

First Sentier Wholesale Geared Share Fund



Formerly the Colonial First State Wholesale Geared Share Fund

Quarterly Factsheet

30 September 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)

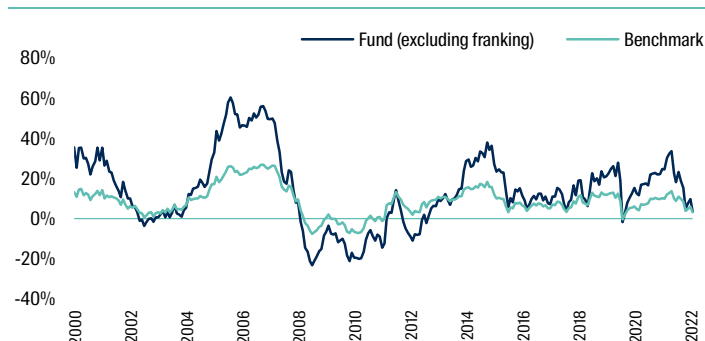
Product Overview

APIR code	FSF0043AU
Inception date	15 August 1997
Fund Size (AS)	7,007 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 (AS)	5,000
Management fees and costs (p.a.)*	1.03% (g) 2.15% (n)

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

* Information on Management fees and 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

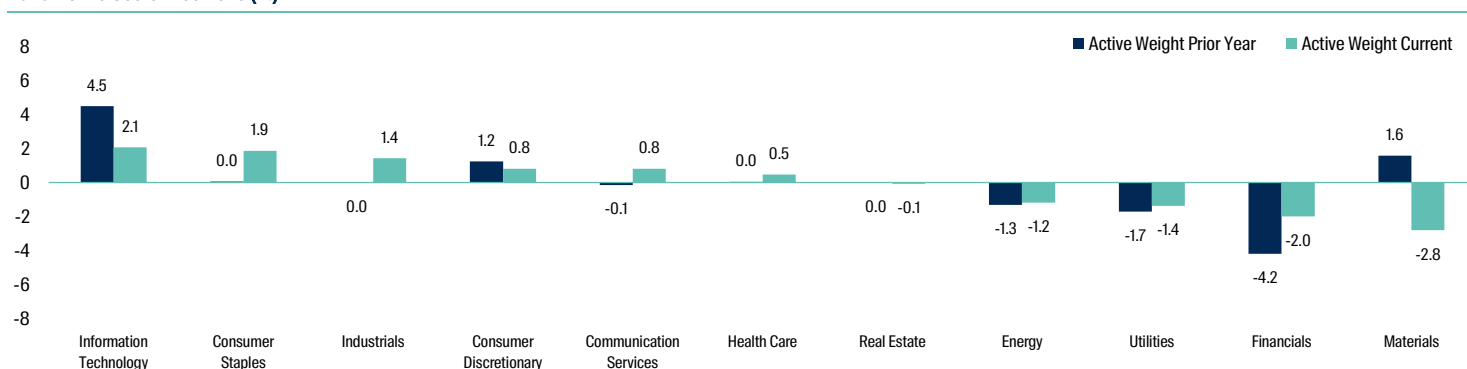
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-0.2	-30.2	3.4	11.9	12.5	15.6	13.3
Benchmark return	0.6	-5.9	3.2	7.2	8.2	8.8	8.3
Excess net return	-0.8	-24.3	0.2	4.7	4.2	6.9	5.0
Income return	0.0	20.1	16.4	15.8	16.6	13.8	9.3
Growth return	-0.2	-50.2	-12.9	-3.9	-4.2	1.8	4.0

Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	35.1	39.2	33.1	30.8	29.5	28.4
Benchmark standard deviation (%)	15.4	18.5	15.5	14.1	13.6	13.3
Tracking error (%)	20.0	21.5	18.3	17.4	16.5	16.2
Fund Sharpe ratio	-0.9	0.1	0.3	0.4	0.5	0.3
Information ratio	-1.2	0.0	0.3	0.2	0.4	0.3
Beta	2.2	2.1	2.1	2.1	2.1	2.0

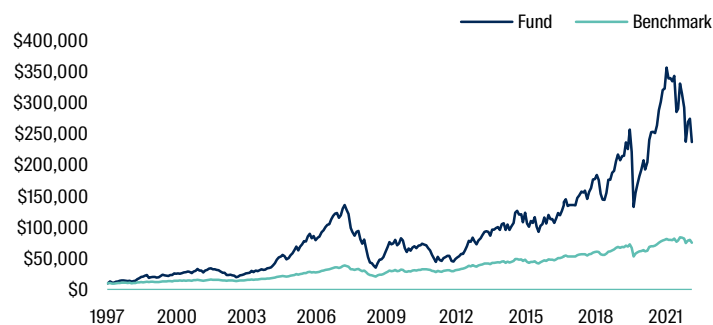
Fund Active Sector Positions (%)



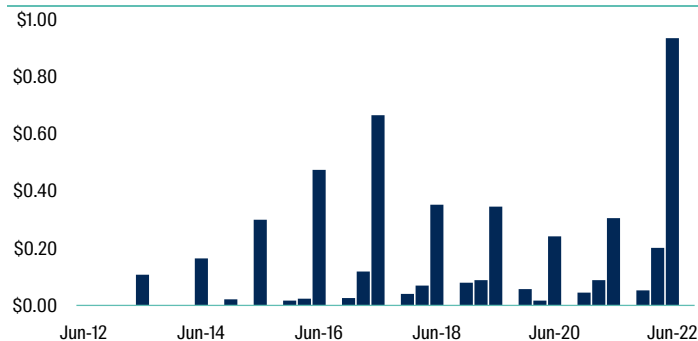
Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark.

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 September 2022

Growth of AUD 10,000 Investment Since Inception



Distributions



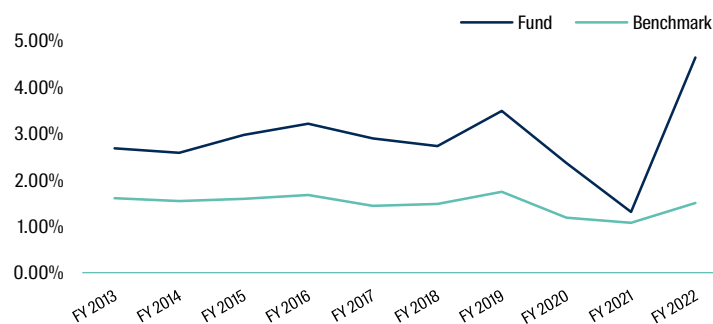
Top 5 attributors to ungeared performance (3 months)

Sector	Attr.
Industrials	0.49%
Health Care	0.46%
Information Technology	0.23%
Utilities	0.21%
Communication Services	0.06%

Top 5 detractors to ungeared performance (3 months)

Sector	Attr.
Energy	-0.37%
Materials	-0.36%
Consumer Staples	-0.19%
Financials	-0.10%
Real Estate	0.00%

Franking Credit Return (%) by Financial Year



Market Review

Australian Equities were initially bolstered by positive momentum as the market interpreted early signs of weakness in local and international economic data as a sign that global central banks may pivot from restrictive tightening policy earlier than expected. In August, the general consensus that companies' earnings demonstrated resilience and produced better than expected results also reinforced investor optimism and drove sector gains for reporting season 'winners'. However, vindication for stickier inflation and resulting longer tightening cycle, the issuing of a number of global outsized rate hikes and stronger US dollar refuted earlier sentiment with investor pessimism quickly compounding in September and returning the robust gains made earlier in the quarter. Despite the late weakness, the S&P/ASX 100 Accumulation Index ended the quarter with a soft +0.6% rise

Global interest rate expectations oscillated throughout the September quarter generating bond market volatility as investors looked for signals that the pace and size of hikes will moderate. Yields on the 10-year Commonwealth Government bonds increased +0.23% over the quarter placing Real Estate constituents such as Shopping Centres Australasia Property Group (-14.6%) and Dexus (-13.1%), under selling pressure, causing the sector to slide -6.3%.

Grappled by uncertainty regarding plant outages and coal supply, the Utilities (-12.5%) sector underperformed its peers. All constituents posted declines following earnings results that generally missed market expectations and further scepticism increased as two out of three companies faced leadership changes. AGL Energy (-16.0%) was the weakest performer in light of the negative full year earnings impact of an outage at its Victorian generator Loy Yang Unit 2 and lower realised wholesale and customer prices. However, the electricity and gas retailer found some positive market sentiment late in September following the company's strategy day where AGL outlined their decision to close its coal power station by the end of 2035, 10 years earlier than expected.

Brent Crude oil fell under \$US100 for the first time since April, ending September at \$US88/bbl. However, despite recent commodity pricing pressure the Energy sector propelled +5.1% higher as the market rewarded constituents that reported robust full year results off the back of elevated oil and gas prices given tight supply attributed to global underinvestment and impact of the Russia-Ukraine war. Whitehaven Coal (+95.6%) was the best performing stock for the sector achieving record annual profit of \$2bn, supported by a 242% increase in their average realised coal price.

Other outperforming sectors included the Health Care and Information Technology sectors which rose +3.2% and +4.7% respectively. Biopharmaceutical company CSL (+6.6%) delivered the most value to the Health Care sector followed by medical device manufacturer ResMed (+10.4%). The FDA issued another recall for a Philips device, providing ResMed an opportunity for further market share expansion. WiseTech Global (+37.5%) and Altium (+28.9%) also produced stand out total returns for the Information Technology sector.

Fund Performance

The Wholesale Geared Share Fund underperformed its benchmark, the S&P/ASX 100 Accumulation Index, in the September 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 industrial and commercial property manager Goodman Group (GMG) and water flow and plumbing solutions manufacturer Reliance Worldwide Corporation (RWC). The rising rate environment and corresponding poor sector sentiment drove Goodman Group -11.6% lower in the quarter. The acceleration of the e-commerce and logistics industry remains a long term structural

tailwind for GMG's business and strong demand coupled with low supply should continue to underpin strong rental growth to help combat rising costs. We were encouraged by evidence of this in GMG's full year results in August which detailed double digit increases to operating profit and EPS growth at 25% and 24% respectively as well as an average 99% occupancy rate. Management also indicated rental reversion to the market for North America (40%), Australia and New Zealand (20%), Europe and UK (18%) and Asia (4%), highlighting significant opportunity for growth. We believe that GMG maintains a good level of liquidity and cash to allow for a nimble approach, providing the flexibility to react to a volatile environment as well as leverage their strong global position to capitalise on new opportunities.

Whilst August earnings result was broadly ahead of expectations, tough outlook commentary caused Reliance Worldwide Corporation to fall -14.5% in the September quarter. However, we were encouraged by RWC's ability to pass on an average price increase of 9.5%, indicative of their strong market position and customer base helping alleviate rising costs. Management also reiterated that whilst the repair and remodelling market is facing interest rate headwinds, activity levels and demand have remained strong particularly in Australia where there is a backlog for construction completions. All of which should fortify earnings in the short term period of volatility. RWC's recent investor day also provided evidence of this, highlighting a +20% increase in sales in August on pcp (excluding contributions from EZ-FLO) of which Americas ex EZ-FLO, Asia Pacific and EMA improved July sales of 0%, 6% and 2% to 19%, 11% and 8% respectively. We remain confident with our position in RWC and believe that they are well positioned to navigate the current volatile environment whilst delivering earnings through strong organic and inorganic growth.

Somewhat offsetting these negative contributions were the overweight positions the medical device maker ResMed (RMD) and logistical software company WiseTech. The growing adoption of ResMed's sleep apnea products helped buttress a solid full year result, driving ResMed +10.4% for the quarter. Results were largely in line with consensus expectations however, US, Canada and Latin American segment sales surprised on the upside with a 11% pcp increase in revenue due to strong device and mask sales. We are of the view that this result is indicative of RMD's strong market leadership and improved ability to capitalise on competitor Phillip's absence from the market as supply chain bottlenecks unwind. A second FDA product recall for Phillip's masks helped RMD continue on its upward trajectory as the recall threatens to elongate their competitor's absence from the market and increases reputational damage. We believe the recall presents RMD with a multi-year opportunity to solidify their leadership. We are confident RMD are well placed to sustain higher market share and sales in the medium to long term even after Philips returns to the market given the record backlog of patients awaiting set up.

An upgrade to guidance in July instigated positive market sentiment for WiseTech Global as the company increased their EBITDA guidance range from \$275-295m to \$310-\$320m and also indicated that revenue would reach the upper end of their current range. Optimism compounded further after releasing a convincing full year earnings result strengthened by continued global rollouts of their best-in-class Cargowise platform, new customer wins, increasing customer usage and innovative product enhancements. All of which supported a 25% yoy increase in revenue - the top end of their guidance - and robust EBITDA margin of 50%. Key rollouts in the year included the likes of UPS, FedEx and Craft Multimodal, the former taking WTC's overall large global freight forwarder (LGFF) count to 10 of the top 25 global freight forwards, signalling growing momentum and accelerating penetration in the logistical solutions space. As a dominant market leader, we remain attracted to WTC's ability to exert a high degree of pricing power to offset inflationary pressures demonstrated by the price increase made in the second half of the year. The combination of accelerating momentum and strong pricing power should place WTC in good stead to continue generating attractive sales growth over the medium to long term.

Fund Activity

In the September quarter, we continued to carefully assess the Fund's current positions and sought to strengthen those where our conviction continues to build and reduce those that presented more risk.

We added to our position in an international share registry company as we expect their earnings expectations to be further upgraded as the UK, Canada, Australia, and in particular the US, raise interest rates. The company receives the benefit of higher interest rates on the cash balances held on its client's behalf.

We also increased our holdings in a diversified miner particularly after the stock faced share price volatility. We remain attracted to the miner's strong balance sheet and ample growth pipeline to drive long term returns.

We trimmed our exposure to two banking stocks following recent profit updates and results with both companies' pre-provision operating profit (PPOP) weaker than expected and/or forecast. The regional banking company also provided disappointing guidance on its leverage to rising our interest rate whilst the second bank presents potential execution risk of a proposed acquisition. Both of which negatively impacted our valuations of the companies and resulted in the reduction of weights in our Portfolio.

Market Outlook

Mixed local and international economic data points continue to test investor sentiment and expectations given the lagged release of historical data and delayed effect of tightening monetary policy. Short-term volatility is expected to persist as the market digests each data release on a 'case by case' basis however, when looking at the trends in unison, a clearer picture is depicted of an impending economic slowdown and evidence of scarce growth prospects. For example, whilst consumer spending and retail sales appear strong, recent GDP and ABS data illustrate that consumers are supporting their spending by unsustainably drawing down on their accumulated savings. Overtime, high living costs, tightening monetary policy and declining property and stock prices will continue to erode household balance sheets and will ultimately restrict consumer demand and spending power. This will have a bull-whip effect on supply chains demonstrated by falling global freight costs, as well as company supply-demand fundamentals as sticky costs, lower sales volumes and higher inventories deteriorate margins and their ability to raise prices.

In our view, cyclical stocks will be most susceptible to the impact of this slowdown first reinforcing now the need to invest in high quality companies that have the ability to grow their top line irrespective of the market cycle and do so profitably. We are not deterred by short term price movements and maintain our conviction in our bespoke fundamental research to identify companies with distinctive products/services that have the capacity to grow earnings and market share in spite of anaemic household consumption.

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