First Sentier Wholesale Imputation Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Imputation Fund

Quarterly Factsheet

31 December 2021

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. The Fund targets longer-term tax effective income growth over near term yield by favouring companies that can sustain long term dividend growth by reinvesting capital at high returns.

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.

Investment Objective

To combine long-term capital growth with tax-effective income by targeting Australian growth companies with highly franked dividends. 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)

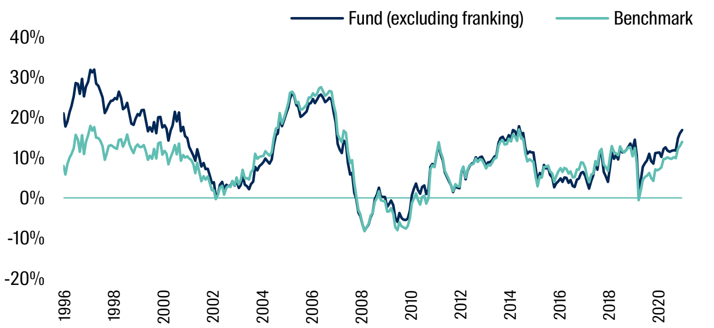
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)
Jason Lye	Portfolio Manager	(1996 / 1996)

Product Overview

APIR code	FSF0003AU
Inception date	31 December 1993
Fund Size (A$)	1,082 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	38
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A$)	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
BHP Group
Commonwealth Bank
CSL
National Australia Bank
Woolworths

Sorted alphabetically

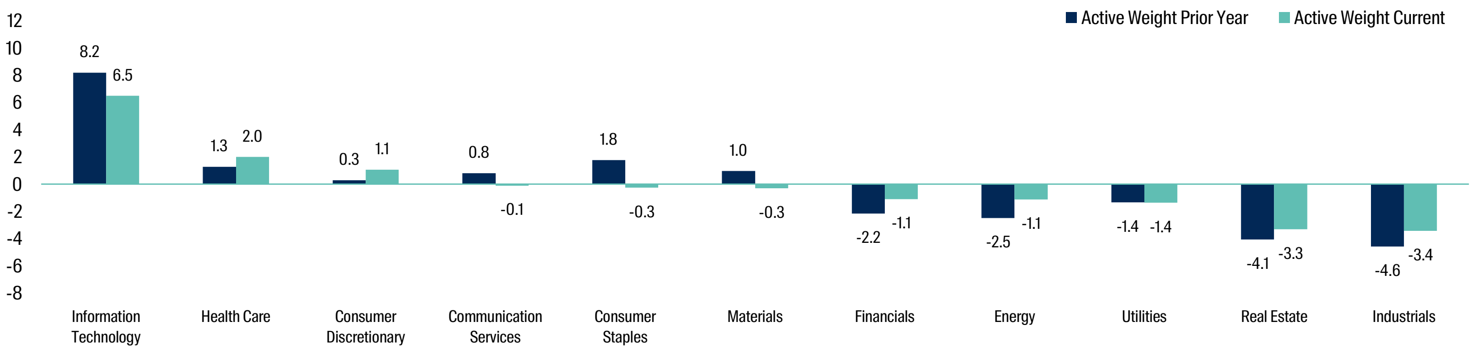
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	1.7	15.9	16.9	12.4	9.8	11.5	11.3
Benchmark return	2.2	17.5	14.0	9.9	9.1	10.8	8.8
Excess net return	-0.5	-1.6	2.9	2.4	0.6	0.7	2.5
Income return	1.6	13.8	9.7	10.8	9.8	8.6	7.9
Growth return	0.1	2.2	7.2	1.5	0.0	2.9	3.4

Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	6.9	16.4	14.4	14.2	13.2	13.0
Benchmark standard deviation (%)	5.3	16.9	14.2	13.9	13.1	13.1
Tracking error (%)	3.9	3.5	3.5	3.6	3.1	3.6
Fund Sharpe ratio	2.3	1.0	0.8	0.6	0.7	0.6
Information ratio	-0.4	0.9	0.7	0.2	0.2	0.7
Beta	1.1	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	32.8	35.3	41.9	41.9	36.4	

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.

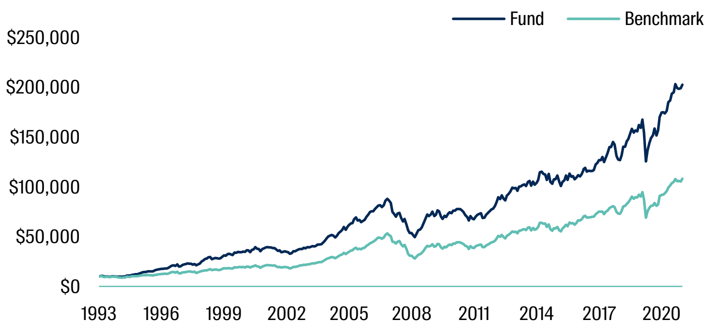
Turnover is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling stocks to meet outflows rather than related to active management of the portfolio.

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.

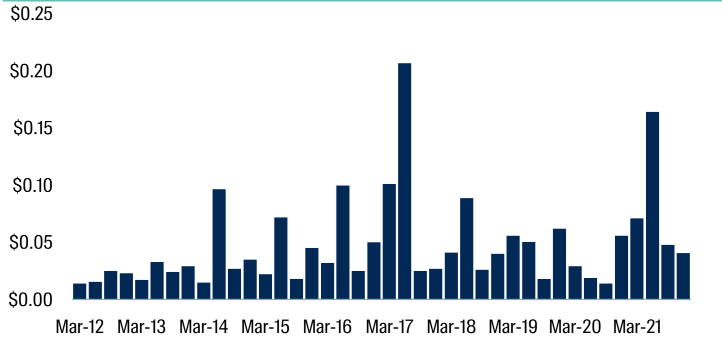
Data source: First Sentier Investors 2021

Data as at: 31 December 2021

Growth of AUD 10,000 Investment Since Inception



Distributions



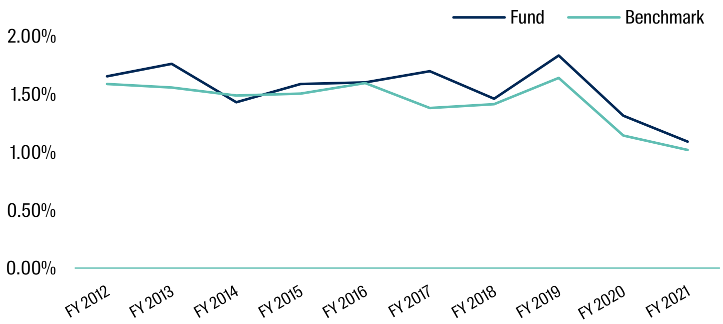
Top 5 attributors to performance (3 months)

Sector	Attr.
Financials	0.83%
Real Estate	0.24%
Energy	0.12%
Communication Services	0.06%
Health Care	-0.01%

Top 5 detractors to performance (3 months)

Sector	Attr.
Information Technology	-0.31%
Materials	-0.29%
Consumer Discretionary	-0.25%
Industrials	-0.20%
Consumer Staples	-0.15%

Franking Credit Return (%) by Financial Year



Market Review

Australian equities initially declined in the December quarter as fears of persistent inflation and tapering monetary policy grew. These losses temporarily reversed following positive trading updates through the AGM season, however the emergence of the omicron-variant in November saw equities succumb to concerns of lockdowns and travel restrictions. Through December, research from epidemiologists detailed the possible mild nature of the omicron-variant, helping to improve consumer and business sentiment. Aiding the new found optimism, economists also forecasted that highly vaccinated countries may be nearing the "endemic" as cases are expected to peak and immune responses improve. Despite the early weakness, the market closed out the calendar year strongly, with the S&P/ASX 300 Accumulation Index returning +2.2% in the December quarter.

Rising commodity prices through the second half of November and December helped the Materials sector (+13%) to recover from weakness in the September quarter. The pure-play lithium miner Pilbara Minerals (+56%) benefited from the improving outlook for the commodity, given the growing demand for batteries and electric vehicles, and an update on its ore reserves. Fortescue Metals Group (+28%) and BHP Group (+10%) both moved higher as stronger restocking demand in China following the easing of steel production restrictions saw the price of iron ore somewhat recover in the second half of the quarter.

After underperforming for a large portion of the calendar year, the Utilities sector rallied +11% in the December quarter given positive performances from each constituent, particularly APA Group (APA), Origin Energy (+11%) and AGL Energy (+6%). Partially contributing to the +18% rally in APA was the market's relief that its proposed acquisition of AusNet (AST), an electricity and gas network company, was terminated following a superior bid from the Canadian asset manager Brookfield. Both AGL and ORG benefited from growing optimism that retail electricity prices had bottomed and were starting to turn in some of Australia's east coast states.

Renewed concerns of coronavirus variants, lockdowns and travel restrictions saw the Energy sector move -8% lower as the transportation industry accounts for around two-thirds of global oil consumption. Given its holdings in New Hope Coal (NHC), Washington H. Soul Pattinson fell -23% as Chinese coal futures moved lower following an announcement from the Chinese government that it was encouraging miners to operate at full capacity in a bid to curb surging prices.

The underperformance of Buy-Now-Pay-Later (BNPL) firms Sezzle (SZL) and Afterpay (APT) dragged on the Information Technology sector (-5%). The prospect of increased BNPL regulation in both the US and Australia and growing expectations of rate hikes drove both SZL (-47%) and APT (-32%) lower. Conversely, the electronics design software company Altium rallied +27% owing to a positive trading update at its AGM, where management reiterated their FY22 guidance of 16-20% revenue growth as the company benefits from growing demand for the Internet of Things and intelligent products.

Fund Performance

The Wholesale Imputation Fund underperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the December 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 Australia's leading BNPL company Afterpay (APT) and the international pizza chain company Domino's Pizza (DMP). The prospect of increased regulation in Australia and the US combined with the growing expectation of rising interest rates drove the broader BNPL sector lower through the December quarter. With APT (-32%) under takeover, Australia's leading BNPL firm also followed the performance of its soon-to-be parent company Block (SQ-US). Block moved lower through November after releasing its third-quarter trading update, which showed a softening in its Cash App, with gross profit missing consensus expectations by 5% due to reduced stimulus in the US and lower Bitcoin volumes, while firm-wide gross profit grew 43% year-on-year. A surprise to the market was the increase in management's guidance for operating expenses in FY22, which Block will use to boost customer acquisition activity across its Seller App while investing in commerce capabilities and financial services products in its Cash App. Positively, the APT-Block transaction was approved by APT shareholders partway through December, with just under 100% of shareholders voting in favour of the deal. We continue to hold APT in an overweight position as we believe the APT-Block transaction makes strategic sense for both companies, with APT to be used as the link between Block's Cash App and Seller ecosystem.

A trading update at DMP's AGM largely drove the -26% decline it experienced in the December quarter. While DMP noted that Japan's first quarter results were strong, a softening in demand caused by the reopening of restaurants and pubs saw same-store sales growth for the region move negative in October. As a result, management warned that they were unable to accurately forecast the region's performance and whether it would surpass FY21's earnings.

Somewhat offsetting these negative contributions were the overweight positions in Goodman Group (GMG) and the electronics design software company Altium (ALU). The growing need for supply chain efficiency as digital shopping and parcel deliveries surge has propelled demand for high-quality industrial land and warehouses across the globe. GMG (+23%), who specialises in owning, developing and managing logistics facilities, warehouses and business parks, has been a key beneficiary of the shift to e-commerce. As a result, the property manager upgraded its FY22 EPS guidance partway through the December quarter, with management now expecting Operating EPS growth to be “in excess of 15%”, ahead of consensus expectations.

Growing demand for intelligent products and the “Internet of Things”, driven largely by the adoption of 5G and edge computing products, led ALU to reaffirm its FY22 earnings guidance at its AGM in November, helping the company to rally +27% through the quarter. Management highlighted that FY22 year-to-date performance had been strong, with subscription revenue and renewal rates growing while Octopart traffic was increasing.

Fund Activity

We adjusted the Fund's holdings across a variety of sectors through the quarterly, particularly Financials, Energy and Materials. We trimmed our position in Westpac Bank (WBC) following the company's disappointing FY21 result. WBC's pre-provision operating profit (PPOP) fell 39.0% on 1H21, significantly below market expectations. This was a function of falling income and higher operating costs. In addition, WBC announced a new buyback authorisation which was below market expectations.

We also trimmed our position in a steel manufacturer given our expectation that FY22 will be the peak for the company's steel prices and spreads as demand and inventories normalise.

Elsewhere in the Materials sector, we added to an existing position in a predominately aluminium miner as we expect the company will benefit from production cuts and shortages in China while in the longer-term be positively exposed to the growing demand for energy alternatives, such as solar and wind.

Market Outlook

We hold a generally positive outlook for the economy. Employment was recovering up until the latest round of lockdowns, with November's release showing a return to trend, and the outlook for wages has improved. On inflation, we expect headline price growth will peak in early 2022, due to base effects and the impact the pull-forward in demand has had on the global logistics industry. These pressures are expected to ease as we progress into 2022 as hints of supply chains starting to clear and fading pressure from pulled-forward demand sets the stage for falling consumer goods prices.

As real GDP growth slows and PMIs and inflation stabilise and come off their peaks throughout 2022, companies will no longer be given a top-line “free kick” and will likely experience a margin squeeze as wage costs increase in the medium term given the improving employment outlook. In this environment of modest earnings expectations but growing costs, we expect the focus of equity markets will be on high quality companies that have invested in productivity and can deliver profitability growth.

Notwithstanding a generally positive but changeable macro-economic outlook, we are maintaining an open mind to investing and a focus on be-spoke research. This approach has guided us towards companies that are running their own race – strong franchises that are capable of increasing market share, growing earnings and generating superior returns on capital.

www.firstsentierinvestors.com.au

For further information

Acting Head of Wholesale
Ross Crocker +61 2 9010 5424

Key Account Manager - NSW
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