) and Information Memorandum (**IM**) for the First Sentier Wholesale Concentrated Australian Share Fund, ARSN 087 569 640 (**Fund**) issued by Colonial First State Investments Limited (ABN 98 002 348 352, AFSL 232468) (**CFSIL**) should be considered before making an investment decision. The PDS or IM are available from First Sentier Investors on its website.

CFSIL is a subsidiary of the Commonwealth Bank of Australia (**Bank**). The Bank, MUFG and subsidiaries thereof 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, the Bank or their respective subsidiaries, and investment-type products are subject to investment risk including loss of income and capital invested. First Sentier Investors was acquired by MUFG on 2 August 2019 and is now financially and legally independent from the Bank.

To the extent permitted by law, no liability is accepted by the Bank, MUFG or any affiliates thereof 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 the Bank, MUFG nor any affiliates thereof 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 2021

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 © 2021 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. 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.