First Sentier Wholesale Geared Share Fund

Formerly the Colonial First State Wholesale Geared Share Fund

Quarterly Factsheet

30 June 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. Indepth 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)

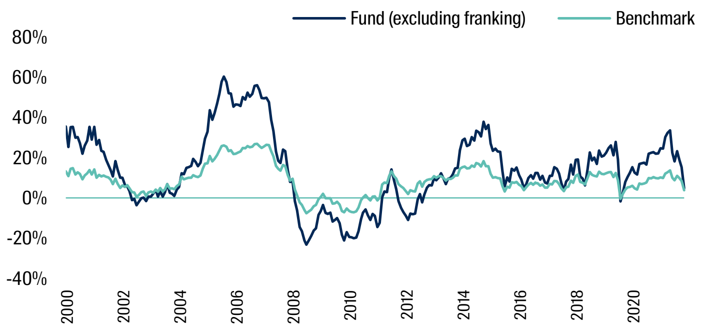
Product Overview

APIR code	FSF0043AU
Inception date	15 August 1997
Fund Size (A$)	6,617 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	38
Buy / Sell spread*	0.20 - 0.50% / 0.20 - 0.50%
Minimum investment (A$)	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

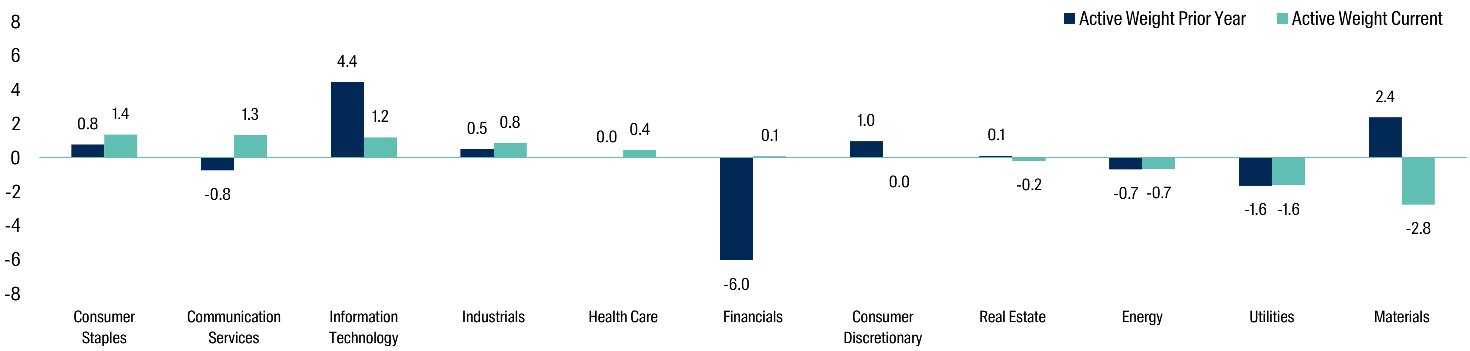
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-28.3	-26.0	4.8	11.9	11.4	17.8	13.4
Benchmark return	-11.1	-5.0	3.9	7.2	7.1	9.6	8.4
Excess net return	-17.1	-21.0	1.0	4.7	4.3	8.2	5.1
Income return	18.1	21.3	16.6	15.8	16.5	14.1	9.4
Growth return	-46.3	-47.3	-11.7	-4.0	-5.1	3.7	4.0

Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	31.8	37.8	32.0	31.0	29.0	28.3
Benchmark standard deviation (%)	13.7	18.1	15.1	14.3	13.5	13.3
Tracking error (%)	19.0	20.6	17.6	17.4	16.2	16.1
Fund Sharpe ratio	-0.8	0.1	0.3	0.3	0.6	0.3
Information ratio	-1.1	0.0	0.3	0.2	0.5	0.3
Beta	2.2	2.0	2.1	2.1	2.1	2.0

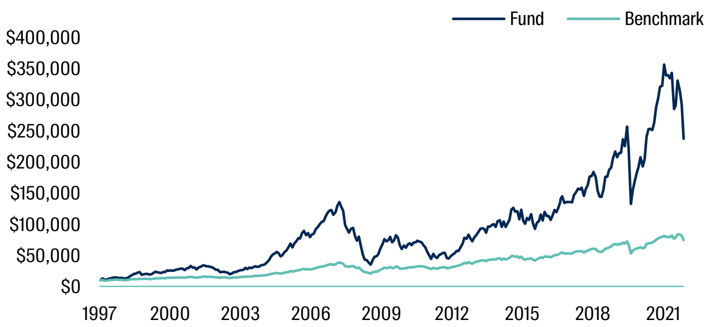
Fund Active Sector Positions (%)



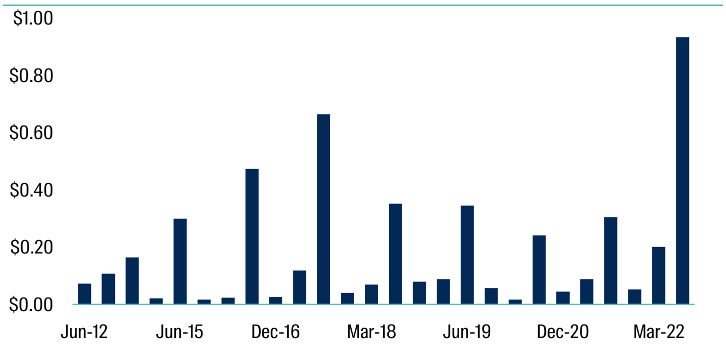
Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over 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: 30 June 2022

Growth of AUD 10,000 Investment Since Inception



Distributions



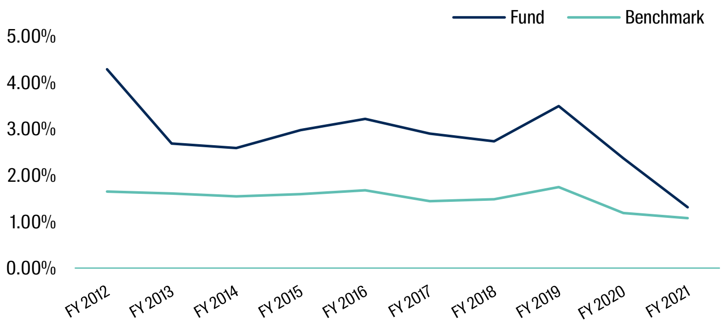
Top 5 attributors to ungeared performance (3 months)

Sector	Attr.
Financials	0.32%
Consumer Staples	0.05%
Communication Services	0.04%
Health Care	0.01%
Consumer Discretionary	-0.05%

Top 5 detractors to ungeared performance (3 months)

Sector	Attr.
Information Technology	-0.82%
Industrials	-0.58%
Real Estate	-0.49%
Materials	-0.39%
Utilities	-0.18%

Franking Credit Return (%) by Financial Year



Market Review

The June quarter saw Australian Equities succumb to inflation and recessionary concerns, driving the S&P/ASX 100 Accumulation Index -11% lower. Risk-off sentiment persisted in May as markets digested hawkish commentary from global central banks and the prospect that the US Federal Reserve may not be able to manufacture a 'soft landing', favouring a rotation into value stocks. Inflationary fears transformed into growth concerns, exemplified by poor market sentiment stemming from China's battle with COVID, with the market extrapolating potential demand implications as a result of their elongated recovery trajectory, prompting selling within all sectors. Losses accelerated in June as higher-than-expected European and US inflationary prints – the latter a forty year high – heightened market apprehension and drove the index lower, producing its worst monthly performance since March 2020.

The rising rate environment coupled with increased inflation expectations continued to hurt multiple valuations for the Information Technology sector, particularly constituents within the high growth /cash burning segment. Although earnings remained largely unchanged, sell-off pressure continued to manifest within the sector, which declined -26% in the June quarter. Diversified digital payments company Block (-51%) was the worst performer for the sector, although seeing a material uplift of 10% following their Investor day in May, the fintech eventually fell on macro-economic concerns.

Following the RBA's decision for a lift in the official cash rate to 0.85%, the market continued to extrapolate potential implications of higher yields on Australia's leveraged housing sector and broader credit growth, driving apprehension in the Financial sector (-14%). The big four banks – Commonwealth Bank, Australia and New Zealand Bank, Westpac and National Australia Bank – all posted declines of -15%, -18%, -17% and -13% respectively.

Similarly, the resulting increases to bond yields burdened constituents in the Real Estate sector (-18%) dragging integrated property managers Charter Hall (-33%) and Goodman Group (-21%) lower in the June quarter

Energy prices remained at elevated levels and continued to be bolstered by a tight demand supply dynamic given the Russia-Ukraine war and global underinvestment. Although facing volatility in the latter stages of the quarter, Brent oil rose 5% for the quarter and 45% in the calendar year to date, buoying the Energy (1%) and Utilities (2%) sectors.

Fund Performance

The Wholesale Geared Share Fund underperformed its benchmark, the S&P/ASX 100 Accumulation Index, in the June 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 the global fintech Block (SQ2) and integrated property manager Charter Hall. Block (-51%) continued to de-rate in the June quarter alongside other tech and payment names. A slight miss in the Square ecosystem's 1Q22 Gross Profit Volumes (GPV) vs consensus expectation accelerated SQ2's downward trajectory, dismissing stronger-than expected performances from Cash App, which reached record quarterly inflows and recorded 10 million accounts as of the end of the March quarter. We maintain an optimistic outlook for SQ2 given it is a dominant player in the merchant and payments space and best positioned to deliver double digit compound growth and return on invested capital despite the broader economic slowdown. SQ2 approximate it has less than 3% penetration in a ~US$190bn TAM illustrating further growth potential through international expansion and further upmarket penetration within the US market. We were further encouraged by the avenues for unlocking greater levels of penetration as outlined in SQ2's Investor day in May, including Square Omni-channel expansion, increasing monetization and cross-selling of products and increasing Cash App's monthly active users through Peer-to-Peer (P2P) engagement.

Despite no trading updates being made during the quarter the rising interest rate environment and subsequent lift in bond yields has placed pressure on Charter Hall (-33%) given its potential impact on asset prices and FUM growth. CHC is a leading real estate fund manager with a strong track record of outperforming industry benchmarks and delivering superior rates of return through their distinct investment strategy which favours triple net leased, long WALE and high-quality tenant covenant assets. This has enabled CHC to steer clear of rent variability and exposure to tenant operational risk – as evident through the pandemic. The attractiveness in the business model comes from the fact that ~60% of earnings coming from funds management – which is relatively capital light, provides higher returns on equity – and highly scalable given their ability to source capital from all types of capital providers including retail, institutional, wholesale and so forth. Although the current macro backdrop has been proven challenging we believe that the strength in the stabilised portfolio alongside their development pipeline will enable them to navigate effectively through this environment until the commercial property market stabilises.

Somewhat offsetting these negative contributions were the overweight positions in the general insurance group QBE Insurance (QBE) and oil and gas producer Santos (STO). QBE group's first quarter update provided ample evidence of a strong growth trajectory through an acceleration of insurance premiums given the rising rate environment. QBE announced a 19% pcp increase in gross written premium (GWP), surpassing previous management commentary forecasting GWP within the high single digit range. Management reaffirmed their combined operating ratio (COR) is expected to improve from 94% from FY2021 highlighting a combination of greater cost controls and higher premiums. We believe QBE should continue to see greater premium momentum which should contribute to a strong resilient earnings base.

Although finishing -4% down for the quarter, Santos has enjoyed the growing strength in LNG and oil prices given persistent global tight supply demand which we believe they are well capitalised to continue to take advantage of price momentum and grow in the current environment. We were encouraged by STO's first quarter results which detailed record quarterly production, revenue and free cash flow (FCF) and reaffirmed FY2022 guidance. Production volumes were a slight miss in comparison to consensus expectation as a result of poor weather conditions and an outage, however, this was largely offset by higher-than-expected realised prices accessed through flexible JKM contracting. We are of the view that STO's robust balance sheet, supported by US$865 million in FCF generated from the first quarter and potential for further gains from a sell down in assets, will support STO's strong pipeline of growth projects including Barossa, Moomba CCS and Pikka Phase 1.

Fund Activity

We adjusted the Fund's holdings across a variety of sectors through the quarter, as we adjust to the ever changing investment landscape. We remain bullish on the Energy sector due to tight global supply issues elevating prices and have increased our exposure to the sector through a large energy and petroleum producer. We believe that this company is well positioned to take advantage of high spot prices demonstrated in their 1Q22 trading update whereby highlighting a higher realised LNG price. The energy constituent has maintained guidance for the year and reported that growth projects appear to be on track which should translate to steady earnings in the near to medium term.

Adhering to our long-standing DCF valuation sell discipline, we have exited our position in the copper-gold minder Oz Minerals (OZL) as it approached our valuation target. With copper prices falling we believe there is increased risk on OZL's development profile, particularly in West Musgrave. The company also released a trading update whereby lowering copper production guidance at Carrapateena and increasing cost guidance due to COVID related absenteeism and equipment issues.

These additional funds were redirected towards establishing a new holding in another Materials constituent. We increased our exposure to a lithium miner with a mixture of carbonate and spodumene production as we believe it is well positioned to continue capitalising on increases in lithium prices through contract renewal and exposure to spot prices. We are particularly attracted to the company's relative risk profile and strong growth profile of development projects that should see production increase in the medium term.

We exited a position in the Consumer Discretionary constituent Domino's Pizza (DMP). Whilst our long-term investment thesis remains positive for the company, we expect DMP will experience short term headwinds given the impact of the current inflationary environment on their cost of goods outlook and store rollout plans.

Market Outlook

The distortion caused by unprecedented stimulus on the profits of cyclical companies has started to unwind from the unsustainable pull-forward in demand for physical goods. Consumption is shifting away from these goods towards services at a time when supply chain pressures are easing and retailers are receiving bulk inventory orders in expectation of continuing demand. In the United States, the demand transition has driven sharp increases in Real Retail Inventories and the Real I/S ratio, both of which are above their pre-COVID trend rates. Given the costs associated with holding excess inventory, retailers will likely be forced into discounting prices to move stock, contributing to inflation abating.

Prolonged periods of low interest rates have created vulnerabilities and increased sensitivity in the domestic housing market as highlighted by a larger, second consecutive decline in CoreLogic's Home Value Index (-0.8%) in June, corresponding with the RBA's rate hikes. Notably, reversing monetary and fiscal stimulus coupled with slowing house and stock prices will restrict household balance sheets causing market earnings and overall economic growth to deteriorate in the short-term and accelerate the transition from an inflation scare to a growth scare.

In our view, cyclical stocks will be most susceptible to the impact of this slowdown reinforcing now more than ever, the need to invest in high quality companies that have the ability to grow irrespective of the market cycle. We are not deterred by short term price movements and maintain our long-term mindset to diligently scour the investment universe to identify those companies likely to come through this crisis, as their competitors falter, and benefit from their stronger market position.

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