

Formerly the Colonial First State Wholesale Imputation Fund

## Quarterly Factsheet

30 September 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)

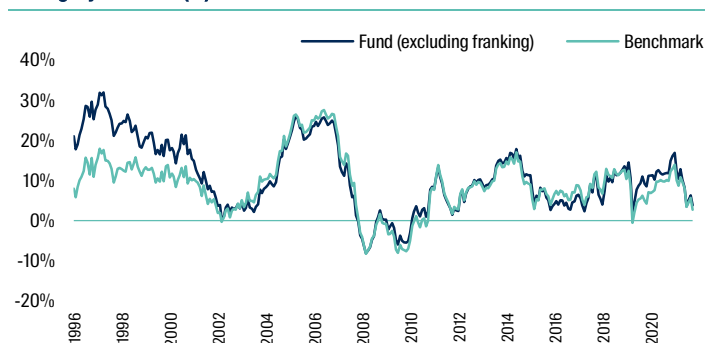
|                  |                                     |               |
|------------------|-------------------------------------|---------------|
| Dushko Bajic     | Head of Australian Equities, Growth | (1996 / 2014) |
| David Wilson     | Deputy Head                         | (1987 / 2015) |
| 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\$)                   | 923 million                    |
| Benchmark                         | S&P/ASX 300 Accumulation Index |
| Number of stock holdings          | 35                             |
| Buy / Sell spread                 | 0.20% / 0.20%                  |
| Minimum investment (A\$)          | 5,000                          |
| Management fees and costs (p.a.)* | 0.96%                          |

\* 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 |
| Woodside Petroleum      |

Sorted alphabetically

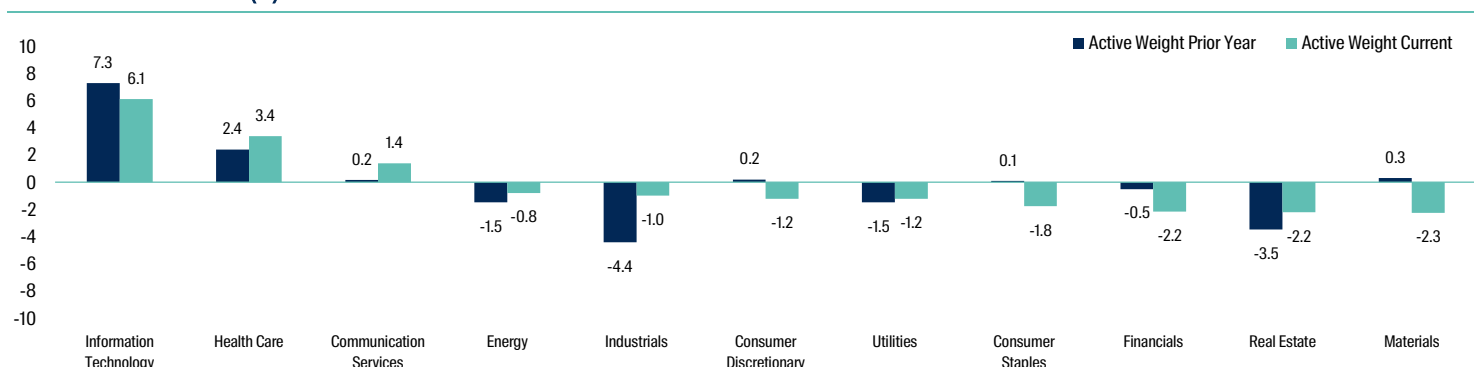
### Performance Summary (%)

| Period            | 3mth | 1yr   | 3yr  | 5yr  | 7yr  | 10yr | SI   |
|-------------------|------|-------|------|------|------|------|------|
| Net return        | 2.9  | -11.9 | 3.8  | 8.5  | 7.7  | 8.7  | 10.4 |
| Benchmark return  | 0.5  | -8.0  | 2.7  | 6.8  | 8.1  | 8.4  | 8.2  |
| Excess net return | 2.5  | -3.9  | 1.1  | 1.6  | -0.4 | 0.3  | 2.2  |
| Income return     | 1.5  | 12.3  | 11.1 | 10.2 | 10.9 | 9.5  | 8.1  |
| Growth return     | 1.5  | -24.2 | -7.4 | -1.7 | -3.2 | -0.8 | 2.3  |

### Risk Characteristics

| Period                           | 1yr  | 3yr  | 5yr  | 7yr  | 10yr | SI   |
|----------------------------------|------|------|------|------|------|------|
| Fund standard deviation (%)      | 17.5 | 19.0 | 16.4 | 15.0 | 14.1 | 13.3 |
| Benchmark standard deviation (%) | 16.2 | 18.9 | 15.9 | 14.4 | 13.8 | 13.3 |
| Tracking error (%)               | 3.7  | 3.9  | 3.8  | 3.8  | 3.3  | 3.6  |
| Fund Sharpe ratio                | -0.7 | 0.2  | 0.5  | 0.4  | 0.5  | 0.5  |
| Information ratio                | -1.1 | 0.3  | 0.4  | -0.1 | 0.1  | 0.6  |
| Beta                             | 1.1  | 1.0  | 1.0  | 1.0  | 1.0  | 1.0  |
| Cashflow adjusted turnover (%)   | 36.5 | 36.4 | 39.7 | 43.2 | 37.8 |      |

### Fund Active Sector Positions (%)

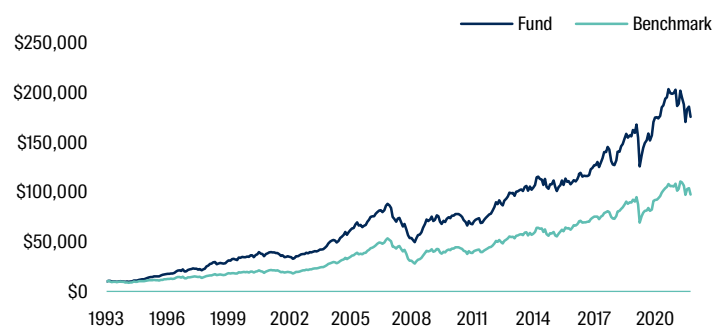


**Portfolio Beta** measures the portfolio's sensitivity to benchmark movements. Mathematically, it is the covariance of the portfolio vs the benchmark divided by the variance of the benchmark.

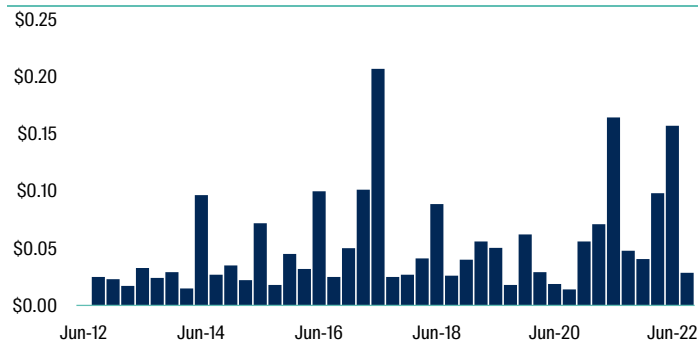
**Turnover** is the average of sales and purchases divided by the average portfolio size. **Cashflow Adjusted Turnover** is the same as above, except that the lesser of sales and purchases is used in place of the average of the two. This is to adjust for turnover that is related to investing inflows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

**Growth of AUD 10,000 Investment Since Inception**



**Distributions**



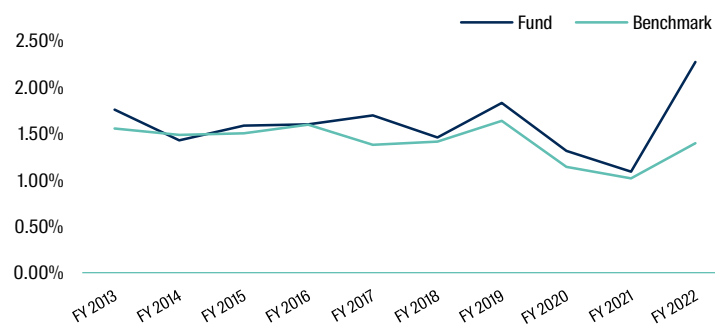
**Top 5 attributors to performance (3 months)**

| Sector                 | Attr. |
|------------------------|-------|
| Industrials            | 0.87% |
| Health Care            | 0.85% |
| Information Technology | 0.85% |
| Utilities              | 0.19% |
| Communication Services | 0.12% |

**Top 5 detractors to performance (3 months)**

| Sector                 | Attr.  |
|------------------------|--------|
| Materials              | -0.18% |
| Energy                 | -0.11% |
| Consumer Discretionary | -0.04% |
| Financials             | -0.02% |
| Real Estate            | 0.05%  |

**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 300 Accumulation Index ended the quarter with a soft +0.5% 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 Arena REIT -21.0%, Unibail-Rodamco Westfield -18.6% and Centuria Capital Group -15.2% under selling pressure, causing the sector to slide -6.4%.

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 +5.8% 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 +2.7% 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. Tyro payments (+116.7%), Nearmap (+95.2%) and Life360 (+74.3%) also produced stand out total returns for the Information Technology sector.

**Fund Performance**

The Wholesale Imputation Share Fund outperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the September. The Fund continues to diligently navigate through periods of volatility through application of our be-spoke fundamental research process, allowing 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 electronic software company Altium (ALU) and logistical solutions software provider WiseTech Global (WTC). Altium rallied +28.9% on the back of a solid full year earnings result and optimistic FY23 outlook, underpinned by increased

uptake of higher value products, robust cost control management, increased term-based licenses and accelerating demand for electronic search engine Octopart. Octopart revenue increased by 75% for the year as supply chain bottlenecks and electronic part shortages particularly within the semiconductor industry boosted demand and helped lift ALU's market position. Other factors driving the +23% increase in group revenue included the reduction of promotional activity and growing customer transition to Pro Subscription and Nexus. We were also encouraged to see evidence of Altium 365's growing adoption demonstrated by an increase of monthly active users yoy. We believe Altium are well positioned to maintain positive growth momentum as they benefit from the emerging EV transition and growth in 5G communications, supporting demand for their platform and product ecosystem in the medium and long term.

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.

Somewhat offsetting these positive contributions were the overweight positions in the commercial and industrial property manager Goodman Group (GMG) and travel management and services company Webjet (WEB). 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.

Weaker performances from international travel stocks and the risk of ongoing airline capacity restrictions drove Webjet -10.9% lower. We remain attracted to the online travel company given their strong capital management, improved ability to minimise costs whilst also identifying efficiency opportunities to optimise their business, particularly through innovative technology capabilities such as TripNinja. This was evident in their August AGM presentation and trading update which highlighted that 1H23 cash flow was expected to be \$100m as all three businesses WebBeds, Webjet OTA and GoSee have been profitable in FY23 to date. We were encouraged that 1H23 bookings were at 95% of pre-pandemic levels and as management reiterated that travel demand remains strong as international restrictions continue to unwind. Whilst WEB may continue to see short term headwinds we believe the company has a long runway for growth underpinned by the highly outdated global travel management market that is undergoing a digital shift.

#### **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.

Recent share price weakness provided us with the opportunity in the quarter to create a new position in a high quality exchange, trading and settlements company with very reliable earnings and a solid balance sheet in a period of economic uncertainty. Derivatives volumes have begun to stabilise after a protracted period of declines and interest income should begin to improve as the RBA raises interest rates

These purchases were partially funded by trimming exposures in a large banking company. The financial services company produced a reasonably solid FY22 interim result, with pre-provision operating profit (PPOP) ahead of market expectations. The key highlight in the result was the banker's net interest margin (NIM), where trajectory appeared to stabilise. However, evidence of risk in the current inflationary environment has caused us to reevaluate our position. Our position trimming reflects both our sector view on the banks as well as our pecking order across the four major banks.

During the quarter we also trimmed our position in a gold mining company. Whilst the company is our preferred gold exposure, the sector has been weighed on by depressed gold prices. We shifted these funds to another mining stock following their solid operational results released in August and strong growth pipeline.

#### **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.

[www.firstsentierinvestors.com.au](http://www.firstsentierinvestors.com.au)

#### For further information

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