First Sentier Wholesale Geared Share Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Geared Share Fund

Quarterly Factsheet

31 December 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)

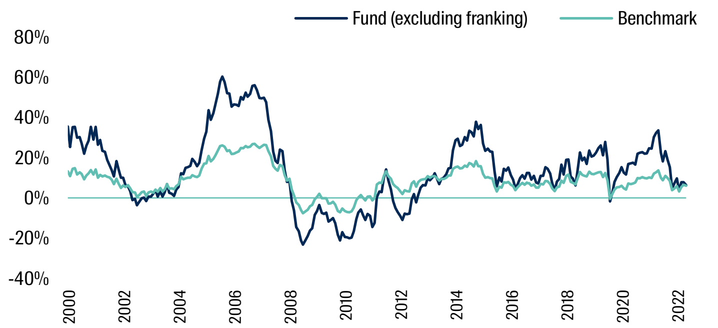
Product Overview

APIR code	FSF0043AU
Inception date	15 August 1997
Fund Size (A$)	7,638 million
Benchmark	S&P/ASX 100 Accumulation Index
Number of stock holdings	37
Buy / Sell spread*	0.20 - 0.50% / 0.20 - 0.50%
Minimum investment (A$)	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
Westpac Bank

Sorted alphabetically

Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	14.6	-20.9	6.4	11.6	12.4	15.4	13.8
Benchmark return	9.3	0.6	6.1	7.7	8.7	9.0	8.6
Excess net return	5.3	-21.5	0.3	3.9	3.7	6.5	5.1
Income return	0.0	22.2	16.4	15.6	16.5	13.8	9.2
Growth return	14.6	-43.1	-10.1	-4.0	-4.2	1.6	4.5

Risk Characteristics

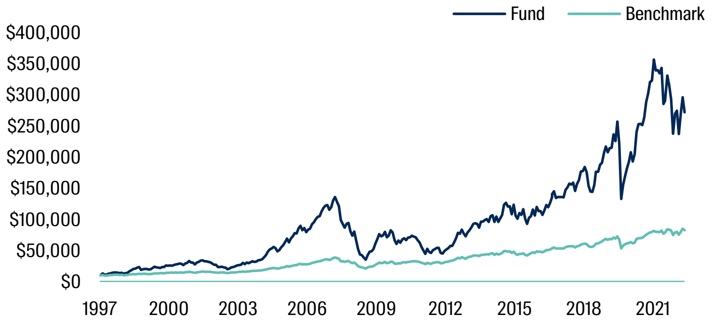
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	40.3	40.1	33.9	31.3	29.9	28.5
Benchmark standard deviation (%)	17.9	19.1	15.9	14.4	13.9	13.3
Tracking error (%)	22.8	21.9	18.7	17.6	16.7	16.3
Fund Sharpe ratio	-0.5	0.1	0.3	0.4	0.5	0.3
Information ratio	-0.9	0.0	0.2	0.2	0.4	0.3
Beta	2.2	2.0	2.1	2.1	2.1	2.0

Fund Active Sector Positions (%)

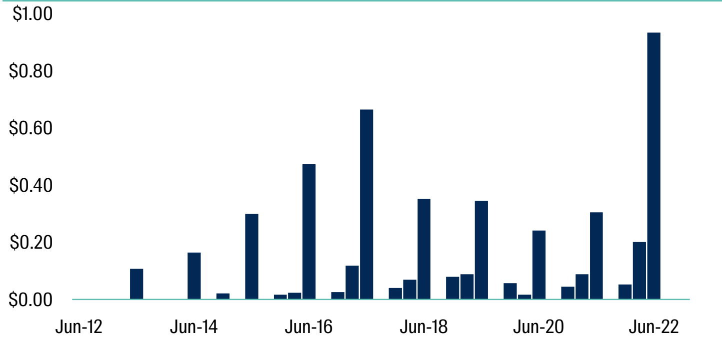
Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark.

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 December 2022

Growth of AUD 10,000 Investment Since Inception



Distributions



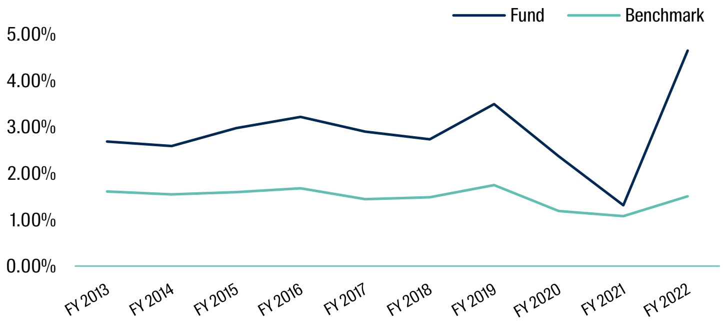
Top 5 attributors to ungeared performance (3 months)

Sector	Attr.
Financials	0.27%
Industrials	0.11%
Real Estate	-0.03%
Communication Services	-0.16%
Information Technology	-0.20%

Top 5 detractors to ungeared performance (3 months)

Sector	Attr.
Materials	-0.45%
Consumer Discretionary	-0.38%
Health Care	-0.32%
Consumer Staples	-0.32%
Utilities	-0.26%

Franking Credit Return (%) by Financial Year



Market Review

Despite facing increasing streams of mixed local and international economic data releases, varying news emanating from annual general meetings and global macro-driven volatility, Australian Equities found positive momentum in the December quarter. Market sentiment appeared to be fuelled by an increase in merger and acquisition activity and easing bond yields, encouraging a 'risk on' attitude. However, leading into quarter end Australian equities began to shift lower as bond yields returned on an upward trajectory and markets continued to be prompted to recalibrate their global outlook and growth expectations. Nonetheless, by the end of the quarter the S&P/ASX 100 Accumulation Index had risen +9.3% with all sectors posting positive gains.

The Utilities sector was a bright spot for Australian Equities in the December quarter, rallying +28.0% as all three constituents APA Group (+14.9%), AGL Energy (+18.0%) and Origin Energy (+49.3%) posted strong advances. The latter produced a standout performance following an $18.4 billion takeover proposal from Brookfield and EIG Partners in November. Origin's Board announced they were extending the consortium's exclusive due diligence period to mid-January and maintain that the offer will be recommended to shareholders.

The ramp-up of support measures for China's under-pressure property sector and increasing civil protests in November, prompted the world's largest buyer of iron ore to begin easing its 'zero COVID' policy, evoking renewed commodity demand. Revitalised market optimism and the stronger pricing environment helped index-heavy iron ore miners Fortescue Metals Group (+21.9%), Rio Tinto (+24.7%) and BHP Group (+18.5%) produce robust returns. However, the strongest performers for the quarter were from gold miners including Evolution Mining, Northern Star Resources and Newcrest Mining delivering +45.4%, +39.3% and +22.0% respectively, to drive the Materials sector +15.1% higher.

The Consumer Staples sector was a relative underperformer in fourth quarter rising 'only' +1.4%. A2 Milk Company (+27.4%) was the strongest performer, benefiting from a number of announcements including an extension of their distribution arrangement with their partner in China and FDA approval to sell, import and distribute its products in the United States. Optimism further compounded following reports of China's gradual reopening and easing of travel restrictions, increasing the prospect of the daigou market reigniting.

Subdued sector sentiment in December resulted in negative performances from Information Technology WiseTech Global (-2.4%) and Xero (-4.4%). These moves were largely offset by positive gains from Block (+8.7%) and Computershare (+5.8%) and saw the IT sector move +1.4% for the quarter.

Fund Performance

The Wholesale Geared Share Fund outperformed its benchmark, the S&P/ASX 100 Accumulation Index, in the December quarter and 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 outperformance were the overweight positions in the general insurance and reinsurance group QBE Insurance (QBE) and technical services provider ALS (ALQ). QBE Insurance surged +16.5%, finding momentum in the second half of the December quarter following a 3Q22 trading update. We were impressed to see continued strength in QBE's gross written premium growth rising +6% on the prior corresponding period or +12% in the year to September. Pleasingly, management reiterated that the current inflationary environment continues to be conducive for premium rate increases with increases achieved to be "at or above inflation in most classes." Management also reaffirmed a positive outlook for the insurance broker and restated the Group's FY22

GWP growth guidance to be around 10%. QBE should continue to see benefits from improving investment yields and greater premium momentum which should contribute to a strong resilient earnings base.

ALQ posted a strong rally in the fourth quarter, rising +22.7%. We remain confident in ALQ's long-term growth pipeline with a number of accretive bolt-on acquisitions being made throughout the year including a number of global food and pharmaceutical companies acquired to increase ALQ's capabilities, generate scale and expand its presence in a number of geographic regions. We were also particularly encouraged to see the Industrials constituent release a solid 1H23 trading update in November with underlying net profit reaching above the top-end of guidance, increasing +29% in comparison to 1H22 and surpassing market expectations. ALQ's revenue increased +24% on the prior corresponding period buttressed by strong organic and inorganic growth within the company's Life Sciences (+24%) and Commodities (+31%) businesses. The latter was a standout from the result benefiting from global commodity demand, robust sample volume growth, greater price mix and improvements in Geochemistry. The application of further price increases and abating labour challenges within ALQ's Life Sciences business coupled with price improvement and improving testing capacity within the Commodities business should fortify earnings in the medium term.

Somewhat offsetting these positive contributions were the overweight positions in the gaming manufacturer Aristocrat Leisure Limited (ALL) and building materials company James Hardie (JHX). Aristocrat Leisure (-6.6%) released their FY22 results in November detailing a strong +18% increase to revenue and +20% increase in earnings. We were pleased to see evidence of ALL's solid product depth and general strength of their land-based gaming business. The Americas was a particular standout with revenue (+32%) increasing off the back of higher-than-expected gaming op installs and fee per day also holding up better-than-anticipated. Whilst the market was disappointed with higher supply chain costs within the ANZ business and softer contribution from Pixel United we believe these issues will abate in the medium term. Notably, Pixel United maintained its status as top 5 mobile games publishers in tier-1 western markets despite not releasing any new games during the year and therefore, new game releases should help drive growth in FY23 and beyond. We remain attracted to ALL's strong balance sheet and defensive qualities with the America's casino and gambling market historically providing resilient revenue in economic downturns.

James Hardie fell -14.4% in the December quarter as investors were discouraged by a downgrade to profit guidance in their 2Q23 results update. The fibre cement company flagged a fastening deterioration in volumes seen in the last 45 days with order backlogs diminishing as a result of a weaker-than-expected construction market, change in building process whereby JHX products are used earlier and housing completions outpacing new starts. Management expect new builds to see a -30% decline in 2H23 as the US housing market slows. Whilst disappointing we were more sanguine on the result and note that JHX'S North America Fibre Cement business is only 30% exposed to the single family construction market with the greater majority 70% exposed to the residential repair & remodel (R&R) segment which is expected to be more resilient. We remain encouraged by continued strength in JHX's ColorPlus volumes (+31%) which we believe is demonstrative of the effectiveness of their strategy and recent marketing efforts. JHX's dominant market position and consistently strong price mix growth should support margins in near-term periods of volatility.

Fund Activity

We continued to adjust the Fund's holdings across a variety of sectors through the December quarter.

We took the opportunity to introduce a mining services and operations company to the Fund. We were attracted to the company's diversified business divisions, consisting of two lithium mines, an iron ore business and mining services business, as well as their strong leadership team whom we see as focused on delivery expansions within all three businesses. The miner has also recently made a gas discovery in the Perth Basin with the potential for development in the next few years.

During the December quarter we also added to our holdings in a retail entertainment company. Concern around a potential move to cashless gaming in NSW has seen the share price decline however, given NSW only makes up 10-15% of the company's gaming portfolio we are of the view that the market has overreacted to this news, providing a purchasing opportunity. Any gaming regulation will take time to implement and corporate groups like the Consumer Discretionary constituent should be well placed to be a market leader as well as drive better social outcomes for players. Notably, it is not expected that Qld or VIC will follow quickly on this regulation due to legal contracts in place.

We exited our position in Reliance Worldwide (RWC) in the quarter. The key driver was the company's 1Q23 update, which was in our view was disappointing. Whilst sales trends across RWC's three regions were largely in line with our expectations from both a volume and price perspective, margins fell well short of our expectations. While this was most pronounced in the Americas, margins were also disappointing in both Asia-Pac and UK / Europe. The disappointing margin outcomes were driven by persistent input cost inflation and operating deleverage. Looking ahead, we expect FY23 will present a difficult backdrop volume-wise for RWC; our concern is that this is likely to mean RWC's margins and hence, earnings will remain under pressure.

We also removed Bendigo and Adelaide Bank (BEN) from the Fund given our growing preference for the Australian major banks over the regionals due to their greater leverage to rising interest rates.

ESG Activity

The fourth quarter is typically a busy one for ESG-related issues as investors, fund managers and other financial market participants are tasked with the Australian proxy voting season. Importantly, company annual general meetings (AGMs) and accompanying meetings with boards present an opportunity to voice appraisals and/or concerns. This proxy season the AEQ Growth team voted on 63 meetings and voted against 8% of all resolutions.

Three companies held in the AEQ Growth team's portfolios received a 'strike', this identifying votes of more than 25% against the remuneration report - Goodman Group (GMG), EML Payments (EML) and Cleanaway (CWY). We supported all three remuneration reports for different reasons, explained below:

- Goodman Group: the overall pay potential at Goodman has been large for some time because a significant portion of equity is subject to lengthy testing and deferral for up to 10 years. While we acknowledge the large pay potential, we are pleased that the face value of the 10-year LTI awarded this year will be lower and we support the 10-year performance period in principle. This is the longest period of deferral in the Australian market.
- EML Payments: the company addressed many of the weaknesses in remuneration in 2022 and has committed to not using discretion to override STI and LTI hurdles in the short term. We are extremely disappointed with the sign-on grant to the new CEO and have raised this with the company.
- Cleanaway: we were disappointed by some of the adjustments to financials that affected bonus outcomes and raised these with the company but we were largely comfortable with the overall remuneration outcomes for the executive team.

When we have concerns on pay or governance-related issues, we typically raise these concerns in meetings with the company either ahead of the AGM or very soon after. We have found that providing clear and direct feedback in constructive conversation often leads to a commitment to addressing some, if not all, of our concerns. This is particularly the case if we have voted in support of resolutions. As part of our rigorous engagement program we will vote against resolutions if we have given the company an opportunity to address our concerns and they have failed to do so.

There was only one “Say on Climate” vote across our holdings this proxy season. This was for South32’s (S32) transition plan, which we supported. The company improved its transition plan in 2022 with more ambitious emissions reduction targets, clearer scenario planning, and the disclosure of a shadow carbon price. There remains opportunities for improvement, including the need for short and medium term carbon reduction targets, which we will raise with the company in 2023.

Proxy season aside, climate-related litigation was a focus for the team in the fourth quarter. In December, Santos (STO) lost a challenge in the Federal Court of Australia related to the drilling permit for its Barossa project. The challenge succeeded because Santos’s consultation with affected people before submitting the drilling plan was found to have been below the standard implied by the regulations.

Other cases we are monitoring include a challenge to Woodside’s (WDS) Scarborough project by the Australian Conservation Foundation in the Federal Court and a claim by ACCR that Santos mislead or deceived the market with its 2020 transition plan and other disclosures in 2021. Both are likely to be important test cases for Australian companies generally.

Market Outlook

In an unprecedented year of macro-driven volatility, surging inflation, oil prices and bond yields, coupled with a synchronous global tightening cycle has meant that financial market participants remain tasked with recalibrating economic growth expectations for 2023.

Economic data releases continue to demonstrate a general resilience in labour force gains, the impact of residual excess savings and consequently, consumer spending and activity. However, consumer confidence remains at recessionary levels, demonstrating signs that the impact of these headwinds is slowly but surely unfolding.

As the tightening cycle is further digested over time, high living costs and declining property and stock prices will erode household balance sheets and will ultimately restrict consumer demand and spending power. This will have a bull-whip effect on already easing supply chains demonstrated by falling global freight costs, as well as company supply-demand fundamentals including sticky costs, lower sales volumes and higher inventories which will deteriorate margins and their ability to raise prices.

With inflation decelerating as supply chain woes abate and demand is tempered, the inevitable economic slowdown is unravelling and placing company revenues and earnings under pressure. In our view, cyclical stocks will be most susceptible to the impact of this slowdown whilst high quality growth stocks will be better placed sources of earnings growth. This reinforces the need to invest in companies that have distinctive products/services that have the capacity to grow earnings and generate a strong return on invested capital.

www.firstsentierinvestors.com.au

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