

First Sentier Wholesale Concentrated Australian Share Fund



Formerly the Colonial First State Wholesale Concentrated Australian Share Fund

Quarterly Factsheet

31 March 2022

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)

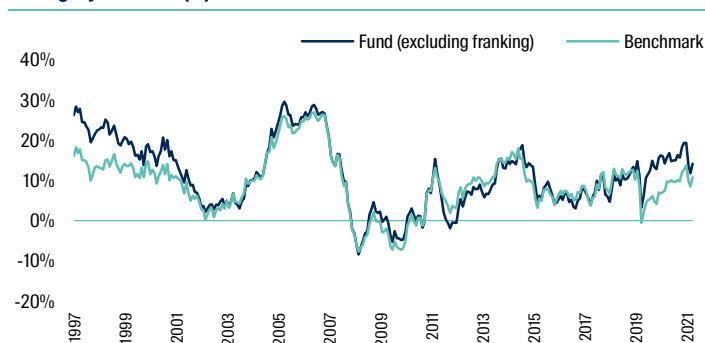
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0016AU
Inception date	20 December 1994
Fund Size (AS)	1,024 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	28
Buy / Sell spread	0.15% / 0.15%
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
BHP Group
Commonwealth Bank
CSL
National Australia Bank
Woolworths

Sorted alphabetically

Performance Summary (%)

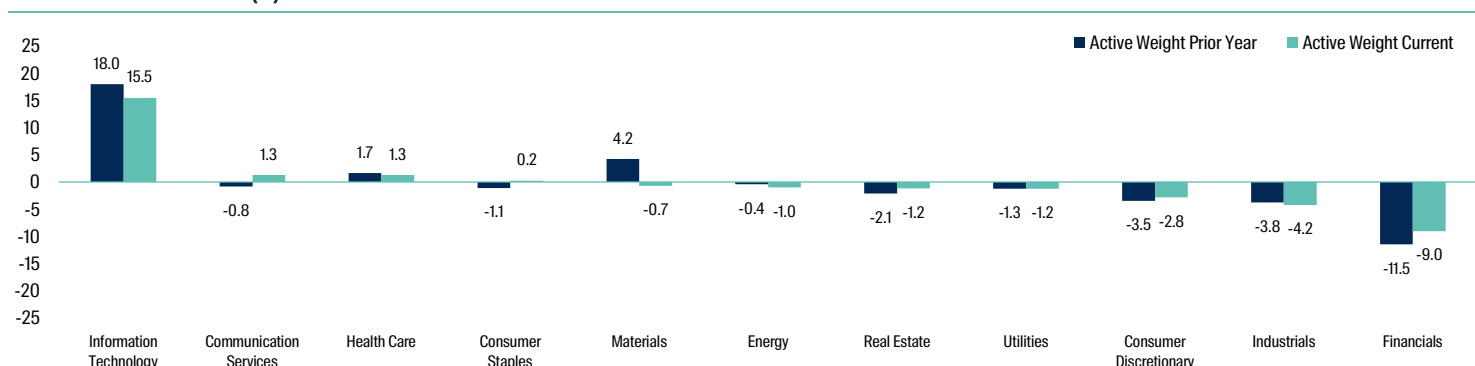
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-3.9	8.2	14.2	12.1	9.4	11.0	12.0
Benchmark return	2.1	15.2	10.7	9.3	7.9	10.4	9.8
Excess net return	-6.0	-7.0	3.5	2.7	1.5	0.5	2.1
Income return	0.5	1.7	2.0	2.4	2.7	2.9	7.5
Growth return	-4.4	6.5	12.2	9.7	6.8	8.0	4.5

Risk Characteristics

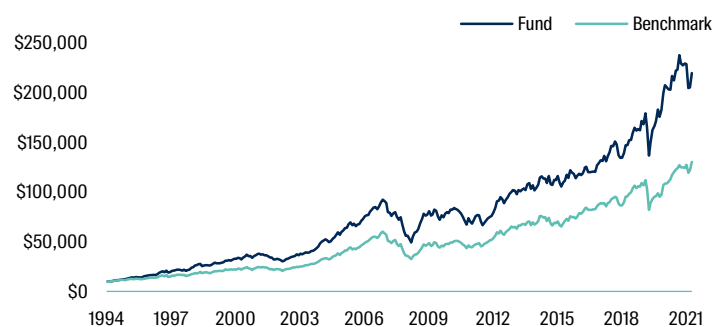
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	17.0	18.9	16.2	15.4	14.7	14.0
Benchmark standard deviation (%)	10.9	17.4	14.7	14.1	13.4	13.0
Tracking error (%)	9.2	7.6	6.4	5.9	6.0	5.0
Fund Sharpe ratio	0.5	0.8	0.7	0.5	0.6	0.5
Information ratio	-0.8	0.5	0.4	0.3	0.1	0.4
Beta	1.4	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	20.9	35.7	40.2	46.2	51.7	

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.

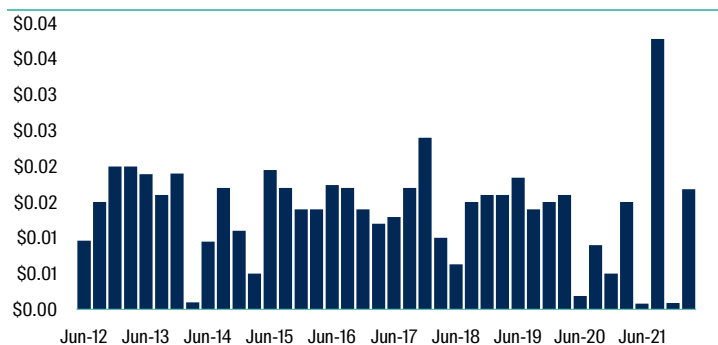
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Financials	0.66%
Industrials	0.42%
Consumer Discretionary	0.35%
Consumer Staples	-0.01%
Utilities	-0.16%

Top 5 detractors to performance (3 months)

Sector	Attr.
Information Technology	-3.76%
Materials	-1.20%
Energy	-0.61%
Communication Services	-0.54%
Real Estate	-0.49%

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 2022

Data as at: 31 March 2022

Market Review

Australian equities initially declined in the March quarter, experiencing their worst month since the coronavirus pandemic. Declines were spurred on by spread of the Omicron variant, concerns of faster and more frequent interest rate hikes and rising inflation, creating an environment conducive towards a rotation to value-orientated shares. Market volatility continued as geopolitical tension erupted into a full scale invasion of Ukraine, causing investors to weigh up potential global and local economic implications. However, a broadly positive February reporting season helped improve consumer and business sentiment with \$36.3b dividends declared and approximately 1.5x more earnings 'beats' than 'misses'. Patterns of inventory building provided more positive signs that supply chain disruptions were improving. Despite the early weakness, the market closed out the March month strongly, with the S&P/ASX 300 Accumulation Index returning +2.1% in the quarter.

Commodity prices rallied as global supply concerns increased and an array of hard and soft global sanctions mounted against Russia, the world's third and fourth largest producer of coal and LNG respectively. The tight supply demand dynamic resulted in a number of commodities reaching record highs for example coal prices reached \$430/tonne in March as pressure grew for the European Union to find alternative sources for imports. Consequently, commodity-sensitive sectors Energy (+28%), Materials (15%) and Utilities (+14%) performed strongly through the quarter with many constituents providing a positive future outlook.

Growing market hesitancy in light of rising interest rate expectations and uncertainty created by the Russia-Ukraine war resulted in the Information Technology sector falling -14%. Losses mainly occurred in January given the broader rotation to Value companies, however the sector recovered somewhat through March as investors returned their focus towards companies that have the ability to grow earnings as economies begin to slow and peace talks supported a relief-rally in equities. Despite the positive end to the quarter, the earlier sell-off saw each of Xero (-27%), Megaport (-25%), Altium (-24%) and WiseTech (-13%) post double-digit declines.

Broad-based weakness amongst COVID beneficiaries drove the Consumer Discretionary (-10%) and Health Care (-10%) sectors lower. E-commerce retail and services company Kogan fell -35% for the quarter as the COVID online shopping boom continued to normalise. Similarly, the Pharmaceutical biotechnology company Starpharma (-32%) – producer of Viraleze, a viral fighting nasal spray – faced steadily sharp declines in price as COVID becomes less severe. Concerns of rising costs of capital and a prevailing risk-off sentiment also dragged on a number of other Biotechnology constituents such as Telix Pharmaceuticals (-46%), Paradigm Biopharmaceuticals (-33%) and Imugene Limited (-38%).

Fund Performance

The Wholesale Concentrated Share Fund underperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the March quarter but 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 underperformance were the overweight positions in building materials company James Hardie (JHX) and accounting software developer Xero (XRO). JHX (-27%) faced a tough start to the quarter following the departure of its CEO Jack Truong. JHX continued to move lower in light of the Russia-Ukraine war and as its impact materialised through softening European activity, increased energy, freight and pulp costs, and rising mortgage rates in the US. JHX's North America Fibre Cement business is 70% exposed to the residential repair & remodel (R&R) segment, with the remaining 30% exposed to the single family new construction market. In our view, the R&R market is likely to hold up in the face of rising mortgage rates given strong house price appreciation in the US, significant levels of home equity, strong employment, and a shortage of new housing stock. We remain confident in JHX's ability to control costs and their pipeline of new products and projects to generate returns as they continue to expand their global presence.

The cloud-based business XRO (-27%) was no exception to the indiscriminate sell-off in technology companies as the prospect of interest rate hikes increased and news of the Russia-Ukraine war unsettled the market. Despite the market's view on a rising cost of capital, the fundamentals of XRO remain attractive. We maintain our positive outlook for XRO given the ongoing strong growth in cloud computing and product development, recognised as XRO reached 3m subscribers for the first time in 1H22 (23% YOY growth). Although subscribers are mainly located in Australia, New Zealand and the United Kingdom XRO has a large addressable market and are on track for building momentum in Singapore, South Africa and North America.

Somewhat offsetting these negative contributions were the overweight positions in mining constituents BHP Group (BHP) and South32 (S32). The recently unified mining giant BHP (+30%) advanced strongly through the quarter with the benefit of strong commodity price momentum, albeit with periods of volatility. In the February reporting season, BHP announced an impressive \$10.7b in dividends following a robust 1H22. This was largely attributed to operational strength in its Western Australia iron ore division and support from higher iron ore prices. Despite near-term pressure on iron ore demand stemming from China's COVID-19 lockdowns, we expect steel demand to sustain in the long term given China's pro-growth policy through infrastructure development. We have high conviction in BHP's ability to capitalise off the current climate particularly as they continue reshaping their high quality commodities portfolio underpinning strong earnings, dividends and cash flows in the long term.

A positive trading update during the quarter helped push BHP's demerged counterpart S32 +28% higher. The diversified metals and mining company exhibited stronger production and benefited from price rises for seven of their eight commodity products. Positively, S32 reached a record \$1.4bn in revenue for the half and have since finalised the acquisition of the Chile Sierra Gorda copper-molybdenum mine. With approximately 80% of their current earnings attributed to 'future facing commodities', this accretive acquisition strengthens S32's strategic direction towards expanding their global presence and providing greater decarbonised offerings. We continue to hold a positive future outlook for S32 as they reap the benefits from elevated commodity prices and continue to develop their diversified suite of products.

Fund Activity

We adjusted the Fund's holdings across a variety of sectors through the quarter, particularly Healthcare, Energy and Materials. As the pandemic wanes we have exited our position in Healthcare constituent Fisher and Paykel Healthcare (FPH). Demand for FPH's products have begun to decelerate as the latest COVID variants have required less respiratory interventions, inducing headwinds for FPH's ventilation products and near term earnings. Additionally, FPH delivered lower than expected utilisation rates on their freshly expanded suite of medical devices, elongating the stock's earnings recovery.

We increased our exposure to an oil and gas producer in the Energy sector. We see LNG market fundamentals as promising and believe the company is equipped to capitalise off LNG's strong pricing momentum as Europe begins the process of replacing Russian pipeline gas with LNG imports.

Within the Materials sector we rebalanced portfolio by adding and trimming several constituents. Notably, we added to our preferred major gold company as we believe their production profile carries lower execution risk than their peers. This was partially funded by then lightening of position in an alternative copper- gold miner. Factoring in risks on the miner's project development timelines, we believe the company is trading at a slight premium to valuation in comparison to other relative stocks.

Market Outlook

In line with the market's concern of rising inflation, the pre-election federal budget employed a number of policies to help manage and offset the increasing cost of living. We do not expect the new stimulus to accelerate inflation and instead believe its inflationary impact will be minimal based on several fundamental drivers including; the lower quantum of stimulus compared to that of 2020, abating pulled-forward demand for goods, and easing of both the tight labour market and supply chain blockages. All of these are expected to slow the economy and cause pressure on rising bond yields to abate.

The 2020-21 COVID fiscal stimulus coupled with a number of soft and hard state lockdowns fuelled an unprecedented goods demand shock that simply could not be matched by supply. However, as COVID continues to shift from pandemic to endemic, the 'stay at home' bubble has burst, alleviating the demand driven inflation as services and/or experiences return to favour.

On the supply side, the February reporting season illustrated patterns of inventory building and the easing of supply chain disruptions. The impact of a tightened labour market on company operations should also wane as COVID becomes less severe and international travel continues to improve throughout the year, solving a number of skill shortages. As demand continues to normalise and inventories catch up, pricing power should weaken, lowering inflation. The recent decline in the ISM New Orders and increase in ISM Employment survey provide evidence to support this view. However, the consistent decline in the New Orders ISM not only signals demand is decreasing but also indicates a deteriorating outlook for positive EPS revisions. If these relationships continues to hold true, lower inflation, lower rates and slower growth will provide a supportive backdrop for Growth stocks that can consistently grow earnings irrespective of the market cycle.

We are continuing to focus on companies with distinctive products/services that have the ability to grow earnings and market share in spite of anaemic household consumption. Through our bespoke fundamental research, the fund remains in an agile position to identify high quality companies that will outperform in the longer term whilst capitalising on the opportunity that volatility can present.

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

Acting Head of Wholesale Ross Crocker	+61 2 9010 5424	Business Development Manager - VIC/TAS Jack Heinz	+61 3 9225 5056
Key Account Manager - NSW Paul Sleiman	+61 2 9010 5393	Key Account Manager - QLD Quin Smith	+61 4 5509 5505
Business Development Manager – NSW Justin Sultana	+61 2 9010 5326	Business Development Manager – QLD Julie Day	+61 4 6641 3176
Key Account Manager - VIC/TAS Nicholas Everitt	+61 3 9225 5055	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. 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.

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 2022

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 © 2022 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.