First Sentier Wholesale Concentrated Australian Share Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Concentrated Australian Share Fund

Quarterly Factsheet

31 March 2023

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)

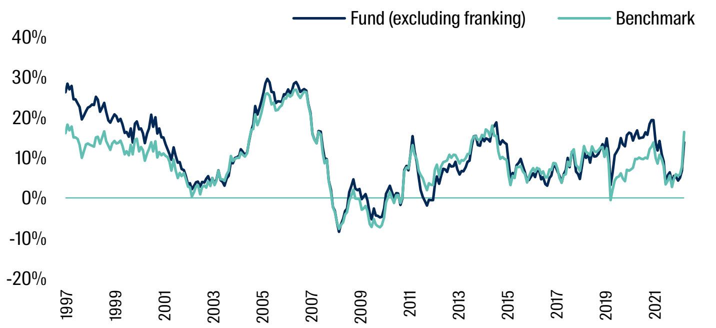
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0016AU
Inception date	20 December 1994
Fund Size (A$)	885 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	28
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A$)	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
Woolworths

Sorted alphabetically

Performance Summary (%)

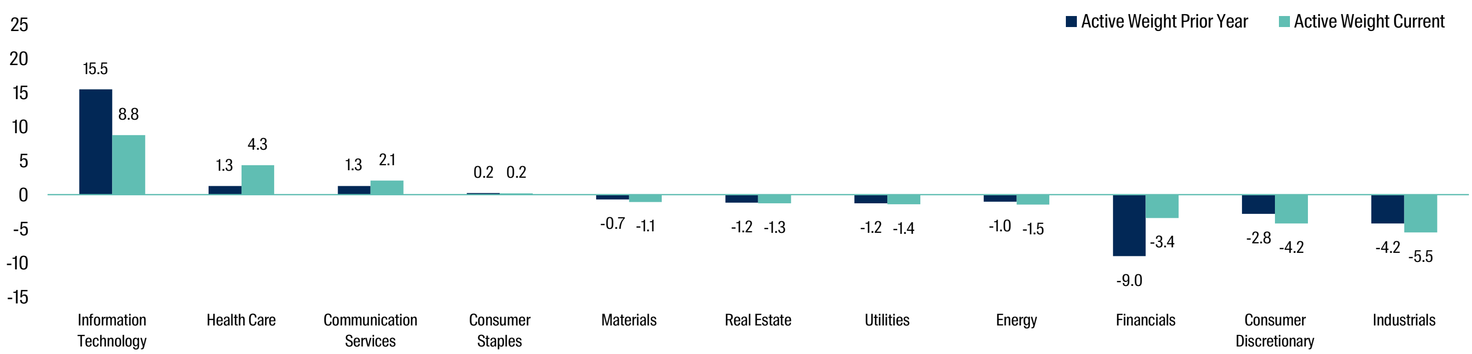
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	5.6	-8.1	13.9	9.1	8.9	8.1	11.2
Benchmark return	3.3	-0.6	16.4	8.6	9.4	8.2	9.4
Excess net return	2.3	-7.6	-2.6	0.4	-0.4	-0.1	1.7
Income return	0.7	3.7	2.5	2.5	2.8	2.8	7.3
Growth return	4.9	-11.8	11.3	6.5	6.2	5.3	3.8

Risk Characteristics

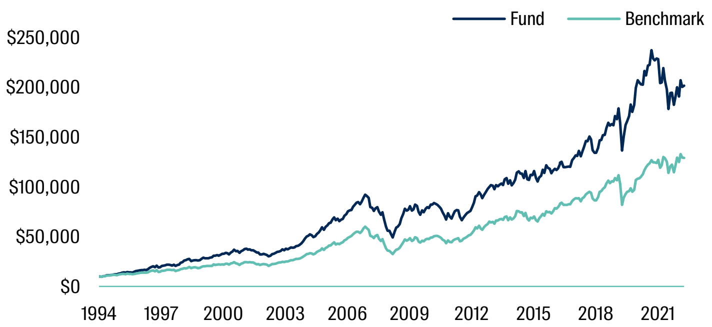
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	20.4	18.5	18.3	16.4	15.3	14.3
Benchmark standard deviation (%)	17.3	14.3	16.3	14.5	14.0	13.2
Tracking error (%)	6.8	8.1	6.9	6.3	5.8	5.1
Fund Sharpe ratio	-0.5	0.7	0.4	0.5	0.4	0.5
Information ratio	-1.1	-0.3	0.1	-0.1	0.0	0.3
Beta	1.1	1.2	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	17.3	22.5	34.1	43.3	49.1	

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.

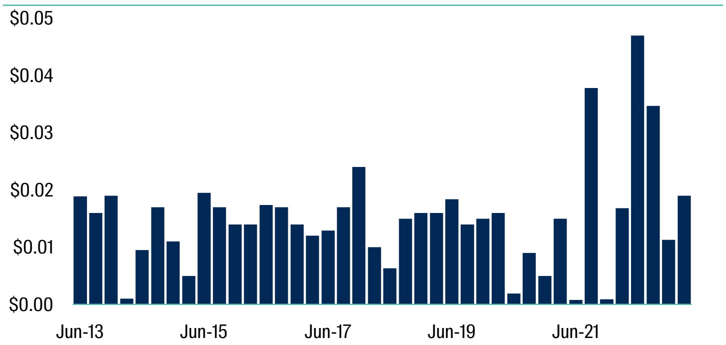
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	1.11%
Communication Services	0.49%
Financials	0.47%
Real Estate	0.35%
Consumer Staples	0.32%

Top 5 detractors to performance (3 months)

Sector	Attr.
Industrials	-0.38%
Consumer Discretionary	-0.23%
Utilities	0.02%
Energy	0.08%
Materials	0.17%

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: 31 March 2023

Market Review

Australian equities started the new 2023 calendar year on a positive note, rallying off the back of a combination of moderating inflation expectations, lower bond yields both locally and offshore, and tighter credit spreads. All of which spurred a renewed sense of optimism and valuation support for equities. In the latter stages of the quarter, gains were more difficult to come by given bouts of mixed economic data, the backdrop of ASX-listed companies reporting their interim earnings results and reverberations caused by banking failures in the US and Europe. Nonetheless, the S&P/ASX 300 Accumulation Index ended the March quarter +3.3% higher.

Resilient consumer spending patterns and impact of seasonal promotions were evident in many Consumer Discretionary constituent's February earnings results, driving the sector +10.8% higher. Accent Group (+48.7%), G.U.D. Holdings (+31.3%) and Eagers Automotive (+28.9%) were the strongest performers although travel companies Flight Centre Travel Group (+27.5%), Corporate Travel Management (+23.1%) and Webjet (+13.6%), also fared well given continued near term demand and optimism for China's recovery.

The Information Technology (+7.5%) benefited from investors rotating away from value factors and instead saw the market favouring companies with strong sales and earnings growth as the economic outlook deteriorated and interest rate expectations were recalibrated. The MSCI Australia Growth total return index outperformed its Value counterpart by +1.1% supporting price appreciation for Codan (+34.9%), WiseTech Global (+28.5%) and Xero (+27.3%) along with positive stock-specific updates released through the quarter.

The Financials sector (-2.7%) was hindered by negative returns from all four of the major banks as trading updates required investors to recalibrate bank net interest margin expectations given Management outlook commentaries' indicated that further margin uplift would be subdued due to rising front book competition. Overseas banking turmoil mounted further pressured resulting in Commonwealth Bank of Australia, ANZ, Westpac and NAB falling -2.1%, -3.1%, -7.2% and -7.8% respectively. However, insurance companies such as AUB Group (+13.9%) and QBE Insurance (+10.8%) were more resilient.

Energy stocks (-1.0%) were hampered by a lower oil price. WTI Crude fell below US$70/barrel in mid-March for the first time since late 2021, although had recovered to around US$75/barrel by month end. Similarly, moderating coal prices (-56.1%) impacted energy constituents such as Whitehaven Coal (-25.5%).

Fund Performance

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

Contributing to the Fund's outperformance were overweight positions in logistics solutions company WiseTech Global (WTC) and cloud accounting services provider Xero (XRO). WiseTech Global rallied over the March quarter, climbing +28.5% off the back of strategically accretive acquisition announcements, a strong 1H23 financial earnings result and new global rollouts. The latter consisting of four new global rollouts with NTG Nordic Transport Group, IFB International Freightbirdge, EMO Trans as well as WTC's first global roll out in its global customs and compliance solution product with one of the world's largest 3PL provider Kuehne + Nagel. This landmark deal with Kuehne + Nagel has taken WTC's overall large global freight forwarder (LGFF) count to 11 of the top 25 global freight forwarders and presents WTC with further cross-selling opportunities and growth within the highly fragmented global customs industry. Recent acquisitions of landside logistics companies Envase and Blume Global also provides WTC with a clear runway to expand their total addressable market and is consistent with Management's strategy and desire to expand CargoWise's capabilities to ensure it remains a valuable, market-leading service. Lastly, February reporting season continued to deliver evidence of WTC's superior product innovation and enhancements, solid demand for their CargoWise platform from both existing and new customers with group and CargoWise revenue respectively increasing 35% and +50% or organic growth of 32% and 46%.

Xero rallied +27.3% over the March quarter following the announcement of a cost reduction program involving a reduction of 700-800 roles across the business (15% of the workforce). XRO's new CEO, Sukinder Singh Cassidy, an outside appointment, only formally commenced her role from February 1st but has wasted no time in taking action to rebalance XRO's focus towards profitability. Ms. Singh Cassidy is a highly experienced Silicon Valley executive with more than 25 years global experience including senior positions at Google, Amazon, StubHub (eBay) and co-founded several other digital companies. We are confident she will bring greater scrutiny on expenditure and M&A activity and we are very encouraged by her early progress, including the exit from their struggling receivables factoring business Waddle.

Somewhat offsetting these positive contributions was the Fund's zero-weight position in gold miner Newcrest Mining (NCM) and overweight position in cloud connectivity services provider Megaport (MP1). Gold miner Newcrest Mining rallied +33.0% over the March quarter, benefiting from strong appreciation of its mined commodity gold which increased by +8.0% over the period. The Company was also bolstered by positive sentiment stemming from an acquisition offer from Newmont and a positive exploration update for its Red Chris exploration, expanding its exploration target for East Ridge.

Megaport fell -34.7% with negative sentiment first stemming from a mixed 2Q23 update in January and further compounding with the leadership personnel changes announced later in the quarter. We remain encouraged by the result with MP1's financials solid, with 2Q23 sales revenue up +39% on the pcp, there were improvements in gross margin, and was MP1's third consecutive quarterly positive EBITDA. In contrast, the Company's operational metrics were more subdued, particularly new customer logos and momentum in MP1's Cloud Router (MCR), its multi-cloud connectivity product. The Company called out lengthening sales cycles, a phenomenon we have seen in IT&T spending globally. Lastly, MP1 announced a number of initiatives which are supportive of near-term earnings and free cash flow, including cost savings, product re-pricing and lower capex. Taken together, these initiatives should accelerate MP1's move to profitability and positive free cash flow. MP1 ended 1H23 with $57.5m cash on hand. Later in the quarter, the Company announced personnel changes with the appointment of Mr Micheal Reid as Chief Executive Officer on 27 March 2023, replacing Mr Vincent English who departed the company earlier in March. Mr Reid joins Megaport from Cisco, where he was Chief Revenue Officer for ThousandEyes. Looking forward, we remain convicted on 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 the Company's 'self-help' measures should deliver immediate benefits.

Fund Activity

Over the March quarter we continued to adjust our holdings in line with our investment theses, this included trimming our positions in a property development and funds management company and a building materials producer. For the former, we were concerned that interest rate volatility experienced in the last 12 months will mean the transaction market will remain depressed as commercial real estate goes through a re-pricing phase with valuations coming down, impacting the Company's FUM growth as vendor expectations are reset.

We also trimmed our holdings in a building materials company however, this change reflected positioning more so than a change in our outlook for the stock. The Company printed a disappointing 3Q23 result which was accompanied by a lowering of its FY23 guidance. However, to some extent, the quarterly result was 'old news' given North America housing market data over October-December 2022. More importantly, data thus far in 2023 has been more positive, with several US home builders reporting encouraging trends ahead of spring selling season. We continue to believe that we are nearing a bottoming in the US housing market.

We increased our holdings in a global mining and metals company given its production performance has improved particularly in their iron ore assets. Despite capex increasing over the next few years, the Company is in a strong position financially with low gearing, fuelling our expectation that returns will continue to be robust.

We added to an accounting software solutions company given recent leadership changes and what we see as a rejuvenated strategic focus and implementation of finer cost controls. We believe this Information Technology constituent has a long growth pipeline.

ESG Activity

A number of interesting ESG themes emerged from February reporting season

Disappointingly, we noticed a deterioration in safety at some companies and across sectors with fatalities in 2022 and early 2023 at BHP, Newcrest Mining (NCM), South32 (S32) and Downer (DOW). As BHP and S32 are held by the Growth team, we discussed the circumstances surrounding the fatalities with executives at these companies, along with the company's safety culture and efforts to minimise safety risk for workers. Whilst there doesn't appear to be a single justification for the deterioration in safety across the market some companies suggested that it may be due to an increase in contractors or newer recruits given recent worker shortages. Others suspect that it's may be attributed to complacency after years of strong safety records.

Another notable theme was decarbonisation. As 68% of the ASX200 have now set a net zero target, companies are starting to decarbonise their businesses. Lower emitters reported on their efforts to obtain renewable power or electric car fleets while higher emitters reported their progress decarbonising their businesses more broadly. Rio Tinto (RIO) for example, highlighted late delivery of equipment, construction and commissioning delays as recent challenges while S32 accentuated the practical reality of relying on countries or states to decarbonise the grid. However, most companies were positive on their prospects of meeting short term targets, including Santos (STO), BHP, Transurban (TCL) and Telstra (TLS).

The quarter also featured the passing of the Safeguard legislation in Australia, the policy designed to achieve a 30% reduction in the Country's emissions by 2030. This was a turning point for climate change policy and provided companies with a regulatory framework for reducing emissions. We have had two group meetings with the government official overseeing the Safeguard policy at the Department of Climate Change, Energy, the Environment and Water (DCCEEW) and spoken to the companies that are likely to be affected about the potential impacts.

On the collaborative engagement front, we joined the Climate Action 100+ engagements on Woodside (WDS) and STO and are continuing to progress the IAST APAC initiative on JB Hi-Fi (JBH), which we are leading. We are expecting meetings with STO and JBH to progress these engagements in 2Q23.

Market Outlook

The recent banking turmoil provided further evidence that the global tightening cycle is beginning to take effect and whilst consumer demand continues to show resilience as households are supported by excess savings and wage gains, we expect this to be tempered in the coming months. A combination of higher interest rates, higher cost of living pressures and tighter bank lending standards is expected to add to the lagged tightening cycle and restrict consumption.

Similarly, these factors are increasingly becoming headwinds for company earnings and challenging margins as highlighted in February's reporting season whereby investors were particularly cautious of the composition of revenue growth between price and volume and how guidance and outlooks were shaped around the current and unfolding economic environment. Significant commentary from management teams on operations and expense management also reinforced the growing need for many companies to lean out their operations given growth may become scarce as companies continue to work through an expected slowing in consumer demand.

The combination of these factors have further cemented our view that high-quality, market-leading companies with distinctive products/services and strong structural tailwinds will be better placed to navigate the uncertainties of the future. In contrast, many cyclical companies with bloated nominal sales and sticky cost bases will be most susceptible to the impact of an economic slowdown.

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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