First Sentier Wholesale Equity Income Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Equity Income Fund

Quarterly Factsheet

30 June 2021

For Adviser use only

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	Senior Portfolio Manager	(2007 / 2007)

Product Overview

APIR code	FSF0961AU
Inception date	17 March 2008
Fund Size (A$)	324 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	35
Buy / Sell spread	0.05% / 0.05%
Minimum investment (A$)	5,000
Management cost (p.a.)*	1.22%

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

Top 10 Active Weight holdings

Stock
James Hardie
BHP Group
National Australia Bank
Northern Star Resources
Santos
OZ Minerals
Corporate Travel Management
BlueScope Steel
Aristocrat Leisure
CSR

Performance summary (% after fees and expenses)*

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	6.6	24.0	8.5	10.1	7.3	7.8	7.2
Benchmark return	8.5	27.9	9.9	11.3	8.8	9.5	7.5
Excess net return	-1.9	-3.9	-1.4	-1.1	-1.4	-1.7	-0.4
Net return (inc. franking)	6.7	25.0	10.0	11.6	8.9	9.3	8.8

* Performance is annualised for periods greater than one year.

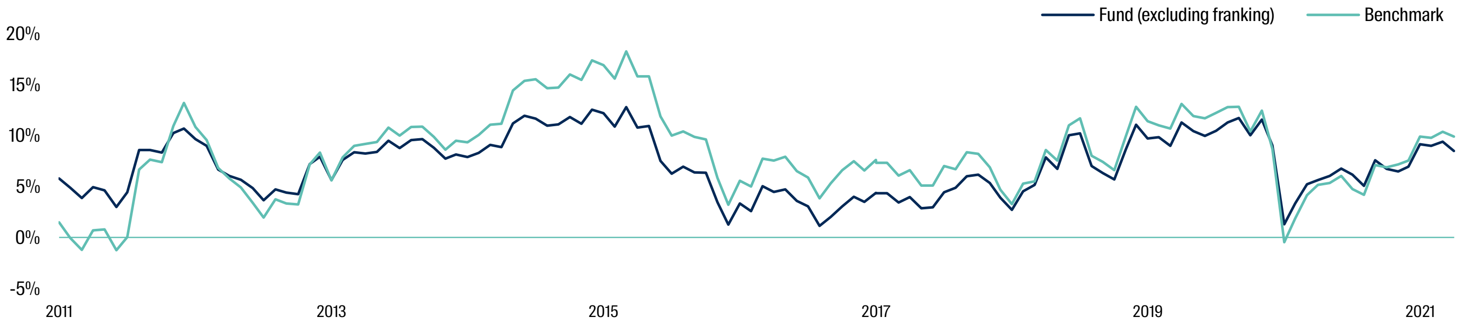
Income summary (% after fees and expenses)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Distribution return (ex. franking)	1.7	6.3	7.4	7.3	7.4	7.9	9.0
Franking credit return	0.1	1.1	1.5	1.5	1.5	1.6	1.6

Volatility summary (%)

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund volatility (ex. franking)	8.6	14.5	12.1	12.0	11.2	11.1
Reference index volatility	10.4	17.2	14.3	14.2	13.5	14.3

Rolling 3 year return (%)

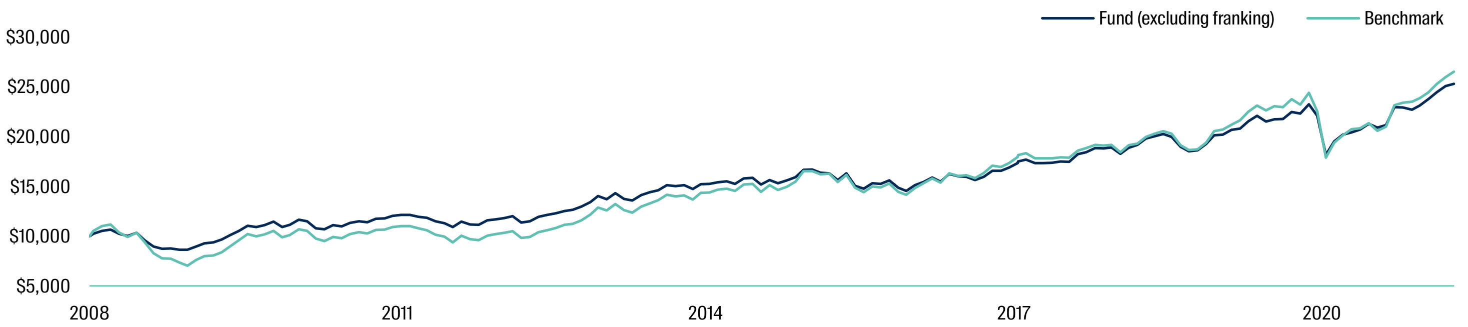


Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

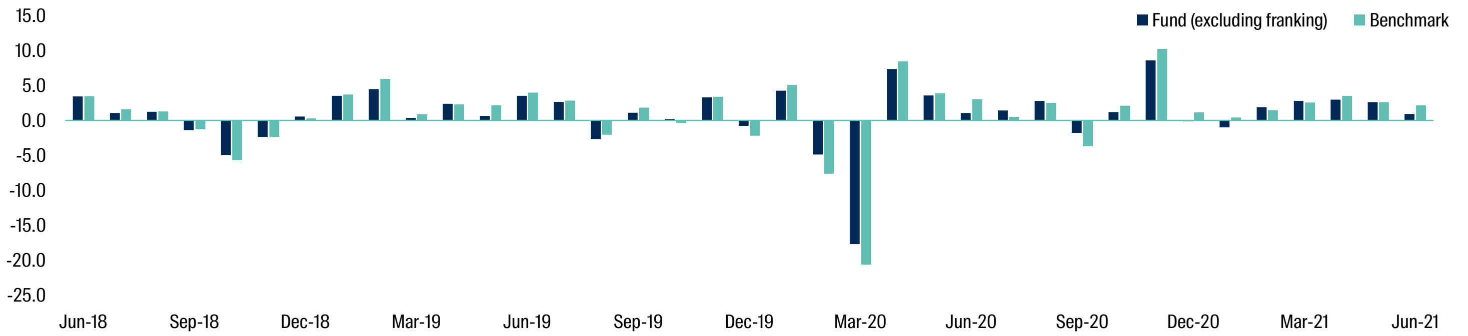
Data source: First Sentier Investors 2021

Data as at: 30 June 2021

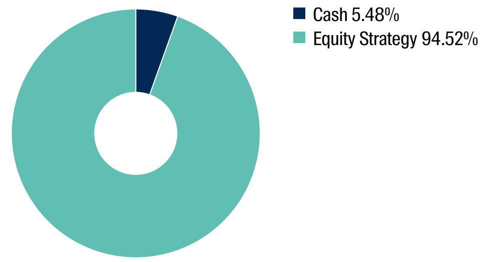
Growth of AUD 10,000 Investment Since Inception



Monthly returns vs benchmark (% excluding franking)



Invested exposure*



*Ignoring options

Market Review

The Australian equity market performed strongly posting positive gains in each month of the June quarter. Overall, the S&P/ASX 100 Index returned 8.5% for the quarter.

This quarter, vaccination rates globally have accelerated quickly and continue to prove effective at curbing hospitalisation and death rates arising from covid-19. However concerns are beginning to surface about the emergence of new variants and the potential for slowed economic recovery if lockdowns are necessary to curb outbreaks. Broadly, economic data continues to indicate that economies are emerging from the depths of pandemic induced economic and social impacts. Reduced restrictions paired with pent up demand and accumulated savings has seen economic activity levels jump and have spurred some investors to caution about the impact of rising inflation fearing that central banks may have overshot required policy settings. Central banks maintain that above level inflationary impacts are transitory driven by reopening and supply constraints. Increasingly some investors are discussing whether inflation has reached its peak on the backdrop of moderating commodity prices and an estimated peak in company earnings.

The consumer discretionary sector was the top performing sector delivering a 13.6% return driven by high levels of consumer and business confidence combined with positive economic outlook. The strong performance of Aristocrat Leisure (+25.9%), Domino's Pizza (+25.2%) and Wesfarmers (12.2%) contributed to the return. Further, Tabcorp (10.7%) continues to experience increased investor focus as the bidding war continues for its struggling wagering business. The company seems to be holding out from mounting pressure from shareholders maintaining that it needs to continue to conduct its strategic review which is due to conclude at the end of this month.

Information Technology (+12.9%) rebounded amidst the general market theme of growth reasserting its outperformance in the latter part of the quarter spurred by moderating inflationary concerns and decreased volatility in the bond market. Altium (+39%), Afterpay (16.4%) and Nextdc (+14%) were notable outperformers. Altium rallied significantly after receiving and rejecting a takeover bid from Autodesk at a 41% premium over Altium previous closing share price. However, an acquisition of Altium is not unlikely with investors believing that there is a reasonable chance it will receive a revised offer or potentially a competing bid from other buyers.

Utilities (-4.5%) sector contracted as AGL Energy (-15%) and APA Group (-8.5%) continue to suffer from low wholesale prices due to the influx of renewables. Spot electricity prices rebounded somewhat in the quarter from previous lows however AGL informed the market that they haven't been able to take advantage of this and will hit the lower end of their earnings guidance due to unplanned outages. Investors also remain pessimistic about the demerger which seeks to separate out assets in a bid to create a carbon neutral entity. Concerns have been raised about poor corporate governance and the risks in the resulting valuation of the demerged entities.

Fund Performance

The Fund returned 6.6% after fees for the June quarter capturing 77.3% of the markets performance. Given the significant rally we have seen in the equity market over the last couple of months, we are pleased with the Fund's capture for the quarter. Buy-write strategies generally underperform strong rising markets particularly during short time frames, as was the case in the last quarter. The ability of the Fund to provide a significant cushion in falling markets, as evidenced in March 2020, provides the longer term outcomes of good, more consistent, equity market returns delivered with lower volatility and attractive income over the full market.

Over the quarter our positioning in the consumer discretionary sector was beneficial as companies gained traction fuelled by cashed up consumers and pent up demand. Aristocrat leisure (ALL) contributed to performance, as the company continues to benefit from the recovery in US casino revenues that are now close to pre-covid levels and are focused on continuing to drive the profitability of their digital capability. Dominos (DMP) also outperformed as they continue to deliver earnings benefiting from their successful global store roll out and a covid-19 tailwind of contactless fast food. Over the quarter they announced the acquisition of Domino's Taiwan which will further expand their reach into Asia and provide the opportunity to improve profitability by applying their proven marketing strategies and technological intellectual property.

Our underweight position in Afterpay (APT) detracted from performance as technology stocks rebounded, spurred by a moderation in inflationary fears. Investors reacted positively to the announcement of a roll out an affiliate program in the US to merchants such as Amazon, CVA, Dell and Sephora as they seek to expand their offering and compete for market share in the BNPL space. Our position in a2M milk (A2M) also detracted from performance as the turnaround in their inventory challenges is taking longer than expected. Conditions remained challenged in the diagou channel as supply chains are constrained and they face growing competition from domestic Chinese brands.

Fund Activity

The Fund continues to position towards benefitting from the strength in the economic recovery, as the vaccine rollout continues and broadly restrictions are eased (barring clusters where short lockdowns are imposed) accumulated savings and accommodative policy has placed the consumer in a strong position.

Woolworths (WOW) was a clear covid beneficiary in preceding quarters operating in favourable conditions where consumers stocked their pantry and cooked more meals from home due to restrictions driving record sales. However, the Fund has reduced its position in Woolworths over the quarter and acquired a new position in Wesfarmers (WES) providing a more diverse exposure to multiple retail exposures. WES continue to invest in growing their online sales channel and improving data to drive penetration. The Bunnings segment continues to be well placed to benefit from the strength in the housing market with high levels of accumulated savings driving customers to undertake home improvement projects.

The Fund reduced its positon in a2 milk (A2M) due to the longer than anticipated timing between reopening in travel and the associated volume driven recovery in a2 Milk's channels. The reduction will enable investment in other higher conviction names that stand to benefit from this thematic.

Within the travel sector we have increased our position in Corporate Travel (CTD) and Qantas (QAN). The travel sector has experienced particularly challenging months over the past year with state border closures and restrictions limiting domestic travel, and the continued travel ban restricting international travel. Our focus remains on the future state of travel, in the meantime we believe that these companies are able to withstand short term headwinds in the pathway to a fully recovered environment. CTD provides a unique exposure to rebounding global domestic travel particularly in the US where corporate travel activity has increased from 24% to 32% of the 2019 levels during May 2021. Further, our position in QAN provides exposure to quickly recovering Australian domestic travel.

The Fund also sold down a position Beach Energy (BPT) after an announcement of a substantial downgrade of its Western Flank oil and gas reserves leading to large reductions in their earnings and production forecasts despite strengthening oil prices and the SXY oil acquisition.

Market Outlook

For much of the financial year investors have been focused on the reopening thematic as economies emerge from restrictions and vaccination accelerates. Extraordinary levels of stimulatory measures that levelled economies in the depths of the pandemic in combination with pent up demand and high business and consumer confidence have caused inflationary expectations to surge with investors concerned about the impact of unexpected rate rises.

Focus has intensified on central bank statements and it is likely that markets will continue to speculate on the possible timing of the adjustment to accommodative policy settings. Inflationary pressures will remain a focus moving forward, with central banks continuing to maintain that current periods of above average inflation remain transitory and will return to normal over time. Investors will continue to monitor signals that inflationary pressures may be coming off their peaks, with some key commodities and data already showing signs of moderation in recent weeks.

Outbreaks and resulting lockdowns will likely continue to remain a thematic in coming months as Australia continues to lag behind other OECD countries in its efforts to fully vaccinate its citizens. However incidences of lockdowns should decrease as the vaccination rollout continues and the country moves towards herd immunity. Generally, it seems that investor sentiment remains forward looking with most acknowledging that although lockdowns bring economic activity to a hault evidence shows that the economy quickly rebounds as restrictions ease on the back of pent up demand, accumulated savings and an increase in business and consumer confidence.

It is on this backdrop that the RBA will consider the recalibration of monetary policy ahead of the July meeting, remembering that they called out the risk of significant outbreaks remaining an ongoing uncertainty but that it expects this to diminish as vaccinations expand. Some economists have commented that they suspect that the RBA will tilt more dovish, while it is generally expected that the RBA will announce a QE extension but with a flexibility that allows it to adjust the pace of bond purchases. It is not expected to extend the target bond for yield curve control from Apr-2024 to Nov-2024.

Fears that further outbreaks and the reinstatement of lockdowns may stifle growth and slow economic recovery are likely to remain into the near term maintaining above average levels of volatility. The receipt of option premium income resulting from selling call options at higher levels of implied volatility means that the Fund will continue to provide attractive levels of income and lower volatility while being able to maintain a focus on delivering strong total returns from Australian equities.

www.firstsentierinvestors.com.au

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