First Sentier Wholesale Imputation Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Imputation Fund

Quarterly Factsheet

31 March 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)

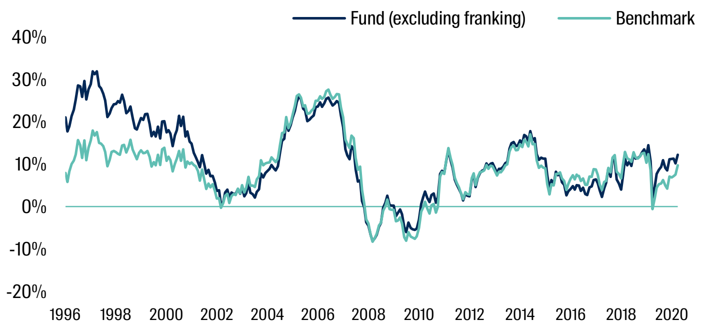
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)
Jason Lye	Portfolio Manager	(1996 / 1996)

Product Overview

APIR code	FSF0003AU
Inception date	31 December 1993
Fund Size (A$)	1,029 million
Benchmark	S&P/ASX 300 Accumulation Index
Number of stock holdings	39
Buy / Sell spread	0.20% / 0.20%
Minimum investment (A$)	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

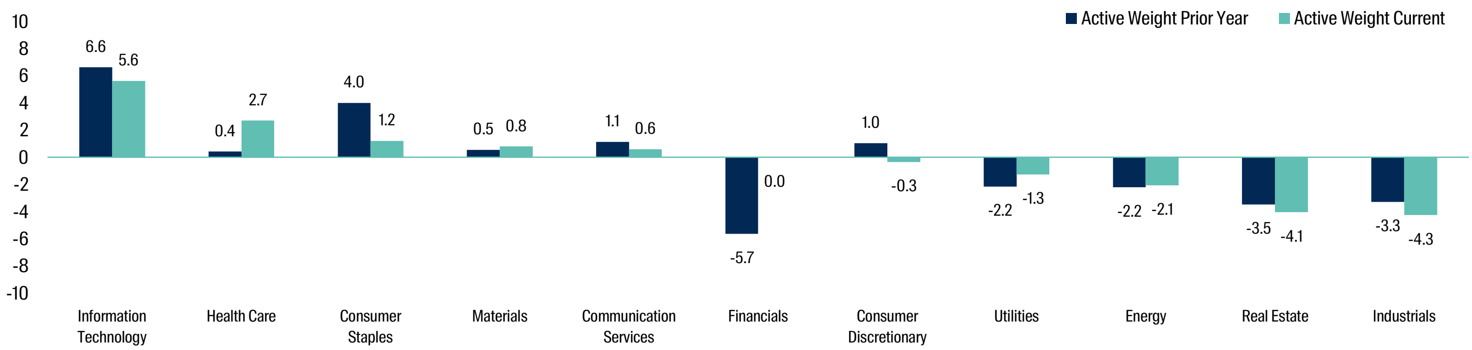
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	0.9	40.4	12.2	10.7	8.2	8.4	11.1
Benchmark return	4.2	38.3	9.7	10.3	7.8	7.9	8.6
Excess net return	-3.2	2.1	2.5	0.3	0.4	0.5	2.5
Income return	2.8	9.2	8.3	10.2	9.2	7.7	7.7
Growth return	-1.9	31.2	3.9	0.5	-1.0	0.7	3.3

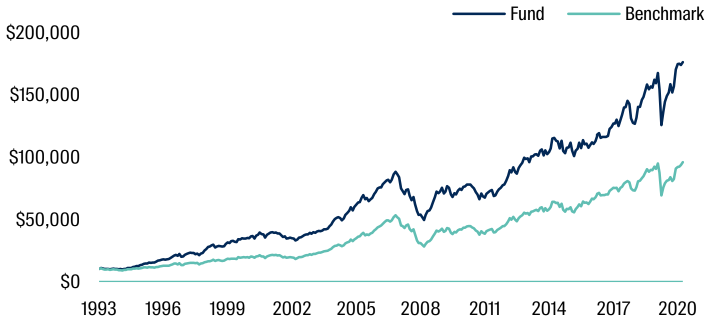
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	12.3	17.5	14.7	14.4	13.6	13.1
Benchmark standard deviation (%)	12.4	17.5	14.6	14.2	13.6	13.2
Tracking error (%)	4.2	3.8	3.7	3.4	2.9	3.6
Fund Sharpe ratio	3.3	0.7	0.6	0.5	0.4	0.5
Information ratio	0.5	0.6	0.1	0.1	0.2	0.7
Beta	0.9	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	38.5	40.4	48.0	40.7	35.2	

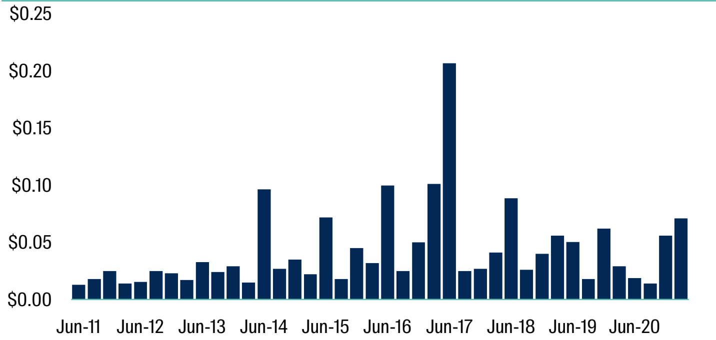
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Industrials	0.35%
Utilities	0.08%
Real Estate	0.04%
Energy	0.04%
Consumer Discretionary	-0.07%

Top 5 detractors to performance (3 months)

Sector	Attr.
Information Technology	-1.31%
Financials	-0.94%
Consumer Staples	-0.44%
Materials	-0.26%
Health Care	-0.22%

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 March 2021

Market Review

The Australian equity market enjoyed positive performances in each month of the March quarter as improving economic data and solid earnings season results inspired confidence in the face of rising bond yields and inflation expectations. The factor rotation that started in the late stages of 2020 continued throughout the March quarter, leading to some profit taking in the sectors that had outperformed earlier in the market's recovery and the continued recovery of the Financials and Energy sectors. Overall, the S&P/ASX 300 Accumulation Index ended the quarter +4.2% higher.

The Financials sector rallied +12.1% as expectations of rising interest rates, better-than-expected margin performances, growing capital reserves and increasing loan volumes saw most major and minor banks, such as Westpac Bank (+26.0%) and Bank of Queensland (+15.1%), post double digit returns. QBE Insurance rose +12.8% as an improving outlook for premium rate increases, retention and growth opportunities in North America overshadowed the US$1.5bn net loss experienced in FY20.

Returns within the Communication Services sector were mixed, however strong performances from News Corp (NWS), Vocus Group (VOC) and Telstra (+17.0%) helped the sector to finish +9.0% higher. A better-than-expected second quarter result, with each division beating consensus EBITDA forecasts, helped push the media firm News Corp +36.2% higher. The telecommunications firm VOC rallied +34.9% after receiving a non-binding offer from the asset management division of Macquarie Group (MIRA) and Aware Super, which valued VOC at $5.50/share and was supported by the board.

The Information Technology sector dropped -10.3% in the March quarter as selling pressure intensified given the increase in bond yields and factor rotation from Growth to Value. The machine learning and artificial intelligence company Appen dropped -35.7% given its mixed FY20 performance, with clients deferring their spend due to the coronavirus pandemic, and lower-than-expected FY21 guidance.

Mixed performances within the Health Care sector resulted in its -2.1% decline. Despite delivering a solid second quarter result, the medical device manufacturer ResMed fell -7.1% as it suffered from broader profit taking. Key takeaways from the quarterly result included market share gains, recovering new patient volumes, and impressive cost control – all of which contributed to increased margins.

Fund Performance

The Wholesale Imputation Fund underperformed its benchmark, the S&P/ASX 300 Accumulation Index, in the March quarter but continues to deliver attractive excess returns over longer periods.

Contributing to the Fund's underperformance were the overweight positions in the gold miner Northern Star Resources (NST) and the milk and infant formula company a2 Milk (A2M). Gold miners, such as Northern Star Resources (-25%), moved lower through the March quarter as rising US real yields pushed the price of the yellow metal lower. News that NST's merger with Saracen had completed combined with a positive first-half earnings report offered some relief. The combination of NST and Saracen creates a top-10 global gold miner with a target production rate of 2mn ounces p.a. by FY27. Heightened gold prices throughout the 2020 calendar year helped NST to achieve record profits and cash flow.

A disappointing first-half result and FY21 guidance downgrade drove A2M -32% lower in the quarter. With between 40-50% of sales generated from the Daigou channel, A2M faced a significant headwind in the 2020 calendar year as travel restrictions resulting from the coronavirus pandemic eliminated the flow of international students and tourists. Recent oversupply in gift shops and CBEC channels added further pressure on earnings. The confluence of these factors resulted in A2M reporting a 32% decline in EBITDA for the first-half. Given the delays in the rollout of the vaccine program, management lowered their FY21 guidance for revenue and EBITDA margin.

Somewhat offsetting these negative contributions were the overweight position in the international pizza chain company Domino's Pizza (DMP) and zero-weight position in the toll road operator Transurban (TCL). A positive half-year result helped push DMP +12.1% higher in the March quarter. Market share gains and 131 new store openings resulted in double digit growth in revenue (20%) and EBIT (32%) for the half as DMP's easy-to-use online ordering platform and zero-contact delivery initiatives resonated with consumers. Each geography delivered growth, particularly the key growth markets of Japan and Europe. Management confirmed that the strong momentum had carried into the second-half with same store sales growth of 10.1% experienced in the first seven trading weeks. Given the robust trading environment and improving profitability, DMP expects its store rollout program to ramp up in the second-half and for the number of openings to exceed the 7-9% guidance range.

TCL moved -2.5% lower through the March quarter off the back of a disappointing first-half trading update. The toll-road operator was significantly affected by the coronavirus-induced lockdowns and travel restrictions, particularly in Melbourne and the Greater Washington Area, resulting in volumes and earnings missing consensus expectations. While traffic has largely recovered in regions where restrictions have lifted, the ongoing uncertainty of coronavirus cases and risk of snap lockdowns pose a threat to the company's FY21 outlook.

Fund Activity

We continued to add to our existing positions in the major banks as a result of the improving economic environment, lower than initially expected bad and doubtful debts arising from the coronavirus pandemic, and improving credit growth. We also added to several high conviction technology and energy positions. The recent indiscriminate decline across the tech sector created several attractive opportunities. These companies are expected to benefit from strong earnings growth in the longer term as continued market penetration and stable operating expenses drive attractive margin expansion. We increased our energy exposure given improving prospects for oil demand as the travel industry has benefited from state borders remaining open and the prospect of international travel bubbles.

These purchases were primarily funded by taking some profits in several holdings that added value to the Fund's performance through the 2020 calendar year, such as those in the Materials and Consumer Staples sectors.

Market Outlook

The domestic economy continues to make solid strides on the path to recovery as workers and businesses reap the rewards of significant stimulus programs and easy access to capital. In fact, central banks, such as the Reserve Bank of Australia and the US Federal Reserve, have maintained their messaging that interest rates will not be lifted in the immediate future. The combination of these factors bode well for broader earnings growth, evidenced by the strong recovery in domestic and international PMI survey results.

Despite the improving strength of major economies, with the US widely expected to achieve 9%+ real GDP growth in 2021, we believe market volatility will likely continue through the year as countries continue to face the difficult task of accessing and rolling out vaccine programs and opening up their economy. Ultimately, it seems clear that uncertainty will persist and that sentiment will ebb and flow as investors digest the latest news flow and statistics. Fund positioning is a key focus given the multitude of scenarios available and the velocity at which information can change.

We are continuing to look for those companies with distinctive products/services that have the ability to grow earnings and market share in spite of anaemic household consumption. This also requires an open mind to company research. We do not ignore stocks trading at a given valuation metric or because their businesses are too new or complex. We are diligently scouring the investment universe to identify those companies likely to come through this crisis, as their competitors falter, and benefit from their stronger market position on the other side.

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.

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