

# First Sentier Wholesale Geared Share Fund



Formerly the Colonial First State Wholesale Geared Share Fund

## Quarterly Factsheet

31 March 2022

For Adviser use only

### Portfolio Description

The Fund invests in large Australian listed companies, with between 30 to 40 stocks typically held in the portfolio. The Fund utilises gearing to magnify returns from underlying investments.

### 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/improving returns on invested capital. The Fund utilises gearing to magnify investment returns.

### Investment Objective

To magnify long-term returns from capital growth by borrowing to invest in large Australian companies. The Fund aims to outperform the S&P/ASX 100 Accumulation Index over rolling 7-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)

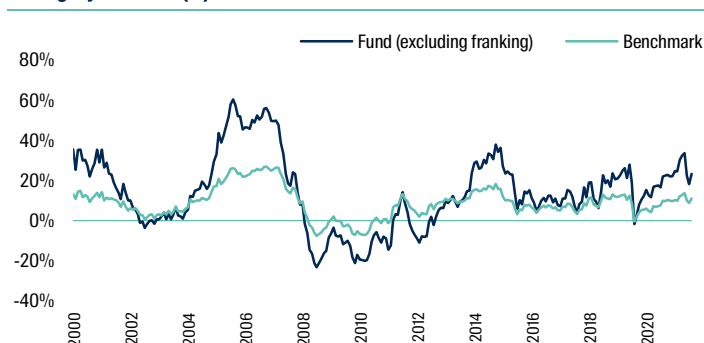
### Product Overview

APIR code	FSF0043AU
Inception date	15 August 1997
Fund Size (AS)	9,108 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	37
Buy / Sell spread*	0.20 - 0.50% / 0.20 - 0.50%
Minimum investment (AS)	5,000
Management cost (p.a.)*	1.03% (g) 2.15% (n)

\* Buy/sell spreads depend on the specific gearing level of the option.

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

### Rolling 3 year return (%)



### Top 5 holdings

Stock
BHP Group
Commonwealth Bank
CSL
National Australia Bank
Woolworths

Sorted alphabetically

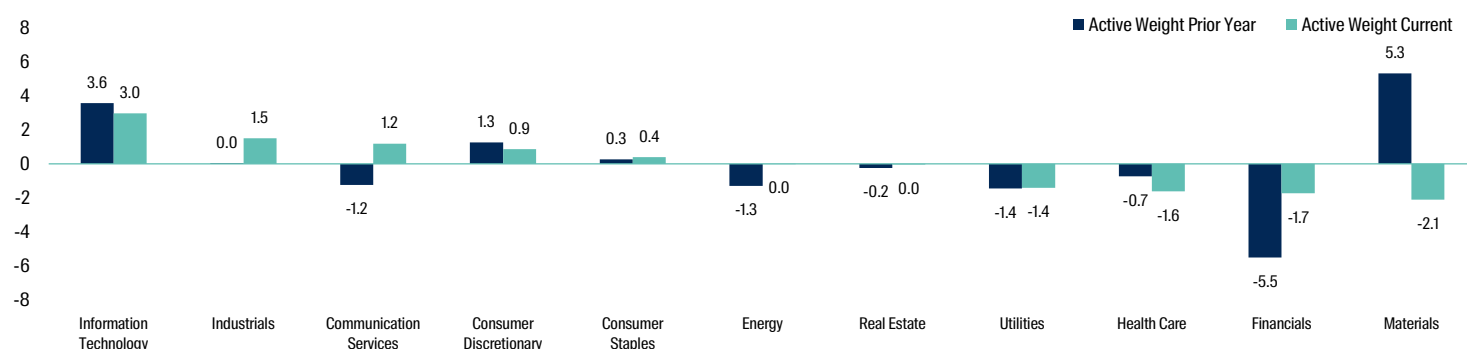
### Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-3.6	25.6	23.3	18.7	14.2	19.5	15.1
Benchmark return	3.0	16.0	11.0	9.4	7.8	10.5	9.0
Excess net return	-6.6	9.6	12.3	9.4	6.4	9.0	6.1
Income return	3.7	12.6	12.0	14.5	13.8	11.6	8.4
Growth return	-7.3	13.1	11.3	4.2	0.4	7.9	6.7

### Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	26.9	35.6	30.5	30.2	28.5	28.1
Benchmark standard deviation (%)	10.7	17.3	14.6	14.0	13.3	13.2
Tracking error (%)	17.1	19.1	16.7	16.9	16.0	16.0
Fund Sharpe ratio	1.0	0.8	0.6	0.4	0.6	0.4
Information ratio	0.6	0.6	0.6	0.4	0.6	0.4
Beta	2.4	2.0	2.0	2.1	2.1	2.0

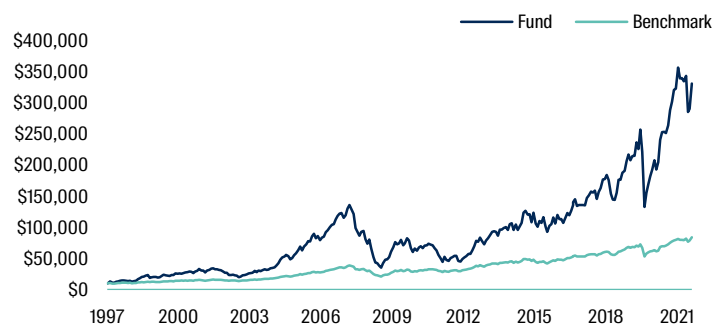
### Fund Active Sector Positions (%)



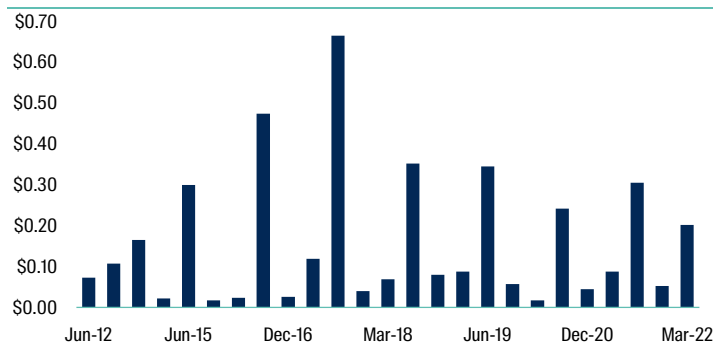
**Portfolio Beta** measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over the past five years.

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 2022, Data as at: 31 March 2022

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



**Distributions**



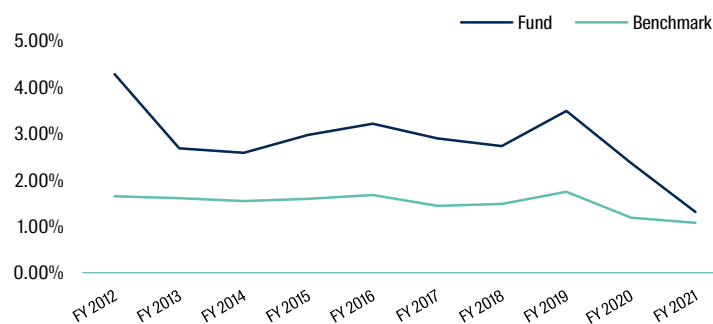
**Top 5 attributors to ungeared performance (3 months)**

Sector	Attr.
Health Care	0.25%
Financials	0.20%
Consumer Staples	0.04%
Utilities	-0.17%
Energy	-0.27%

**Top 5 detractors to ungeared performance (3 months)**

Sector	Attr.
Information Technology	-1.09%
Materials	-0.94%
Real Estate	-0.69%
Consumer Discretionary	-0.65%
Communication Services	-0.39%

**Franking Credit Return (%) by Financial Year**



**Market Review**

Australian equities initially declined in the March quarter, experiencing their worst month since the coronavirus pandemic. Declines were spurred on by spread of the Omicron variant, concerns of faster and more frequent interest rate hikes and rising inflation, creating an environment conducive towards a rotation to value-orientated shares. Market volatility continued as geopolitical tension erupted into a full scale invasion of Ukraine, causing investors to weigh up potential global and local economic implications. However, a broadly positive February reporting season helped improve consumer and business sentiment with \$36.3b dividends declared and approximately 1.5x more earnings 'beats' than 'misses'. Patterns of inventory building provided more positive signs that supply chain disruptions were improving. Despite the early weakness, the market closed out the March month strongly, with the S&P/ASX 100 Accumulation Index returning +3% in the quarter.

Commodity prices rallied as global supply concerns increased and an array of hard and soft global sanctions mounted against Russia, the world's third and fourth largest producer of coal and LNG respectively. The tight supply demand dynamic resulted in a number of commodities reaching record highs for example coal prices reached \$430/tonne in March as pressure grew for the European Union to find alternative sources for imports. Consequently, commodity-sensitive sectors Energy (+29%), Materials (16%) and Utilities (+14%) performed strongly through the quarter with many constituents providing a positive future outlook.

Growing market hesitancy in light of rising interest rate expectations and uncertainty created by the Russia-Ukraine war resulted in the Information Technology sector falling -12%. Losses mainly occurred in January given the broader rotation to Value companies, however the sector recovered somewhat through March as investors returned their focus towards companies that have the ability to grow earnings as economies begin to slow and peace talks supported a relief-rally in equities. Despite the positive end to the quarter, the earlier sell-off saw each of Xero (-27%), Altium (-24%) and WiseTech (-13%) post double-digit declines.

Broad-based weakness amongst COVID beneficiaries drove the Consumer Discretionary (-10%) and Health Care (-9%) sector lower. As the pandemic continues to wind down and variants prove to be less severe, already high vaccination rates and lower requirements for testing lessened the demand for Health Care constituents Sonic Healthcare Limited (-23%), Fisher & Paykel Healthcare (-26%), Ansell Limited (-17%) and CSL Limited (-7%). Similarly, retail conglomerate Wesfarmers posted declines -14% in March as the market factored in the impact of slowing goods demand as easing restrictions allow services/experiences to return to favour.

**Fund Performance**

The Wholesale Geared Share Fund underperformed its benchmark, the S&P/ASX 100 Accumulation Index, in the March quarter but continues to deliver attractive levels of excess returns over longer periods as our be-spoke fundamental research process allows us to identify high quality, growth stocks that we believe will generate superior returns for our investors over time.

Contributing to the Fund's underperformance were the overweight positions in building materials company James Hardie (JHX) and property investment group and manager Charter Hall (CHC). JHX (-27%) faced a tough start to the quarter following the departure of its CEO Jack Truong. JHX continued to move lower in light of the Russia-Ukraine war and as its impact materialised through softening European activity, increased energy, freight and pulp costs, and rising

mortgage rates in the US. JHX's North America Fibre Cement business is 70% exposed to the residential repair & remodel (R&R) segment, with the remaining 30% exposed to the single family new construction market. In our view, the R&R market is likely to hold up in the face of rising mortgage rates given strong house price appreciation in the US, significant levels of home equity, strong employment, and a shortage of new housing stock. We remain confident in JHX's ability to control costs and their pipeline of new products and projects to generate returns as they continue to expand their global presence.

Integrated property group Charter Hall fell -20% in the March quarter following the recent spike in bond yields (REIT's have historically been negatively correlated with changes in bond yields due to the fact that they own and manage long duration assets). A slight miss in the February reporting season also pressured the stock despite management announcing that assets under management had grown strongly and upgraded EPS forecasts from 105cps to 112cps, an 84% increase from the prior year. At the end of March, Management announced the acquisition of commercial property manager Irongate group in partnership with Dutch pension fund PGGM, diversifying and strengthening CHC's funds under management and overall scale within the industry.

Somewhat offsetting these negative contributions were the overweight positions in mining constituent BHP Group (BHP) and oil and gas producer Santos (STO). The recently unified mining giant BHP (+30%) advanced strongly through the quarter with the benefit of strong commodity price momentum, albeit with periods of volatility. In the February reporting season, BHP announced an impressive \$10.7b in dividends following a robust 1H22. This was largely attributed to operational strength in its Western Australia iron ore division and support from higher iron ore prices. Despite near-term pressure on iron ore demand stemming from China's COVID-19 lockdowns, we expect steel demand to sustain in the long term given China's pro-growth policy through infrastructure development. We have high conviction in BHP's ability to capitalise off the current climate particularly as they continue reshaping their high quality commodities portfolio underpinning strong earnings, dividends and cash flows in the long term.

Santos (+24%) advanced strongly through the quarter with the benefit of strong commodity price momentum, albeit with periods of volatility. STO deliver an impressive fourth quarter result given higher commodity prices and solid production resulting in a record underlying earnings up 230% and free cash flow of US\$1.5bn – more than double that of 2020. The market was further encouraged by several positive trading updates including a recent oil discovery in the Pavo-1 exploration. STO's drilling activities discovered a 60-metre gross hydrocarbon column in the primary Caley member reservoir target adding value to STO's Dorado project and to their ongoing growth pipeline. We also remain enthralled by their recent merger with Oil Search and continue to hold the stock in an overweight position given their high quality asset portfolio, ability to manage costs and the pipeline of projects available.

#### Fund Activity

We adjusted the Fund's holdings across a variety of sectors through the quarter, particularly Healthcare, Materials and Financials. As the pandemic wanes we have exited our position in Healthcare constituent Fisher and Paykel Healthcare (FPH). Demand for FPH's products have begun to decelerate as the latest COVID variants have required less respiratory interventions, inducing headwinds for FPH's ventilation products and near term earnings. Additionally, FPH delivered lower than expected utilisation rates on their freshly expanded suite of medical devices, elongating the stock's earnings recovery.

We increased our exposure to a diversified miner. We believe their commodity products will continue to benefit from strong pricing momentum driving returns in the medium and long term.

Within the Financials sector we rebalanced portfolio by adding and trimming several constituents. Notably, we added to an insurance broker that we believe is well positioned to capitalise on rising insurance premiums, supporting double digit EPS growth.

We also built a new position in a banking stock given that we believe there will be a lift in the official cash rate within the next several months. Rising interest rates are typically positive for bank's net interest margin which has come under pressure in recent years and consequently we believe this bank will be a key beneficiary of this dynamic. We believe this bank has good balance sheet momentum particularly in home lending and this combination of better NIM and solid balance sheet growth should drive total income for the bank.

#### Market Outlook

In line with the market's concern of rising inflation, the pre-election federal budget employed a number of policies to help manage and offset the increasing cost of living. We do not expect the new stimulus to accelerate inflation and instead believe its inflationary impact will be minimal based on several fundamental drivers including; the lower quantum of stimulus compared to that of 2020, abating pulled-forward demand for goods, and easing of both the tight labour market and supply chain blockages. All of these are expected to slow the economy and cause pressure on rising bond yields to abate.

The 2020-21 COVID fiscal stimulus coupled with a number of soft and hard state lockdowns fuelled an unprecedented goods demand shock that simply could not be matched by supply. However, as COVID continues to shift from pandemic to endemic, the 'stay at home' bubble has burst, alleviating the demand driven inflation as services and/or experiences return to favour.

On the supply side, the February reporting season illustrated patterns of inventory building and the easing of supply chain disruptions. The impact of a tightened labour market on company operations should also wane as COVID becomes less severe and international travel continues to improve throughout the year, solving a number of skill shortages. As demand continues to normalise and inventories catch up, pricing power should weaken, lowering inflation. The recent decline in the ISM New Orders and increase in ISM Employment survey provide evidence to support this view. However, the consistent decline in the New Orders ISM not only signals demand is decreasing but also indicates a deteriorating outlook for positive EPS revisions. If these relationships continues to hold true, lower inflation, lower rates and slower growth will provide a supportive backdrop for Growth stocks that can consistently grow earnings irrespective of the market cycle.

We are continuing to focus on companies with distinctive products/services that have the ability to grow earnings and market share in spite of anaemic household consumption. Through our bespoke fundamental research, the fund remains in an agile position to identify high quality companies that will outperform in the longer term whilst capitalising on the opportunity that volatility can present.

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

#### For further information

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