First Sentier Wholesale Imputation Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Imputation Fund

Quarterly Factsheet

30 June 2022

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)

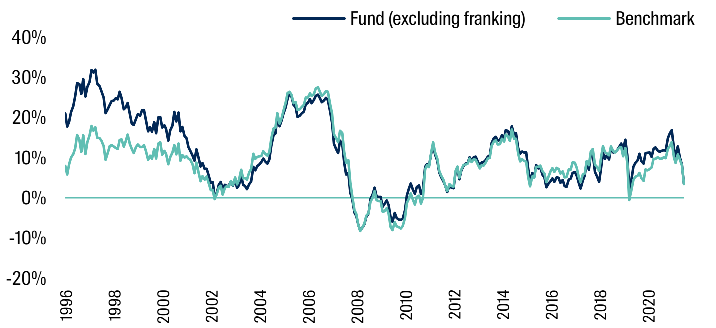
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)
Jason Lye	Portfolio Manager	(1996 / 1996)

Product Overview

APIR code	FSF0003AU
Inception date	31 December 1993
Fund Size (A$)	895 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	33
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A$)	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
Woodside Petroleum

Sorted alphabetically

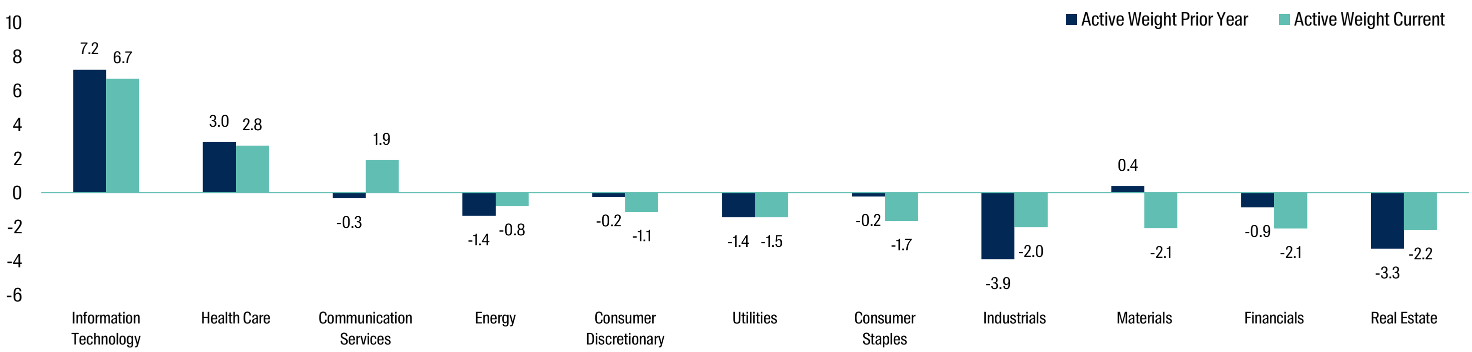
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-15.5	-12.0	3.5	8.0	6.7	9.3	10.4
Benchmark return	-12.2	-6.8	3.4	6.9	7.0	9.2	8.3
Excess net return	-3.2	-5.2	0.1	1.1	-0.3	0.1	2.2
Income return	6.5	12.6	10.9	10.1	10.7	9.5	8.2
Growth return	-21.9	-24.5	-7.4	-2.1	-4.0	-0.2	2.3

Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	15.5	18.4	15.9	15.0	13.9	13.3
Benchmark standard deviation (%)	14.1	18.4	15.4	14.5	13.6	13.3
Tracking error (%)	3.6	3.8	3.8	3.8	3.2	3.6
Fund Sharpe ratio	-0.8	0.2	0.4	0.4	0.5	0.5
Information ratio	-1.5	0.0	0.3	-0.1	0.0	0.6
Beta	1.1	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	38.2	38.2	41.4	42.9	37.4	

Fund Active Sector Positions (%)

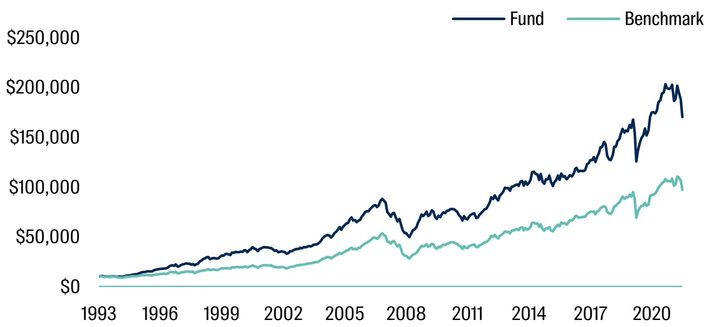


Portfolio Beta measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark. The covariance and variance are ex ante calculations based on current weights and historic patterns of return over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

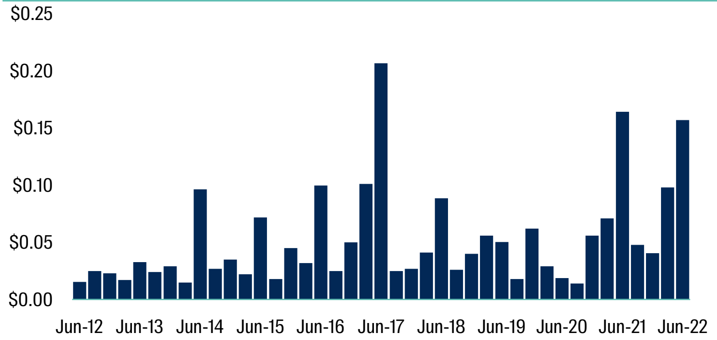
Turnover is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows or selling 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 2022,Data as at: 30 June 2022

Growth of AUD 10,000 Investment Since Inception



Distributions



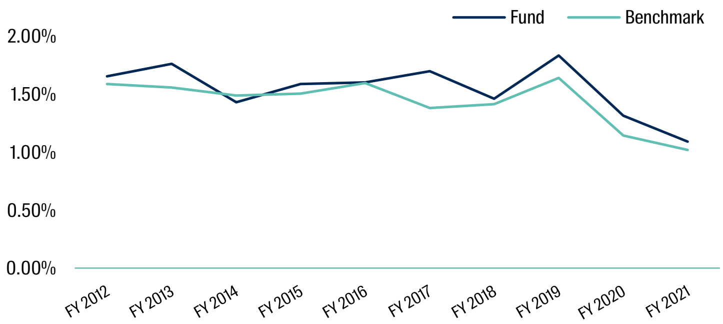
Top 5 attributors to performance (3 months)

Sector	Attr.
Communication Services	0.19%
Health Care	0.17%
Materials	0.13%
Consumer Discretionary	-0.02%
Real Estate	-0.07%

Top 5 detractors to performance (3 months)

Sector	Attr.
Information Technology	-2.42%
Industrials	-0.62%
Consumer Staples	-0.19%
Financials	-0.18%
Utilities	-0.17%

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 300 Accumulation Index -12.2% 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 forecasts remained largely unchanged, sell-off pressure continued to manifest within the sector, which declined -26% in the June quarter. Fintech Tyro payments (-66%) was the worst performer for the quarter closely followed by battery technology company Novonix (-63%).

Similarly, the resulting increases to bond yields following the RBA's decision to announce consecutive hikes to 0.85bps, burdened constituents in the Real Estate sector (-18%). Poor contributions were made by listed property stocks Centuria Capital Group (-35%), Home Consortium (-35%) and Charter Hall (-33%) with Irongate Group (2%) the only company in the property space to end the quarter positively.

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 (2%) and Utilities (2%).

Fund Performance

The Wholesale Imputation Share Fund underperformed its benchmark, the S&P/ASX 300 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 cloud connectivity services provider Megaport. 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) versus consensus expectation accelerated SQ2's downward trajectory, dismissing stronger-than expected performances from Cash App, which record quarterly inflows and recording 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.

Similarly, poor sector sentiment has placed Megaport under short term pressure resulting in the Informational Technology constituent falling -61% over the June quarter. MP1 is a global cloud connectivity leader via its Network-as-a-Service (NaaS) model and its cloud computing addressable market is growing at more than ~30% annually as enterprises and governments continue to migrate to public and hybrid cloud. However, in this current volatile environment, the market reacted poorly to MP1's third quarter trading update given a slowdown in underlying monthly recurring revenue (MRR) growth and FX headwinds. However, we were of the view that MRR growth headwinds were largely temporary and instead were encouraged by a number of strong KPI results including 489 new ports, 67 new Megaport Cloud Routers (MCRs) the second highest quarter on record and 19 new Megaport Virtual Edge (MVE) instances. We maintain conviction in the strength of MP1's global footprint which underpins its offering, as MP1's network spanning over 750 data centres in almost 25 countries. The company has built a rich, global ecosystem that is a key attraction for enterprises, data centre operators and cloud service providers (CSPs), a key competitive advantage. We are of the view that MP1 has a strong long term growth pipeline and forecast annual sales growth for MP1 of over 40%.

Somewhat offsetting these negative contributions were the overweight positions in the insurance broker and underwriting agency Steadfast (SDF) and biotech CSL Limited (CSL). Despite no new trading updates being during the June quarter Steadfast rose by 5%. The current inflationary environment has been conducive to an acceleration in commercial insurance premium growth, benefitting the insurance company. We expect ongoing premium growth to help bolster earnings whilst forgoing the cost of general inflation and increased natural peril costs. We remain attracted to SDF's defensive qualities and ability to generate strong inorganic growth through continued momentum from their accretive acquisition strategy.

CSL steadily rose 0.3% over the June quarter as growing evidence points to the global biotech benefiting from a cyclical earnings recovery as headwinds finally show signs of easing. COVID lockdowns had led to a decline in plasma collection volumes and higher donor costs compressing CSL gross margins. We have begun seeing an acceleration in Plasma collections with volumes enjoying strong growth in the December half and given the lag between collection, processing and sales this should translate into material earnings in the near term. CSL will continue to gain momentum through margin expansion and increased output in the medium term through ongoing investment in new donor centres and exclusive rollout of their new Terumo Rika plasma collection system into their operations. The cyclical recovery in volumes, cost reductions and efficiency in collections from the Rika device and large number of new product launches should drive strong earnings in the medium term.

Fund Activity

We adjusted the Fund's holdings across a variety of sectors through the quarter as we look to adapt to an ever changing investment landscape. We increased the Fund's exposure to the Materials sector by establishing a new position in a major miner. Adhering to our long-standing DCF valuation buy discipline, we have increased our exposure to a major metals and mining constituent as we believe the company has a compelling valuation in comparison to its peers.

We also took the opportunity to add to a high quality building materials company given recent share price pressure. The company has large operations exposed to North America and has come under pressure due to market concerns over the US' high mortgage rates potentially slowing demand for their products. We believe this company is well-positioned to navigate this period. Looking ahead, the materials constituent's ability to grow fibre cement volumes at a greater rate than the US housing market while also maintaining strong operating margins should drive ongoing solid results.

To fund these opportunities we gradually exited positions in Domino's Pizza (DMP) and Fisher & Paykel Healthcare (FPH). Whilst our long-term investment thesis remains positive for the DMP, we expect the Consumer Discretionary constituent will experience short term headwinds given the impact of the current inflationary environment on their cost of goods outlook and store rollout plans.

Similarly, although we believe FPH has a good long term pipeline with the release of new products such as Optiflow Switch, Optiflow Trace and Airvo 3, FPH's full year results for 2022 reinforced our thesis that the company will be experiencing an elongated earnings recovery as better treatments for COVID leads to a lesser need for their respiratory devices. FPH's Hospital division experienced a 19% decline in comparison to FY21 revenue and management gave clear indication the levels would not be repeated in FY23 given this decelerating demand.

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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