Colonial First State Wholesale Concentrated Australian Share Fund

First Sentier Investors

Quarterly Factsheet

30 September 2020

For Adviser use only

Portfolio Description

The Fund invests in a concentrated selection of Australian listed companies, with between 15 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 15-30 securities. The option 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)

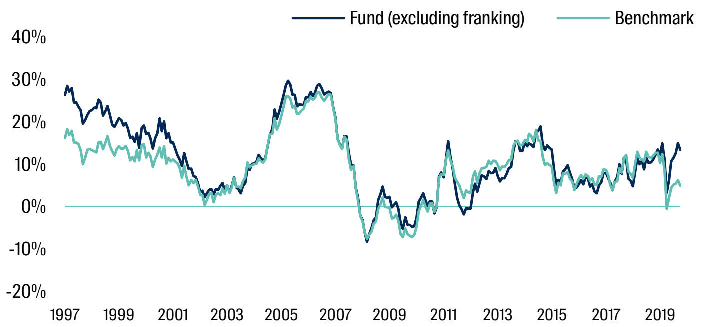
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)

Product Overview

APIR code	FSF0016AU
Inception date	20 December 1994
Fund Size (A$)	98 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	28
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A$)	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
James Hardie

Sorted alphabetically

Performance Summary (%)

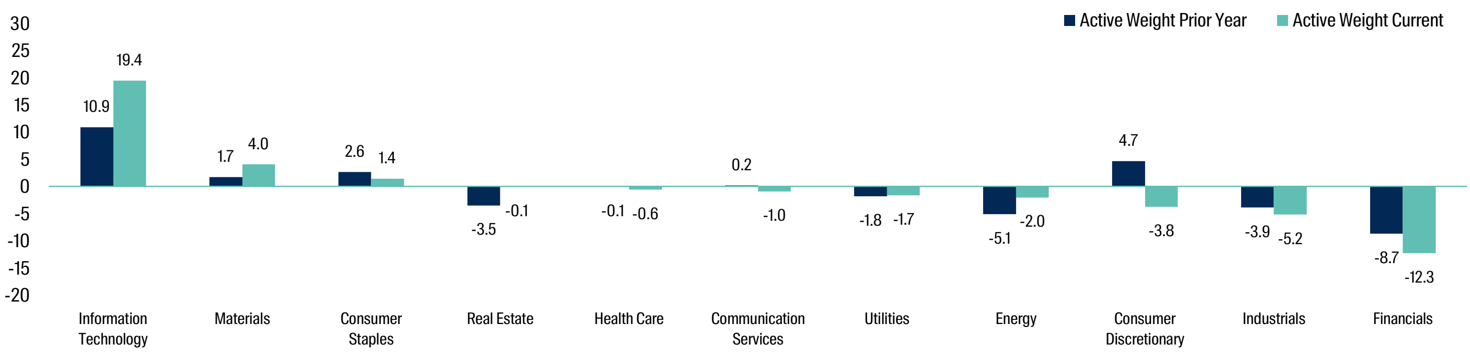
Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	5.5	7.4	13.4	10.2	8.5	8.3	11.7
Benchmark return	-0.1	-10.0	4.9	7.4	6.0	7.2	9.1
Excess net return	5.6	17.4	8.5	2.8	2.6	1.2	2.6
Income return	0.3	1.9	2.6	2.8	2.8	3.1	7.8
Growth return	5.2	5.5	10.7	7.3	5.7	5.2	3.9

Risk Characteristics

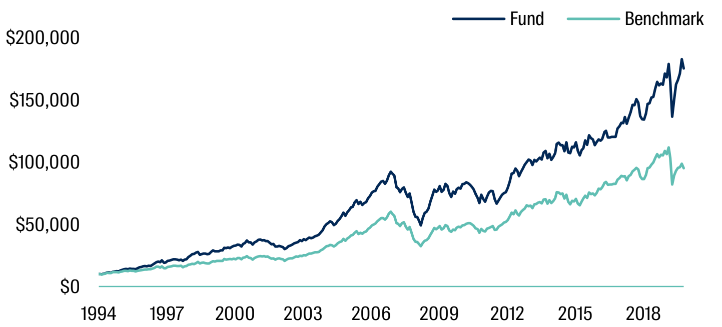
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	25.8	17.3	15.1	14.4	14.4	13.9
Benchmark standard deviation (%)	25.4	16.8	14.4	13.9	13.3	13.0
Tracking error (%)	5.7	5.0	4.9	4.7	5.3	4.6
Fund Sharpe ratio	0.3	0.7	0.6	0.5	0.4	0.5
Information ratio	3.1	1.7	0.6	0.5	0.2	0.6
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	52.0	47.0	55.3	60.7	56.5	

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.

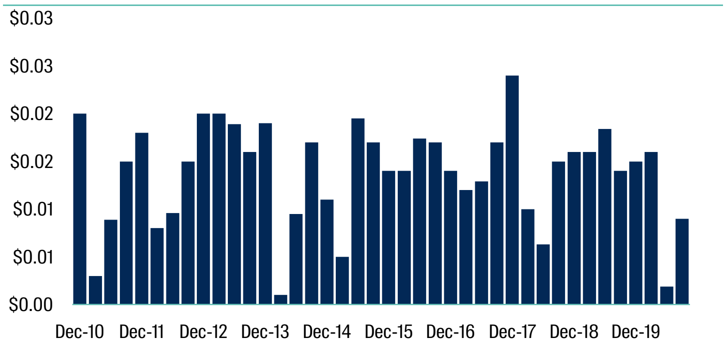
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	3.22%
Materials	1.25%
Real Estate	0.99%
Financials	0.79%
Energy	0.56%

Top 5 detractors to performance (3 months)

Sector	Attr.
Consumer Staples	-0.85%
Health Care	-0.32%
Consumer Discretionary	-0.11%
Industrials	0.02%
Utilities	0.15%

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 2020
Data as at: 30 September 2020

Market Review

The Australian equity market enjoyed positive returns through the first half of the September quarter as vaccine developments, improving economic data and monetary and fiscal stimulus programs boosted investor sentiment. However, the gains experienced through July and August were erased in September as an extension of Victoria's lockdown restrictions, US election uncertainty and a global sell-off in technology and energy stocks dragged on sentiment. Over the quarter as a whole, the S&P/ASX 300 Accumulation Index finished -0.1% lower.

Despite the volatility experienced in September, the Information Technology sector ended the quarter +13.0% higher. Logistics software company WiseTech Global (WTC), Buy-Now-Pay-Later firm Afterpay (+31.2%) and data centre operator NextDC (NXT) were among the best performers as each delivered positive FY20 results. WTC rose +33.4% as it experienced strong organic growth on its CargoWise platform in FY20 and an improved outlook in global trade activity. Strong demand for capacity at its data centres helped push NXT +24.3% higher. Over FY20, contracted utilisation grew 30% to 70MW while EBITDA rose 23% to hit the top end of management's guidance.

The Consumer Discretionary sector (+10.1%) also performed strongly as the majority of constituents delivered positive gains. Travel related companies, such as Corporate Travel Management (CTD), Flight Centre (+23.8%) and Webjet (+17.2%), all benefited from an improving domestic coronavirus data. CTD moved +83.0% higher as it reported better than expected FY20 results. The travel management company highlighted its exposure to "essential services" and the resulting revenue generation from these bookings. The market also reacted positively to its acquisition of Travel & Transport, a US-based corporate travel business that realised US$2.8bn of TTV in 2019. Various retailers, such as Super Retail Group (+33.1%) and Harvey Norman (+28.0%), also delivered impressive gains as demand for leisure equipment and electronics have grown during lockdown.

The Energy sector fell -13.5% as constituents realised various impairment charges and earnings declines given the weakness in oil prices. The oil market continues to suffer from the demand-sided shock caused by the coronavirus pandemic, particularly due to decline in transportation activity as the industry accounts for two-thirds of global consumption. Among the worst performers were Origin Energy (-24.9%), Ampol (-17.5%) and Woodside Petroleum (-17.3%).

AGL Energy (AGL) and APA Group (APA) dragged on the Utilities sector, which fell -8.2% over the quarter. AGL (-17.4%) moved lower after providing a disappointing FY21 outlook. The release warned of higher gas costs, lower wholesale electricity prices and increased bad debts resulting from the coronavirus. Similarly, weak FY21 guidance drove APA -7.2% lower. EBITDA is expected to be relatively flat year-on-year, with growth between -2% to +1% in FY21, as APA's Sole project suffers delays.

Fund Performance

The Wholesale Concentrated Australian Share Fund delivered another strong quarterly return as it outperformed its benchmark, the S&P/ASX 300 Accumulation Index, by more than 5%. Over the longer term, the Fund has delivered consistent outperformance through both up and down markets as our growth and quality focus combined with a fundamental research approach helps identify companies with above-market growth potential, high-quality earnings and robust balance sheets. This is particularly pleasing given the volatility experienced by capital markets over the 2020 calendar year.

Contributing to the Fund's outperformance were the overweight positions in the Buy-Now-Pay-Later firm Afterpay (APT) and the cloud connectivity services provider Megaport (MP1). Afterpay moved +31.2% higher through the September quarter as it benefited from an impressive FY20 result and geographic expansion. The FY20 result highlighted continued customer growth, with an average of 25,000 customers added per day in the fourth quarter. Pleasingly, all geographies achieved strong top line growth while net transaction loss declined – proving the effectiveness of APT's inherent risk management technique of disabling purchase activity on accounts that have missed payments. Adding further support were the announced expansions into both Europe and Asia and news that the platform had gone live in Canada. Increased concerns of competition dragged on APT in the final stages of the quarter, however we believe Afterpay boasts a differentiated product that focuses on building a loyal customer base and connecting them to retailers, both online and in-store.

Megaport (+33.2%) also performed strongly through the September quarter. Its entry into the growing SD-WAN market, through a partnership with the global technology company Cisco, was a key catalyst. As a result, MP1 will release a new product, called "Megaport Virtual Edge", which will allow the use of MP1's network from any internet connected SD-WAN location. A positive FY20 result added further support as the company experienced strong growth across each geography. We remain attracted to MP1 given its global leadership in Software Defined Networking, offering corporates and enterprises flexible, scalable, on-demand cloud connectivity via its NaaS (Network as a Service) offering.

Somewhat dragging on the Fund's performance were the overweight positions in The a2 Milk Company (A2M) and EML Payments (EML). A trading update released late in the quarter drove A2M -24.7% lower. The company warned that stage four lockdowns in Victoria and travel restrictions have hindered sales through the corporate daigou and reseller channels given the decline in international tourists and students. Management lowered first-half FY21 guidance as a result. Despite the temporary headwind, the rest of the business has remained robust with Chinese MBS experiencing sales and market share growth in July and August. Positively, A2M confirmed that the upcoming "Singles' Day" may help clear excess stock and that the liquid milk businesses in Australia and the United States were performing strongly. We continue to believe in the long-term growth opportunities available for A2M given its strong execution track record, growing product suite and geographic footprint.

EML Payments declined -14.7% through the September quarter as travel restrictions and lockdowns threatened retail activity. A mixed FY20 result added further pressure to the share price in August despite an operationally good result with a 25% increase in revenue. The market instead focused on the 5% miss to consensus earnings expectations and the absence of FY21 guidance given the volatility caused by the coronavirus on EML's Gift & Incentive programs. We believe EML is well-placed in a recovery given its technology and focused strategy to deliver a seamless product to its clients. Additionally, EML completed its acquisition of Irish fintech, Prepaid Financial Services (PFS), under favourable terms, which will allow the business to maintain its net cash position. PFS is a high quality business, and will reduce the seasonality of EML given the majority of PFS is general digital banking and prepaid services for government or large corporate clients.

Fund Activity

We increased the Fund's exposure to the Information Technology and Real Estate sectors through the September quarter. Within the IT sector, we added to existing positions in several payment solution providers and a cloud connectivity provider, given our view that data centre installations, customers and utilisation will continue to grow.

Purchasing activity in Real Estate sector was focused on building our positions in Industrial REITs. This is a reflection of our view that these assets will be beneficiaries of the shift to e-commerce as supply chains adapt and logistics operations adjust to changing consumer behaviours, especially in a post coronavirus era.

We funded these purchases primarily by lightening our holdings in the Industrials, Materials and Consumer Staples sectors. We originally added to our position in the toll road operator Transurban over April as traffic falls began to plateau across its key Australian and US assets. The stock has since enjoyed a solid rally as traffic numbers improved and so we have exited our position as the stock has approached our DCF valuation. Within the Consumer Staples sector, we have opted to take profits from a position in a major supermarket chain given the strength it has experienced from strong sales growth.

Market Outlook

With reporting season well into the past, investors will be focusing on quarterly trading updates and Annual General Meeting's (AGMs) over the months ahead. The impact and importance of these events will be greater than "normal" given the broader macroeconomic environment. Investors will be eager to analyse the quarterly results given the scarcity of guidance offered by management during the August reporting season.

The number of domestic coronavirus cases are improving, which bodes well for the struggling travel industry as state borders may open by early November. Vaccine optimism continues to grow as the World Health Organisation admitted that there is a possibility that a vaccine could be ready as early as the end of the calendar year. Developments on this front will help guide market movements for the short-term.

The 2020/21 Federal Budget, delivered by the Treasurer in early October, detailed the extraordinary steps being taken to help the domestic economy to recover. The support being offered includes a number of income support programs, health related spending, income tax cuts, employment support programs and infrastructure spending. As a result, the budget is forecast to be in a deficit by 11% of GDP for 2020/21 – the largest since the Second World War. Despite the massive increase in debt, the support programs were positively received as it is widely believed that the economic return will far exceed the interest costs of the debt.

We are continuing to look for those companies with distinctive products/services that have the ability to grow earnings and market share in spite of anaemic household consumption. This also requires an open mind to company research. We do not ignore stocks trading at a given valuation metric or because their businesses are too new or complex. We are diligently scouring the investment universe to identify those companies likely to come through this crisis, as their competitors falter, and benefit from their stronger market position on the other side.

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

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