First Sentier Wholesale Equity Income Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Equity Income Fund

Quarterly Factsheet

31 December 2020

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 (A$)	343 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	39
Buy / Sell spread	0.05% / 0.05%
Minimum investment (A$)	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
The a2 Milk Company
BlueScope Steel
Webjet
Woolworths
National Australia Bank
BHP Group
Santos
Aristocrat Leisure
OZ Minerals

Performance summary (% after fees and expenses)*

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	9.7	2.8	6.7	7.8	6.0	6.8	6.6
Benchmark return	13.8	0.8	6.9	8.7	7.3	8.1	6.8
Excess net return	-4.1	2.0	-0.1	-0.9	-1.4	-1.3	-0.2
Net return (inc. franking)	9.9	3.5	8.2	9.2	7.5	8.5	8.2

* Performance is annualised for periods greater than one year.

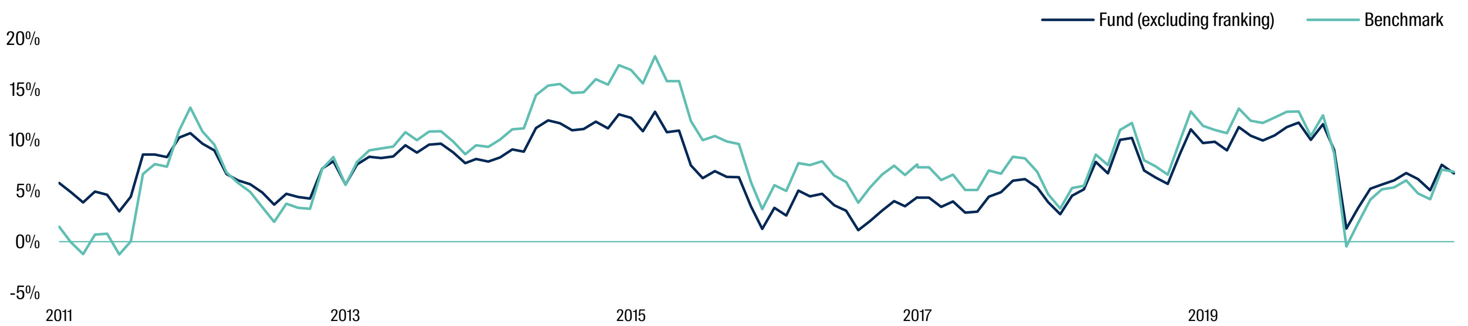
Income summary (% after fees and expenses)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Distribution return (ex. franking)	1.2	8.4	7.2	7.2	7.5	8.2	9.0
Franking credit return	0.1	0.7	1.4	1.4	1.5	1.7	1.6

Volatility summary (%)

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund volatility (ex. franking)	22.6	14.7	12.6	12.0	11.2	11.3
Reference index volatility	27.1	17.4	14.8	14.3	13.5	14.6

Rolling 3 year return (%)

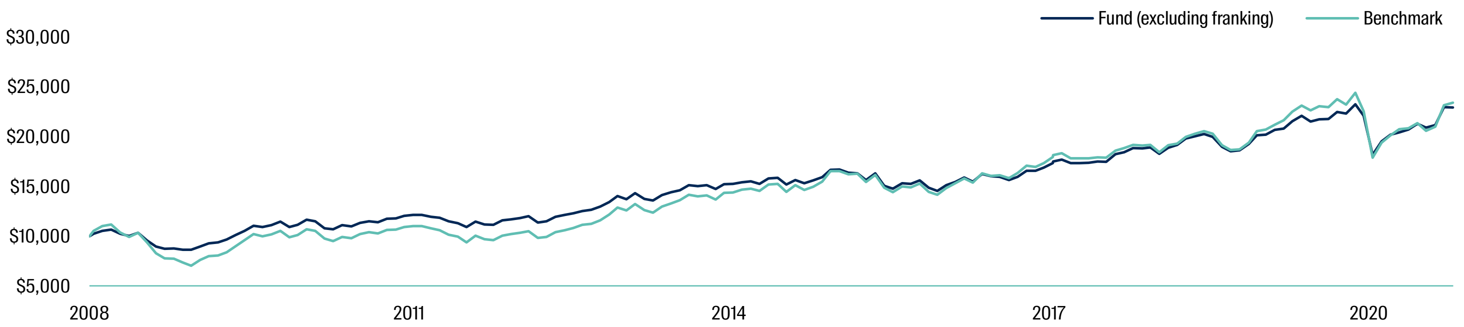


Performance returns are calculated net of management fees and transaction costs. Performance returns for periods greater than one year are annualised. Past performance is not a reliable indicator of future performance.

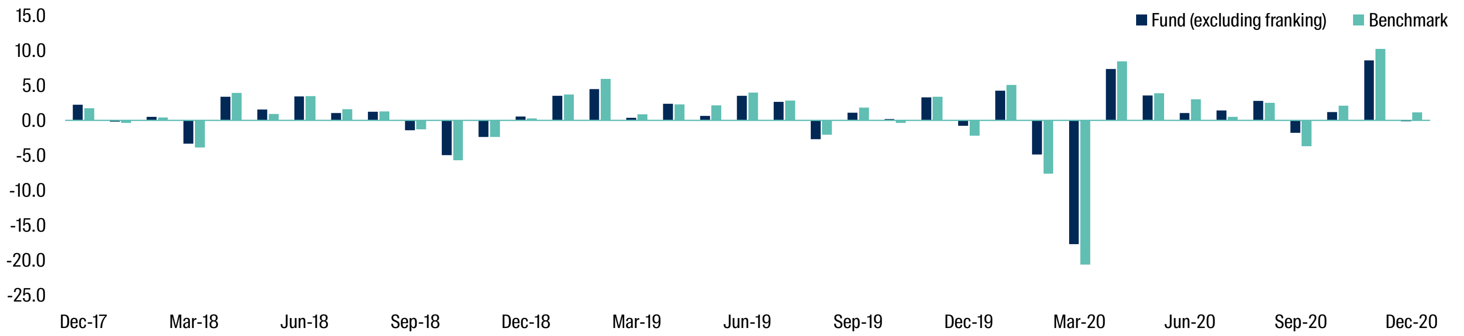
Data source: First Sentier Investors 2020

Data as at: 31 December 2020

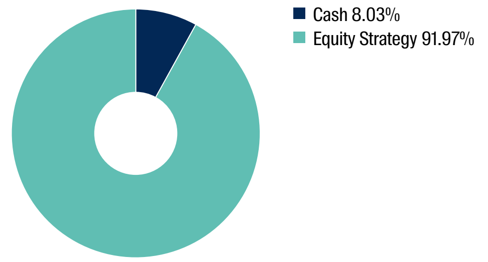
Growth of AUD 10,000 Investment Since Inception



Monthly returns vs benchmark (% excluding franking)



Invested exposure*



*Ignoring options

Market Review

The Australian equity market moved higher in each month of the December quarter. The majority of the quarterly return, however, was delivered through November as the market experienced its best monthly return since the inception of the S&P/ASX 100 Index (May 1992). The driving catalyst was a flurry of coronavirus vaccine news, with three different companies releasing impressive efficacy results, and additional monetary stimulus programs. Improving economic data points also added some support whereas ongoing US election controversy detracted from sentiment. In totality, the S&P/ASX 100 Accumulation Index finished the calendar year with a return of +13.8% in the final quarter.

Information Technology (+28.0%) was once again the best performing sector as Australia's tech companies benefited from the growing reliance on their products and services. The administration and IT services company Link Administration (LNK) rallied +48.8% through the quarter after receiving two separate non-binding takeover offers. The higher of the two proposals valued LNK at $5.65/share, more than 50% above the share price at the start of the December quarter. Several positive business updates, all of which detailed continued customer and merchant growth in each geography, helped push the Buy-Now-Pay-Later (BNPL) firm Afterpay (APT) +47.5% higher.

The positive reaction to the vaccine news was most noticeable amongst the sectors that had lagged the market's recovery, such as Energy (+26.1%) and Financials (+22.7%). Oil prices moved 18% higher (in AUD terms) over the quarter given the prospect of recovering demand, particularly from the transportation industry. The improving economic outlook helped push the Financials sector higher, particularly the major and minor banks.

Both the Utilities (-5.4%) and Health Care (-1.4%) sectors underperformed in the December quarter. AGL Energy (AGL) fell -12.3% as it downgraded its FY21 profit guidance given the challenging headwinds facing the business, such as lower wholesale electricity prices and reduced aggregate consumer volumes.

The declines experienced by both Ansell (ANN) and Ramsay Health Care (RHC) dragged on the Health Care sector. ANN, a personal protective equipment producer, fell -6.3% given the prospect of reduced PPE demand as the vaccines are rolled out. Private healthcare provider RHC (-5.9%) fell following a first quarter trading update that detailed the ongoing headwinds facing the business as a result of the coronavirus pandemic, such as surgical restrictions, regional outbreaks and lower demand for services.

Fund Performance

The Fund returned 9.7% after fees for the December quarter, representing a 70% of the strong rising market performance during the quarter. Buy-write funds typically underperform during strongly rising markets, particularly if the market appreciation occurs over a short period of time as was the case during the December quarter. However, it is important to understand how this impact is managed through the course of the market cycle. Earlier in the year when markets were significantly weak, the strategy provided a strong capital preservation outcome, falling significantly less than the broader market. This means that the starting point for the market recovery was from a much higher base for the Fund compared to the market, which provides an offset to some of the return lag during the strong rising markets.

Over the quarter the Fund's position in Webjet (WEB) added to performance overall despite the volatile share price. WEB represents the Fund's most significant exposure to the travel thematic. Most travel stocks globally are currently still loss making ahead of a return to more normalised travel conditions, which will not occur until wholesale vaccinations occur globally. While there was another covid-19 outbreak in December, overall travel stocks still performed well over the quarter on news of vaccines being rolled out by several countries.

Bluescope Steel (BSL) also performed strongly over the month; as economies reopen the demand for steel has led to increased steel spreads which directly benefit the profitability of BSL. At the same time, the Australian government's stimulus packages have benefited the domestic building cycle, leading to the company providing a positive update on the Australian business.

Offsetting the strong performance was the Fund's position in A2 Milk (A2M) which was an initial beneficiary of the stay-at-home and pantry stocking theme; as China emerged earliest from shutdowns this theme unwounded and left A2M with an excess of inventory in its sales channel. This resulted in consecutive downgrades. It will take time for these distribution channels to stabilise but its core brand remains strong as evidenced by the strong performance of its Chinese label products.

Overall the portfolio has performed well in such a strong quarter in capturing a significant proportion of the upside.

Fund Activity

There were a number of significant changes to positioning over the last quarter. The Fund had been convincingly underweight the financial sector for many months since the pandemic began over concerns around poor economic outcomes impacting the earnings of our largest lenders. We reduced this underweight over the quarter primarily through increasing positions in the big 4 domestic banks over the last 3 months as we feel Government stimulus support, the extent of impairments is likely to be in-line with expectations and the potential for surplus capital is not fully reflected in valuations. Elsewhere in the financial sector, we added new positions in Suncorp (SUN) and QBE insurance (QBE). Commercial insurance premiums have been increasing as insurers globally seek to recover from this year's investment losses. While the court ruling on business continuity insurance is a negative outcome for the industry, both Suncorp and QBE have adequately provisioned for these risks, and it is expected that this will be recovered in the longer term through future rate increases.

CSR Limited (CSR) was added to the strategy early in the quarter. We believe CSR should benefit from the sustained thematic of increased spending on existing homes as well as new home purchases. This thematic has been largely influenced by sustained and falling interest rates, Government stimulus packages, and a not insignificant redirection of discretionary spend away from areas such as travel.

The strategy reduced its exposure to global packaging company Amcor (AMC) during the quarter. AMC has performed very well since March, at the beginning of October AMC share price was back at pre-covid levels. The company appears to be proceeding well with its integration of the Bemis acquisition and had been a beneficiary of significant pantry stocking throughout the world. However, we took the opportunity to reduce our position in what has been a very solid company growing at low single digits and invest in other opportunities more exposed to the domestic recovering thematic.

The strategy exited its position in Resmed (RMD) during the quarter. While the company delivered a better than expected first quarter result we feel that declining ventilator demand and uncertain new patient starts is likely weigh over the stock price performance in the medium term.

While we continue to believe that CSL Limited (CSL) is a high quality global pharmaceutical company we chose to reduce our position over the quarter. The number of Covid-19 cases in the US continues to rise to record levels and we expect this will impact foot traffic into their plasma collection centres. Longer term we also see increasing risks from pipeline competitor products.

The strategy also reduced its exposure to cloud accounting provider Xero (XRO) after an impressive price move particularly in the last month of the quarter. The gain has now left the company relatively stretched on valuation however XRO is still a highly attractive business which is well capitalised after raising US$700m via another convertible note issue which might be used to fund future acquisitions or increasing marketing spend as it attempts to grow into overseas markets.

Option implied volatility has remained at relatively elevated levels despite expectations of a broad based recovery. As such, the strategy continued to sell call options over a number of positions in the portfolio in return for still significant levels of option premium income. This income has served to supplement our investor's income requirements as well as provide a cushion thereby softening experienced levels of return volatility for our investors.

Market Outlook

With several coronavirus clusters emerging in Australia towards the end of December, the immediate focus of equity markets will be on the number of domestic coronavirus cases and how long lockdown and travel restrictions remain in place. While substantial progress has been made in regards to a coronavirus vaccine over the last few months, Australia is not scheduled to begin its rollout until late February. As a result, we believe market volatility will likely continue through 2021 as countries face the difficult task of rolling out vaccine programs and opening up their economy. Considerable uncertain remains also with the government Jobkeeper program set to expire in March and the impact that may have.

Market volatility is likely to remain at higher levels for the foreseeable future as uncertainty regarding the spread of the Covid-19 virus, rollout and effectiveness of the vaccine and continuation of government support initiatives continues. The investment approach used in 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. Fund positioning is of key focus given the multitude of scenarios possible in the months ahead. We believe the Fund is well positioned based on our fundamental insights, however we are not resting on our laurels and are carefully watching and will adjust the composition as information changes.

For investors focused on income outcomes, the past year demonstrated that caution is needed when investing in shares purely on the basis of dividends. We expect that some dividend income will return to the market during 2021, particularly in the financials sector following the removal of the 50% dividend payout ratio cap that was implemented by APRA during the peak of the crisis. That said, our approach is not dependent on the resumption of higher dividend payments to meet the income needs of our investors. Our approach focuses on identifying the best investment ideas, and selectively using options on these shares to provide a supplementary source of income, to deliver the mix of consistent income and lower volatility outcomes desired by more conservative income focused investors.

www.firstsentierinvestors.com.au

For further information

Personal investors

Speak with your Financial Adviser whether our products are appropriate, in light of your investment needs, objectives and financial situation.
Download Product Disclosure Statements from below website link.

www.firstsentierinvestors.com.au/individual-pds