

First Sentier Wholesale Concentrated Australian Share Fund



Formerly the Colonial First State Wholesale Concentrated Australian Share Fund

Quarterly Factsheet

30 September 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)

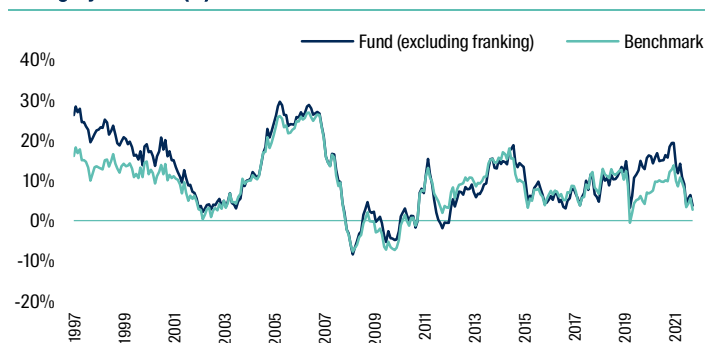
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0016AU
Inception date	20 December 1994
Fund Size (AS)	843 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 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
Woolworths

Sorted alphabetically

Performance Summary (%)

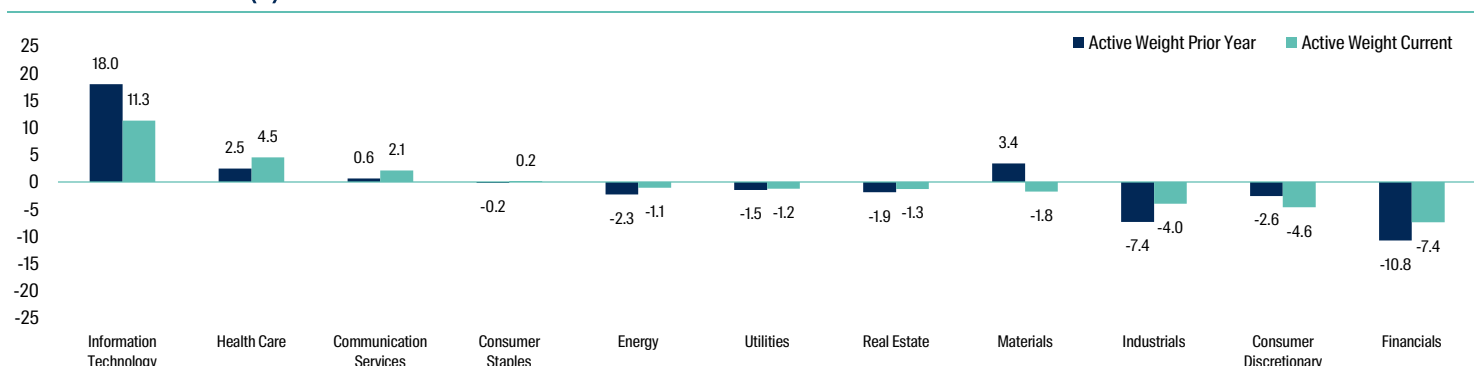
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	2.3	-20.3	3.8	8.7	7.8	9.4	11.0
Benchmark return	0.5	-8.0	2.7	6.8	8.0	8.5	9.1
Excess net return	1.8	-12.3	1.1	1.9	-0.3	0.8	1.8
Income return	1.3	2.8	2.4	2.6	2.8	3.0	7.4
Growth return	1.0	-23.1	1.4	6.0	5.0	6.4	3.6

Risk Characteristics

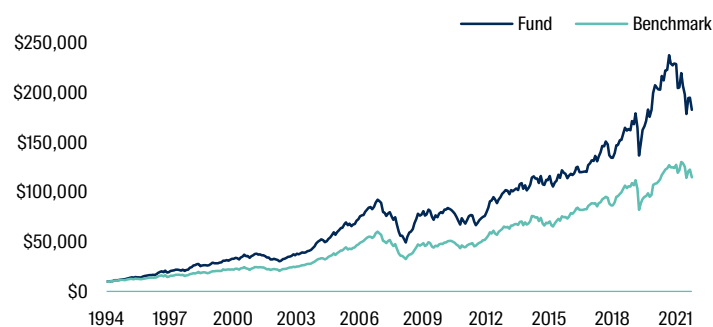
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	20.0	21.2	17.8	16.2	15.2	14.3
Benchmark standard deviation (%)	16.2	18.8	15.8	14.3	13.8	13.1
Tracking error (%)	7.3	8.3	6.9	6.2	5.8	5.1
Fund Sharpe ratio	-1.0	0.2	0.4	0.4	0.5	0.5
Information ratio	-1.7	0.1	0.3	0.0	0.1	0.4
Beta	1.2	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	19.3	30.6	36.2	45.2	50.8	

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.

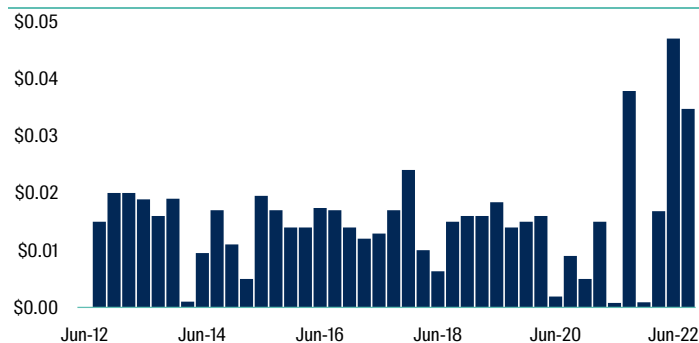
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	1.29%
Health Care	1.05%
Industrials	0.62%
Utilities	0.19%
Communication Services	0.14%

Top 5 detractors to performance (3 months)

Sector	Attr.
Materials	-0.41%
Energy	-0.39%
Consumer Discretionary	-0.34%
Financials	-0.04%
Real Estate	-0.02%

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: 30 September 2022

Market Review

Australian Equities were initially bolstered by positive momentum as the market interpreted early signs of weakness in local and international economic data as a sign that global central banks may pivot from restrictive tightening policy earlier than expected. In August, the general consensus that companies' earnings demonstrated resilience and produced better than expected results also reinforced investor optimism and drove sector gains for reporting season 'winners'. However, vindication for stickier inflation and resulting longer tightening cycle, the issuing of a number of global outsized rate hikes and stronger US dollar refuted earlier sentiment with investor pessimism quickly compounding in September and returning the robust gains made earlier in the quarter. Despite the late weakness, the S&P/ASX 300 Accumulation Index ended the quarter with a soft +0.5% rise

Global interest rate expectations oscillated throughout the September quarter generating bond market volatility as investors looked for signals that the pace and size of hikes will moderate. Yields on the 10-year Commonwealth Government bonds increased +0.23% over the quarter placing Real Estate constituents such as Arena REIT -21.0%, Unibail-Rodamco Westfield -18.6% and Centuria Capital Group -15.2% under selling pressure, causing the sector to slide -6.4%.

Grappled by uncertainty regarding plant outages and coal supply, the Utilities (-12.5%) sector underperformed its peers. All constituents posted declines following earnings results that generally missed market expectations and further scepticism increased as two out of three companies faced leadership changes. AGL Energy (-16.0%) was the weakest performer in light of the negative full year earnings impact of an outage at its Victorian generator Loy Yang Unit 2 and lower realised wholesale and customer prices. However, the electricity and gas retailer found some positive market sentiment late in September following the company's strategy day where AGL outlined their decision to close its coal power station by the end of 2035, 10 years earlier than expected.

Brent Crude oil fell under \$US100 for the first time since April, ending September at \$US88/bbl. However, despite recent commodity pricing pressure the Energy sector propelled +5.8% higher as the market rewarded constituents that reported robust full year results off the back of elevated oil and gas prices given tight supply attributed to global underinvestment and impact of the Russia-Ukraine war. Whitehaven Coal (+95.6%) was the best performing stock for the sector achieving record annual profit of \$2bn, supported by a 242% increase in their average realised coal price.

Other outperforming sectors included the Health Care and Information Technology sectors which rose +3.2% and +2.7% respectively. Biopharmaceutical company CSL (+6.6%) delivered the most value to the Health Care sector followed by medical device manufacturer ResMed (+10.4%). The FDA issued another recall for a Philips device, providing ResMed an opportunity for further market share expansion. Tyro payments (+116.7%), Nearmap (+95.2%) and Life360 (+74.3%) also produced stand out total returns for the Information Technology sector.

Fund Performance

The Wholesale Concentrated Share Fund outperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the September. The Fund continues to diligently navigate through periods of volatility through application of our be-spoke fundamental research process, allowing 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 logistical solutions company WiseTech Global (WTC) and cloud connectivity services provider Megaport (MPI). An upgrade to guidance in July instigated positive market sentiment for WiseTech Global as the company increased their EBITDA guidance range from \$275-295m to \$310-\$320m and also indicated that revenue would reach the upper end of their current range. Optimism compounded further after releasing a convincing full year earnings result strengthened by continued global rollouts of their best-in-class Cargowise platform, new customer wins, increasing customer usage and innovative product enhancements. All of which supported a 25% yoy increase in revenue - the top end of their guidance - and robust EBITDA margin of 50%. Key rollouts in the year included the likes of UPS, FedEx and Craft Multimodal, the former taking WTC's overall large global freight forwarder (LGFF) count to 10 of the top 25 global freight forwards, signalling growing momentum and accelerating penetration in the logistical solutions space. As a dominant market leader, we remain attracted to WTC's ability to exert a high degree of pricing power to offset inflationary pressures demonstrated by the price increase made in the second half of the year. The combination of accelerating momentum and strong pricing power should place WTC in good stead to continue generating attractive sales growth over the medium to long term.

Similarly, a strong fourth quarter trading update and full year results propelled Megaport +42.9% in the quarter. The market was encouraged by growth in all key regions and a number of strong KPI results including 24% increase in average revenue per customer, +9% rise in average services per customer and +16% increase in total customers. We were also pleased to see an acceleration in monthly recurring revenue (MRR), increasing from \$9.2m to \$10.7m yoy. We maintain conviction in the strength of MPI's global footprint which reinforces its offering, as MPI's network spans over 750 data centres in 25 countries. The company has built a rich, global ecosystem that is a key attraction for enterprises, data centre operators and cloud service providers (CSPs), a key competitive advantage. We believe that MPI has a strong long term growth pipeline and forecast annual sales growth for MPI of over 40%.

Somewhat offsetting these positive contributions were the overweight positions in the digital payments company EML Payments (EML) and industrial and commercial property manager Goodman Group (GMG). The EML share price dragged -35% lower in the quarter following a series of disappointing announcements including the resignation of EML's CEO, a mixed update on the Irish regulator issues and report of fraudulent activity in a minor division. Whilst we also found the cash flow and cost base performance disappointing in the August result, we note that the underlying growth of EML's core division remains solid having delivered 26% volume growth in 2H22 suggesting that customer demand remains strong despite the regulatory review. We maintain that after the remediation program is completed, EML should be able to deliver operating leverage and we expect mid-teen earnings growth to be achieved longer-term with ROIC reaching the 20s. We are of the view that the market has over-extrapolated these issues and EML remains an attractive investment at this price.

The rising rate environment and corresponding poor sector sentiment drove Goodman Group -11.6% lower in the quarter. The acceleration of the e-commerce and logistics industry remains a long term structural tailwind for GMG's business and strong demand coupled with low supply should continue to underpin strong rental growth to help combat rising costs. We were encouraged by evidence of this in GMG's full year results in August which detailed double digit increases to operating profit and EPS growth at 25% and 24% respectively as well as an average 99% occupancy rate. Management also indicated rental reversion to the market for North America (40%), Australia and New Zealand (20%), Europe and UK (18%) and Asia (4%), highlighting significant opportunity for growth. We believe that GMG maintains a good level of liquidity and cash to allow for a nimble approach, providing the flexibility to react to a volatile environment as well as leverage their strong global position to capitalise on new opportunities.

Fund Activity

In the September quarter, we continued to carefully assess the Fund's current positions and sought to strengthen those where our conviction continues to build and reduce those that presented more risk.

We exited from our position in Domino's Pizza (DMP) as continued concerns around the performance of Europe given high inflation and Russia-Ukraine war has slowed store rollout and will potentially impact the profitability of store owners and corporate stores. We are of the view that high inflation will restrict the earnings performance in all regions as DMP will be expected to aid franchisees in the volatile period ultimately impacting earnings in the short run.

We also trimmed our position in a gold mining stock. Whilst the company is our preferred gold exposure, the sector has been weighed on by depressed gold prices and we redirected our funds to establishing a new position in a lithium and nickel miner. The miner owns a high quality, long life spodumene asset and lithium hydroxide downstream facility. Lithium accounts for 85% of our valuation with exposure to strong lithium pricing driven by Electric Vehicle demand. The remaining valuation is attributed to its nickel business with nickel sulphide another benefactor of the accelerating EV transition.

We continued to add to our position in a global investment bank over the September quarter. We remain encouraged by their 1Q23 update and believe their annuity-style businesses combined 1Q23 net profit was up significantly on 1Q22, primarily due to asset realisations. Their markets-facing businesses combined 1Q23 net profit was up slightly on 1Q22, primarily due to strong commodity-driven results and higher investment realisations.

Market Outlook

Mixed local and international economic data points continue to test investor sentiment and expectations given the lagged release of historical data and delayed effect of tightening monetary policy. Short-term volatility is expected to persist as the market digests each data release on a 'case by case' basis however, when looking at the trends in unison, a clearer picture is depicted of an impending economic slowdown and evidence of scarce growth prospects. For example, whilst consumer spending and retail sales appear strong, recent GDP and ABS data illustrate that consumers are supporting their spending by unsustainably drawing down on their accumulated savings. Overtime, high living costs, tightening monetary policy and declining property and stock prices will continue to erode household balance sheets and will ultimately restrict consumer demand and spending power. This will have a bull-whip effect on supply chains demonstrated by falling global freight costs, as well as company supply-demand fundamentals as sticky costs, lower sales volumes and higher inventories deteriorate margins and their ability to raise prices.

In our view, cyclical stocks will be most susceptible to the impact of this slowdown first reinforcing now the need to invest in high quality companies that have the ability to grow their top line irrespective of the market cycle and do so profitably. We are not deterred by short term price movements and maintain our conviction in our bespoke fundamental research to identify companies with distinctive products/services that have the capacity to grow earnings and market share in spite of anaemic household consumption.

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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