

First Sentier Wholesale Equity Income Fund



Formerly the Colonial First State Wholesale Equity Income Fund

Quarterly Factsheet

31 March 2021

Portfolio Description

The Fund invests in a broad selection of Australian listed companies, regardless of each stock's dividend yield, and extends the insights of fundamental research with an active options strategy to provide a smoother return profile than the broader share market and a higher income stream over the long term.

Investment Strategy

The Fund's returns are generated from a number of sources, including dividends, franking credits and capital returns from Australian shares, as well as option premium income. The Fund uses derivatives to modify the return profile of its Australian share holdings. The use of equity options in conjunction with Australian shares is expected to result in a greater proportion of the total return delivered as income and reduced volatility in returns. In the selection of Australian shares, investment opportunities are identified by detailed fundamental research, including a high number of company visits and utilising a proprietary database to analyse company financials. The Fund predominantly invests in Australian dollar denominated securities and therefore does not hedge currency risk.

Investment Objective

To provide a total return comprised of regular income, franking credits and some capital growth from Australian shares over the long term, delivered with consistently lower volatility than the S&P/ASX 100 Accumulation Index. The Fund aims to deliver risk-adjusted returns that exceed the S&P/ASX 100 Accumulation Index before fees and taxes over a full market cycle.

Key Investment Personnel and Experience (Industry / Firm)

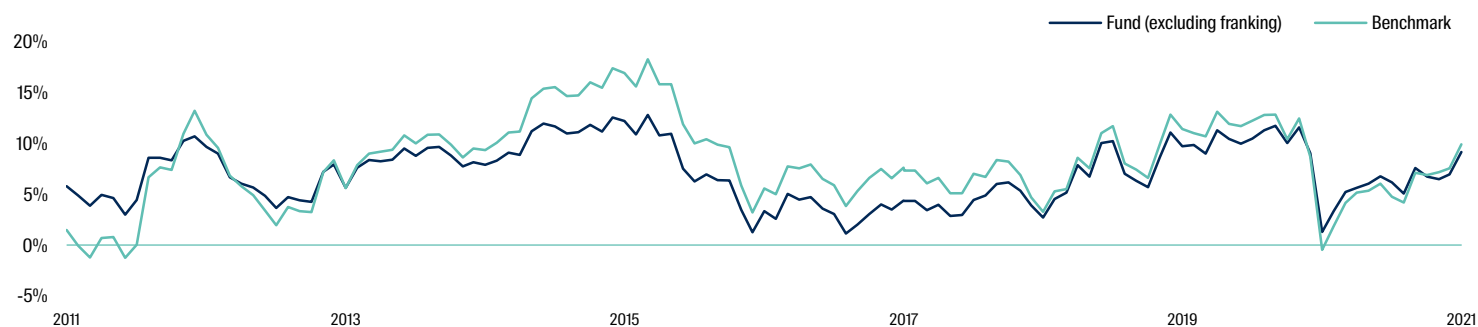
Rudi Minbatiwala	Head of Equity Income	(2000 / 2000)
Jason Moodie	Senior Portfolio Manager	(1995 / 1997)
Marlon Chan	Portfolio Manager	(2007 / 2007)

Product Overview

APIR code	FSF0961AU
Inception date	17 March 2008
Fund Size (AS)	311 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	36
Buy / Sell spread	0.05% / 0.05%
Minimum investment (AS)	5,000
Management cost (p.a.)*	1.22%

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

Rolling 3 year return (%)



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: 31 March 2021

Top 10 Active Weight holdings

Stock
James Hardie
BlueScope Steel
National Australia Bank
BHP Group
Webjet
Aristocrat Leisure
Santos
The a2 Milk Company
CSR
Bapcor

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Performance summary (% after fees and expenses)*

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	3.6	30.6	9.2	9.2	6.4	6.8	6.8
Benchmark return	4.5	36.8	9.9	10.3	7.7	8.2	7.0
Excess net return	-0.8	-6.1	-0.7	-1.1	-1.3	-1.4	-0.2
Net return (inc. franking)	3.9	31.7	10.7	10.7	7.9	8.5	8.4

* Performance is annualised for periods greater than one year.

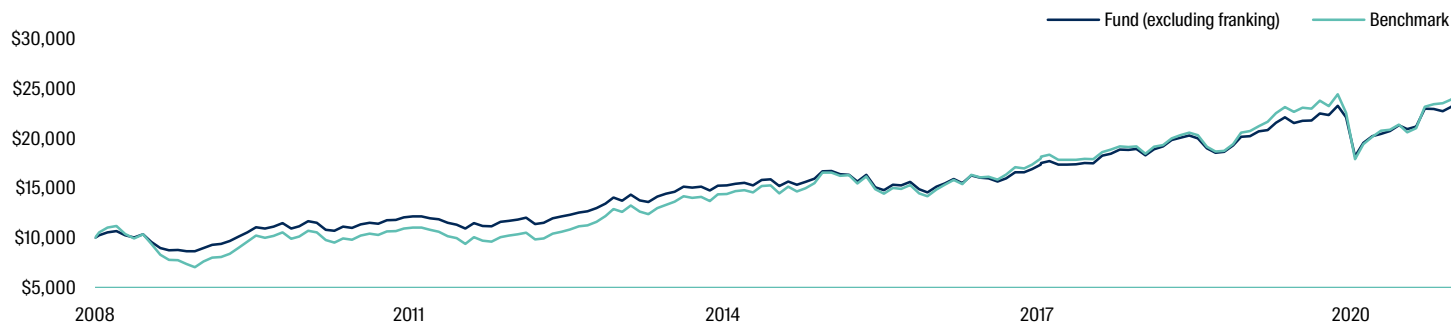
Income summary (% after fees and expenses)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Distribution return (ex. franking)	1.4	7.2	7.4	7.3	7.5	8.2	9.0
Franking credit return	0.3	1.1	1.5	1.5	1.6	1.7	1.6

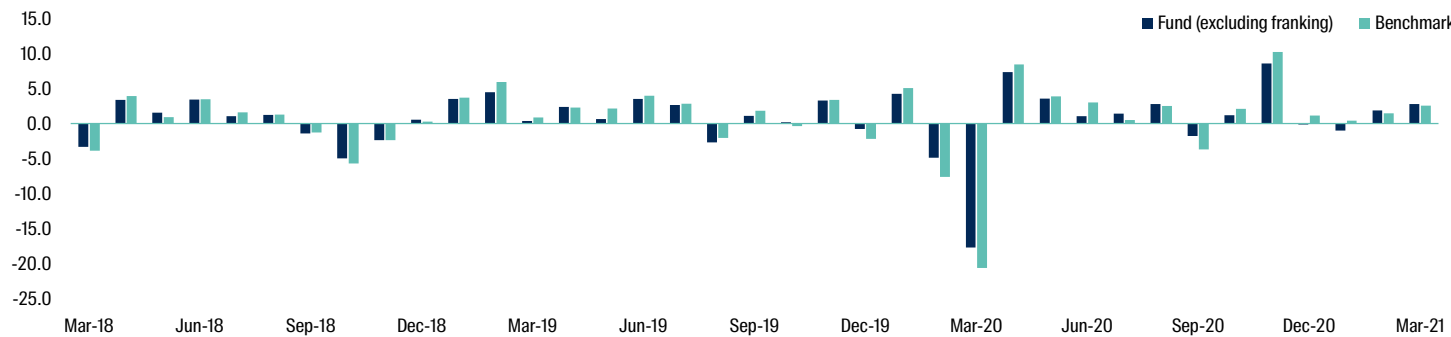
Volatility summary (%)

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund volatility (ex. franking)	10.2	14.6	12.2	12.0	11.2	11.2
Reference index volatility	12.1	17.2	14.4	14.1	13.5	14.4

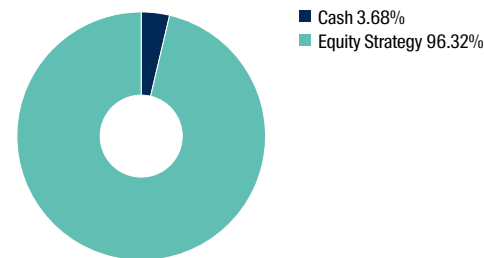
Growth of AUD 10,000 Investment Since Inception



Monthly returns vs benchmark (% excluding franking)



Invested exposure*



*Ignoring options

Market Review

The Australian equity market moved consistently higher each month in the March quarter. Overall, the S&P/ASX 100 Accumulation Index finished the March quarter with a return of 4.5%. Markets globally have been spurred higher by increasing economic optimism, large fiscal stimulus and a commitment from central banks to maintain ultra-accommodative policy for the next few years. Vaccines are being rolled out at an accelerated pace in key countries around the globe with the USA successfully vaccinating 30% of its population and seeing an 80% reduction in new cases since the peak in January. Other countries however are struggling to rollout vaccines at the same pace and are experiencing a third wave of infections as they try and ramp up vaccinations.

Financials (+12.5%) delivered the best return as they benefit materially from the improved economic outlook. The major banks were among the best performers with Westpac (+26.0%) coming out on top, followed by ANZ (+24.1%), NAB (+15.0%) and CBA (+6.7%). Bank of Queensland (+15.1%) was also among the top performers after announcing the acquisition of ME Bank for A\$1.3B, which is expected to be earnings accretive and boosts the bank's long term growth prospects.

Consumer discretionary (+9.8%) and communication services (+8.8%) also benefitted from the improved outlook for economic conditions and positive economic data. Crown Resorts (+22.1%) experienced a significant rally after announcing an \$8B takeover offer from Blackstone. Earlier in the quarter, a NSW inquiry found the casino giant unfit to hold a license which led to major shakeups of the board and management teams and further royal commissions launched in WA and VIC.

Information technology was the worst performing sector contracting 12.4%, giving back just under half of the gains it made in the previous quarter. Leading the decline were Appen (-35.7%), Altium (-21.6%), Nextdc (-14.8%) and Afterpay (-14%) reflecting the thematic across the quarter to reduce exposure to high growth companies amid bond volatility and inflationary concerns.

Healthcare (-2.1%) and Utilities (-1.85%) sectors also lagged over the quarter. The declines experienced by Resmed (-7.1%) and CSL Limited (-6.1%) dragged on the Healthcare sector. CSL's collection centre volumes were significantly impacted by donor concerns over Covid 19 and the extreme weather event in the state of Texas, dragging on earnings forecasts and underperforming the market as share price retreated.

Fund performance

The Fund returned 3.6% after fees for the March Quarter, capturing 81% of the markets performance during the rising market. **The buy-write strategy used by the Fund typically results in underperforming the market during rising markets because the sold call options detract from performance as they limit the upside.** This outcome is consistent with delivering the lower volatility objectives of the strategy.

The capture of a significant proportion of the upside in a strong market quarter was mainly driven by the options component of the strategy rather than contribution from stock selection. Stock selection was negative in January but rebounded strongly in February and March, and had a roughly neutral impact to performance over the full quarter. Stocks exposed to offshore earnings were particularly weak in the early part of the quarter as the US dollar weakened

substantially, but these trends reversed over the course of the full quarter. Rising interest rates during the second half of the quarter buoyed stocks linked to the economic recovery, cyclical growth and reflation.

During the latter part of the quarter, the options component provided positive attribution while the market was up. This is unusual when the market goes up as options typically detract from performance since they cap the upside share price movements. This positive attribution resulted from falling implied volatilities. This decline in volatility reduces option valuations, which provides a benefit for our sold options positions that the Fund has already written.

Over the quarter, the Fund's underweight in Afterpay (APT) added to performance, as buy-now pay-later stocks retreated from previous strong gains. Our position in copper and gold miner Oz Minerals (OZL) added to performance as commodity prices continue to drive earnings. The company released solid earnings in the February reporting season with profit up 30%/y making it their best result in a decade. OZL's strong results demonstrated their success in taking advantage of the high gold prices last year, as they ate into their stockpiled gold ore. Buoyant copper prices are expected to continue to drive earnings for the company.

Our overweight position in NAB also performed strongly over the month releasing better than expected first quarter results. Revenue was driven by better margins underpinned by improved deposit pricing and mortgage repricing offsetting headwinds from low rates and competition, while their bad debt expense was the lowest in 30 years. NAB should continue to benefit from the expected economic recovery and strengthening housing market.

The biggest detractor for the quarter was A2 Milk (A2M) which continued to disappoint at its results presentation with its turnaround efforts taking longer than first indicated. Conditions remain challenged as it manages excess inventory in its distribution channels. While disappointed with the inventory pressures that have arisen across two of their three distribution channels, we believe that these issues will be addressed as global travel resumes.

Our underweight position in Telstra (TLS) also detracted from performance as investors reacted positively to their commitment to a restructure into four entities (from an earlier planned three) that is designed to enable Telstra to better realise the value of its infrastructure assets, and take advantage of potential monetisation opportunities to create additional value for shareholders.

Fund Activity

The Fund positions have progressively shifted over the past few months towards positions that provide increased exposure to the cyclical economic recovery and this continued during the March quarter. The Fund has continued to increase exposure to major banks, in particular Commonwealth bank (CBA) and Westpac (WBC), as they continue to benefit from improving economic conditions and a strengthening housing market. This increased exposure to the banking sector was funded by reduced exposure to Suncorp (SUN) as we believe insurers are less leveraged to benefit from the on-going economic recovery. In this ultra-accommodative interest rate environment, the major banks are well positioned to increase their loan books to both businesses as capex increases, and consumers as a strengthening housing market drives up demand for owner-occupier loans.

Within the materials sector, the Fund increased the holding in Rio Tinto Limited (RIO) and reduced exposure to Fortescue (FMG). FMG produces a lower grade of iron ore that is less economic to the steel production process under a tighter emissions target scheme. China's climate reforms could lead to weakened demand for this lower grade iron ore. In comparison, Rio produces a higher grade of iron ore and is therefore less exposed to this risk. Rio has taken steps to rectify its actions after it destroyed 46,000 year old Aboriginal caves in Western Australia at Juukan Gorge. Moving forward the company has a new board and management team that are committed to changing the internal culture and improving engagement with the traditional owners of the land to ensure in the future that incidents like this do not happen.

While the Fund's fundamental bottom-up stock selection has resulted in a significant increase in exposure to value style securities over the past six months, attractive investment opportunities continue to be identified more broadly. The Fund initiated a new position in Wisetech (WTC), as it continues to expand its global rollout and has announced the on-boarding of an impressive number of new clients over the course of 2020. WTC has a proven track record of successfully integrating acquisitions and delivering cost outs. We believe that WTC remains well exposed to global trade and shipping volumes and will continue to further benefit as acquired clients move to their CargoWiseOne platform. Research and Development investment should lead to further product offerings providing a number of essential features to the ecosystem of customs and cross border logistics.

Our positions in Scentre Group (SCG) and Sydney Airports (SYD) were exited during the quarter. Scentre Group was exited after good performance following the overall rebound in retail spending sentiment and the reopening of all centres (up from ~50% at it's worse). In the longer term, specialty sales from bricks and mortar are likely to remain under pressure as the trend to online shopping is expected to continue even after covid-19 concerns abate. The Fund sold down its holding in SYD over the last couple of months primarily due to a concern around rising global yields impacting debt heavy infrastructure stocks. We also feel that much of the optimism around domestic travel increasing as interstate borders re-opened has already been reflected in the price. The Fund continues to be exposed to the travel resumption investment thematic through a number of other positions including Qantas, Corporate Travel and Webjet.

Market Outlook

Macroeconomic factors will likely be the driving forces behind market moves in coming months. The Australian economic outlook remains positive, backed by releases of improved economic data. On the other hand, the success of vaccines rollouts continue to differ around the world as some countries struggle to accelerate and execute their programs. At the moment, investors do not seem to be concerned by these delays and remain focused on the supportive monetary stimulus being provided around the world. Investors will continue to analyse central bank commentary for indications of triggers for future macroeconomic policy. However it is likely that messaging will remain that central bank are committed to maintaining ultra-accommodative policies until economies experience 'significant improvement'.

Concerns about inflationary pressures continue as debates ensue about the possibility of earlier than expected rate rises due to the possibility of a stronger than expected economic rebound. Further investors will continue to mull over justifications of stretched valuations in some sectors and companies over others. Overall, a degree of volatility is likely to continue in markets and this Fund is designed to benefit from periods of above average volatility. The active use of option positioning provides a further layer to manage and take advantage of future volatility.

Domestic economic recovery should continue to be supported by accumulated savings, positive business and consumer confidence and stabilising unemployment. The RBA is expected to hold the cash rate at 0.1% and broadly make no significant changes to their ultra-accommodative policy. As the economy experiences significant easing of restrictions back to a near pre-covid level, focus is likely to shift towards the impact of withdrawals of government support, the rollout of vaccines and economic data indicators to confirm recovery.

Business and consumer confidence continue to strengthen. The housing market is expected to continue its upward trajectory, with prices rising at the fastest pace in over 30 years. CoreLogic's national home value index rose 2.8% m/m in March, the fastest rate of growth since October 1988. That brought the yearly rate of increase to 6.2%. The RBA is expected to continue to monitor credit growth and lending standards, in this

environment of ultra-low interest rates. Whilst APRA commented that it is not their role to solve housing affordability, they will continue to monitor lending standards and borrower behaviour for increased risk. Our style agnostic approach to stock selection provides the Fund with the required flexibility to take advantage of the economic recovery.

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