# First Sentier Wholesale Australian Share Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Australian Share Fund

Quarterly Factsheet

31 December 2020

**For Adviser use only**

## Portfolio Description

The Fund invests in a broad selection of Australian listed companies, with between 30 to 40 stocks typically held in the portfolio.

## Investment Strategy

We believe stronger returns are achieved by investing in growing companies that generate consistent returns and reinvest above their cost of capital. In-depth industry, stock and valuation analysis is the foundation of our process. The Fund predominantly invests in quality Australian companies with strong balance sheets, earnings growth and high or improving returns on invested capital.

## Investment Objective

To provide long-term capital growth with some income by investing in a selection of Australian companies. The Fund aims to outperform the S&P/ASX 300 Accumulation Index over rolling 3 year periods before fees/taxes.

### Key Investment Personnel and Experience (Industry / Firm)

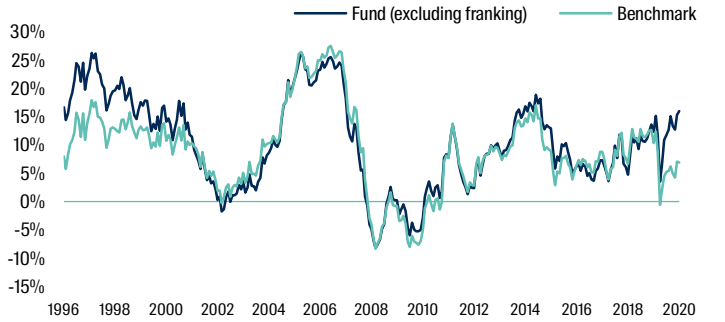
| | | |
|---|---|---|
| Dushko Bajic | Head of Australian Equities, Growth | (1996 / 2014) |
| David Wilson | Deputy Head | (1987 / 2015) |
| Christian Guerra | Head of Research | (1996 / 2016) |

### Product Overview

| | |
|---|---|
| APIR code | FSF0002AU |
| Inception date | 31 December 1993 |
| Fund Size (A$) | 1,020 million |
| Benchmark | S&P/ASX 300 Accumulation Index |
| Number of stock holdings | 30 |
| Buy / Sell spread | 0.20% / 0.20% |
| Minimum investment (A$) | 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 |
| Xero |

Sorted alphabetically

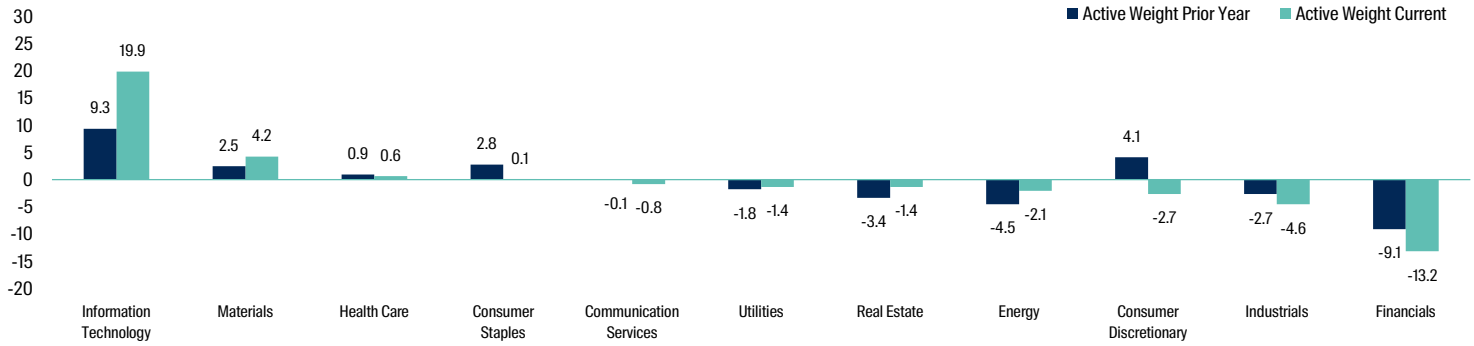
### Performance Summary (%)

| Period | 3mth | 1yr | 3yr | 5yr | 7yr | 10yr | SI |
|---|---|---|---|---|---|---|---|
| Net return | 18.0 | 22.6 | 16.0 | 12.1 | 11.1 | 10.4 | 10.7 |
| Benchmark return | 13.8 | 1.7 | 6.9 | 8.8 | 7.4 | 7.7 | 8.5 |
| Excess net return | 4.2 | 20.9 | 9.1 | 3.3 | 3.6 | 2.7 | 2.2 |
| Income return | 1.3 | 6.8 | 7.7 | 8.6 | 9.4 | 7.6 | 7.6 |
| Growth return | 16.7 | 15.8 | 8.2 | 3.5 | 1.6 | 2.8 | 3.1 |

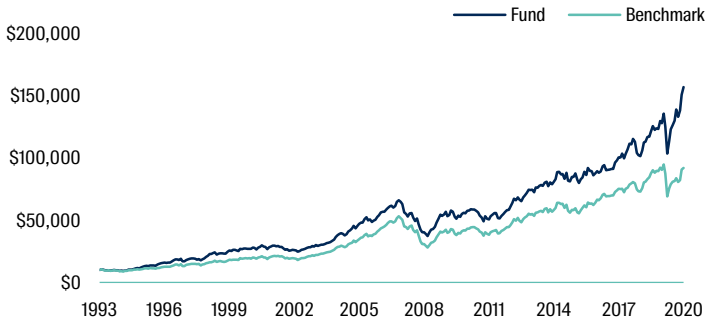
### Risk Characteristics

| Period | 1yr | 3yr | 5yr | 7yr | 10yr | SI |
|---|---|---|---|---|---|---|
| Fund standard deviation (%) | 26.6 | 18.0 | 15.6 | 14.7 | 13.9 | 13.3 |
| Benchmark standard deviation (%) | 27.5 | 17.7 | 15.0 | 14.3 | 13.6 | 13.3 |
| Tracking error (%) | 5.9 | 5.2 | 5.0 | 4.4 | 3.9 | 3.7 |
| Fund Sharpe ratio | 0.8 | 0.9 | 0.7 | 0.6 | 0.6 | 0.5 |
| Information ratio | 3.5 | 1.7 | 0.7 | 0.8 | 0.7 | 0.6 |
| Beta | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Cashflow adjusted turnover (%) | 35.8 | 32.8 | 38.0 | 38.4 | 40.0 | |

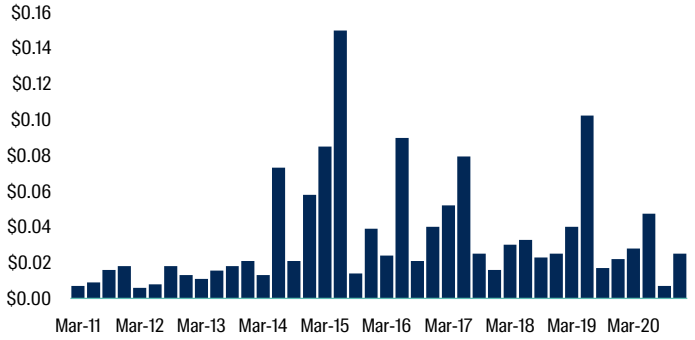
### Fund Active Sector Positions (%)



### Growth of AUD 10,000 Investment Since Inception




### Distributions




### Top 5 attributors to performance (3 months)

| Sector | Attr. |
|---|---|
| Information Technology | 3.21% |
| Materials | 0.87% |
| Industrials | 0.77% |
| Communication Services | 0.65% |
| Consumer Discretionary | 0.43% |

### Top 5 detractors to performance (3 months)

| Sector | Attr. |
|---|---|
| Consumer Staples | -0.73% |
| Financials | -0.56% |
| Energy | -0.32% |
| Real Estate | -0.14% |
| Health Care | 0.16% |

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

### 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 300 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 300 Accumulation Index finished the calendar year with a return of +13.8% in the final quarter.

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 (+22.8%). 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.

Information Technology (+22.8%) was another top 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 +47.5% higher.

Both the Utilities (-5.4%) and Health Care (-1.0%) sectors underperformed in the December quarter. AGL Energy 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 Wholesale Australian Share Fund delivered another strong quarterly return as it outperformed its benchmark, the S&P/ASX 300 Accumulation Index, by more than 4%.

Over what has been an unprecedented year for capital markets, the Fund performed admirably and delivered a pleasing return for investors. By investing in companies with above-market growth potential, high-quality earnings and robust balance sheets, the Fund outperformed the broader equity market by more than 20% in 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 accounting software provider Xero (XRO). Afterpay moved +47.5% higher through the December quarter as it benefited from a raft of positive trading updates. Each update highlighted continued customer, merchant and sales growth while loss metrics remained relatively unchanged. The most recent trading update announced that the business had set a new monthly sales record in November, with more than $2.1bn in sales being processed through the platform. Adding further support was the partnership between APT and Westpac Bank, which will allow APT to offer Australian customers transaction and savings accounts along with other cashflow management tools. The additional products will help cement Afterpay's dominant position in the market whilst also offering additional transaction data that will feed into APT's risk control mechanisms.

XRO rallied +10.8% as expectations of a recovery in SME activity improved. A positive first-half result provided additional support, with XRO explaining positive subscriber growth and lower costs helped margins and earnings to grow above consensus expectations. Through its cloud accounting software, subscribers are able to efficiently view and submit tax return filings, monitor live data from bank feeds and access their ledger anywhere and at any time. These items place XRO in good stead to grow its market share, particularly in the US, and drive profitability.

Somewhat dragging on the Fund's performance were the overweight positions in The a2 Milk Company (A2M) and Megaport (MP1). A disappointing trading update released in December was the key catalyst driving A2M's -18.5% decline. The continued disruption to diagou sales activity, which represents a significant portion of infant nutrition sales, drove A2M to downgrade its FY21 sales and earnings guidance. Management noted that the protracted disruption, caused by lockdown laws and travel restrictions, had also spread to A2M's other nutritional segments. While the overall trading update was disappointing, the release also included several positive items. Chinese MBS sales activity has remained strong through 1H21 with revenue growth expected to reach 40%. Further, the liquid milk businesses in Australia and the US have been performing well and are expected to deliver strong first-half earnings growth.

The cloud connectivity services provider Megaport (-11.4%) moved lower following the release of its first-quarter trading update in the early stages of the quarter. Despite adding an additional 566 ports and 138 customers in the first quarter of FY21, the market instead focused on the temporary slowing in revenue growth caused by a one-off repricing of legacy products. An investor presentation released later in the quarter helped MP1 to somewhat recover as management noted continued customer, ports and EBITDA growth. 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.

**Fund Activity**

We selectively added to several recovery-led companies early in the quarter, such as those in Energy and travel-related industries. The purchase activity in the Energy sector was focused on a company exposed to the capex cycle of major oil producers, which we expect will pick up as the prospects for a recovery in oil prices improve.

These purchases were primarily funded by the exit of Nanosonics and the lightening of several holdings in the Consumer Staples and Consumer Discretionary sectors. We have sold out of our Nanosonics position as we believe at least the next 6 months will be a challenging period for the company in generating Trophon sales. US hospitals have restricted access to sales representatives and are unlikely to spend on capital equipment through the pandemic, which is likely to have an impact on NAN's growth over the near-term. The launch of the new product is also likely to be delayed with the timeline remaining uncertain, which will weigh on the NAN share price.

**Market Outlook**

With several coronavirus clusters emerging 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. Fund positioning is of key focus given the multitude of scenarios available. 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.

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

## For further information


Head of Investment Sales and Key Accounts
Chris King +61 2 9010 5249

Key Account Manager - NSW
Angela Vincent +61 2 9010 5230
Paul Sleiman +61 2 9010 5393

Business Development Manager – NSW
Justin Sultana +61 2 9010 5326

Key Account Manager - VIC/TAS
Nicholas Everitt +61 3 9225 5055

Business Development Manager - VIC/TAS
Jack Heinz +61 3 9225 5056

Key Account Manager - QLD
Quin Smith +61 4 5509 5505

Business Development Manager – QLD
Julie Day +61 4 6641 3176

Key Account Manager - WA/SA/NT
Nathan Robinson +61 4 0327 2440



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