

First Sentier Wholesale Imputation Fund



Formerly the Colonial First State Wholesale Imputation Fund

Quarterly Factsheet

31 December 2020

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.

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)

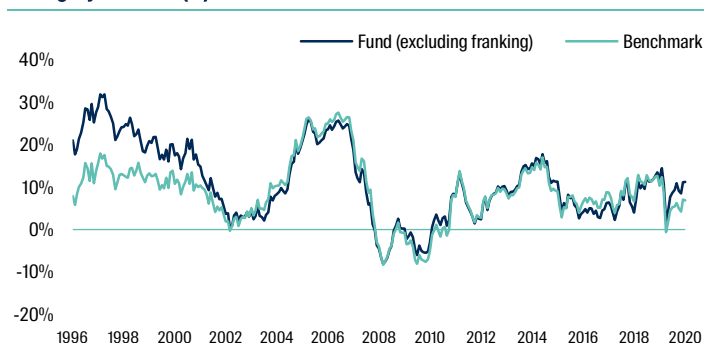
Dushko Bajic	Head of Australian Equities, Growth	(1996 / 2014)
David Wilson	Deputy Head	(1987 / 2015)
Christian Guerra	Head of Research	(1996 / 2016)
Jason Lye	Portfolio Manager	(1996 / 1996)

Product Overview

APIR code	FSF0003AU
Inception date	31 December 1993
Fund Size (A\$)	1,039 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

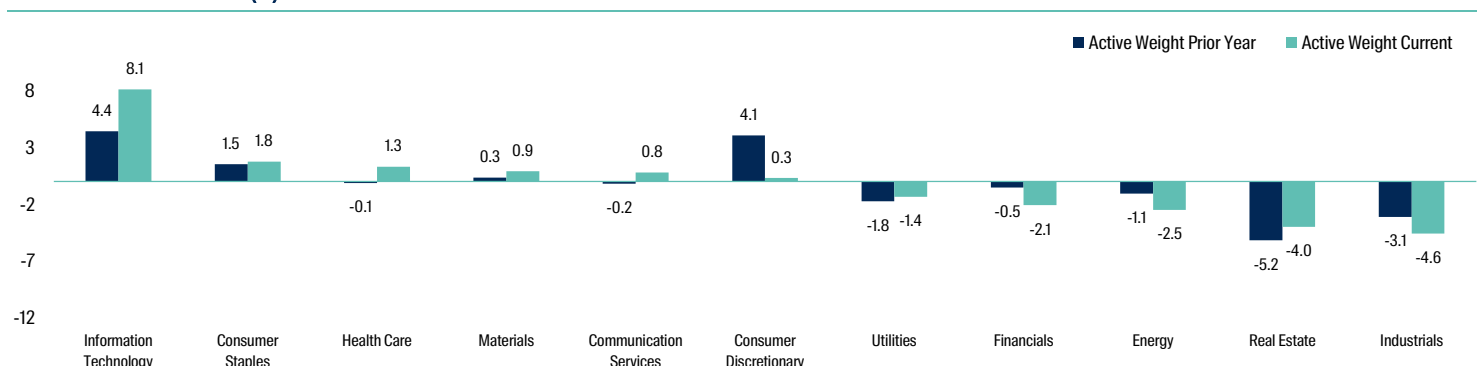
Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	15.1	9.7	11.2	9.1	8.3	8.5	11.1
Benchmark return	13.8	1.7	6.9	8.8	7.4	7.7	8.5
Excess net return	1.3	7.9	4.4	0.3	0.8	0.8	2.6
Income return	2.8	5.9	7.9	9.7	8.8	7.4	7.7
Growth return	12.4	3.8	3.4	-0.6	-0.6	1.1	3.4

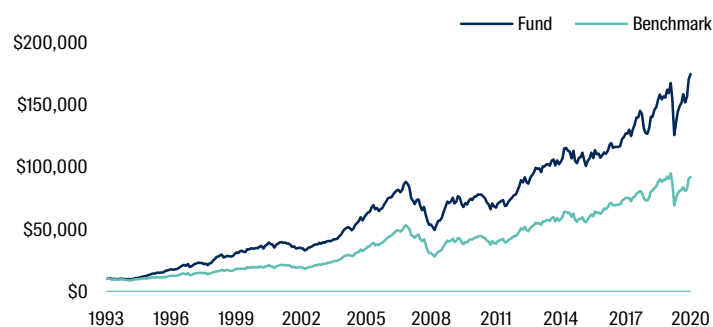
Risk Characteristics

Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	26.0	17.7	15.3	14.5	13.6	13.2
Benchmark standard deviation (%)	27.5	17.7	15.0	14.3	13.6	13.3
Tracking error (%)	3.6	3.6	3.7	3.3	2.9	3.6
Fund Sharpe ratio	0.4	0.6	0.5	0.4	0.4	0.5
Information ratio	2.2	1.2	0.1	0.3	0.3	0.7
Beta	0.9	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	40.8	41.3	47.1	39.8	35.4	

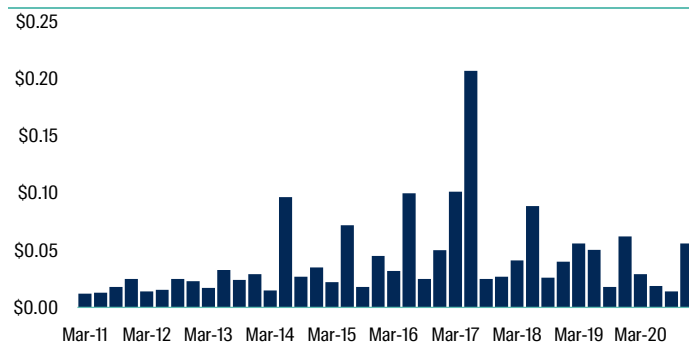
Fund Active Sector Positions (%)



Growth of AUD 10,000 Investment Since Inception



Distributions



Top 5 attributors to performance (3 months)

Sector	Attr.
Information Technology	1.02%
Industrials	0.70%
Materials	0.61%
Communication Services	0.39%
Consumer Discretionary	0.32%

Top 5 detractors to performance (3 months)

Sector	Attr.
Consumer Staples	-0.62%
Financials	-0.40%
Energy	-0.26%
Real Estate	-0.26%
Health Care	-0.05%

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 2020

Data as at: 31 December 2020

Market Review

The Australian equity market moved higher in each month of the December quarter. The majority of the quarterly return, however, was delivered through November as the market experienced its best monthly return since the inception of the S&P/ASX 300 Index (May 1992). The driving catalyst was a flurry of coronavirus vaccine news, with three different companies releasing impressive efficacy results, and additional monetary stimulus programs. Improving economic data points also added some support whereas ongoing US election controversy detracted from sentiment. In total, the S&P/ASX 300 Accumulation Index finished the calendar year with a return of +13.8% in the final quarter.

The positive reaction to the vaccine news was most noticeable amongst the sectors that had lagged the market's recovery, such as Energy (+26.1%) and Financials (+22.8%). Oil prices moved 18% higher (in AUD terms) over the quarter given the prospect of recovering demand, particularly from the transportation industry. The improving economic outlook helped push the Financials sector higher, particularly the major and minor banks.

Information Technology (+22.8%) was another top performing sector as Australia's tech companies benefited from the growing reliance on their products and services. The administration and IT services company Link Administration (LNK) rallied +48.8% through the quarter after receiving two separate non-binding takeover offers. The higher of the two proposals valued LNK at \$5.65/share, more than 50% above the share price at the start of the December quarter. Several positive business updates, all of which detailed continued customer and merchant growth in each geography, helped push the Buy-Now-Pay-Later (BNPL) firm Afterpay +47.5% higher.

Both the Utilities (-5.4%) and Health Care (-1.0%) sectors underperformed in the December quarter. AGL Energy fell -12.3% as it downgraded its FY21 profit guidance given the challenging headwinds facing the business, such as lower wholesale electricity prices and reduced aggregate consumer volumes.

The declines experienced by both Ansell (ANN) and Ramsay Health Care (RHC) dragged on the Health Care sector. ANN, a personal protective equipment producer, fell -6.3% given the prospect of reduced PPE demand as the vaccines are rolled out. Private healthcare provider RHC (-5.9%) fell following a first quarter trading update that detailed the ongoing headwinds facing the business as a result of the coronavirus pandemic, such as surgical restrictions, regional outbreaks and lower demand for services.

Fund Performance

The Wholesale Imputation Fund delivered another strong quarterly return as it outperformed its benchmark, the S&P/ASX 300 Accumulation Index, by 1.3%.

Over what has been an unprecedented year for capital markets, the Fund performed admirably and delivered a pleasing return for investors. By investing in companies with above-market growth potential, high-quality earnings and robust balance sheets, the Fund outperformed the broader equity market by nearly 8% in the 2020 calendar year.

Contributing to the Fund's outperformance were the overweight positions in the Buy-Now-Pay-Later firm Afterpay (APT) and the cloud accounting software provider Xero (XRO). Afterpay moved +47.5% higher through the December quarter as it benefited from a raft of positive trading updates. Each update highlighted continued customer, merchant and sales growth while loss metrics remained relatively unchanged. The most recent trading update announced that the business had set a new monthly sales record in November, with more than \$2.1bn in sales being processed through the platform. Adding further support was the partnership between APT and Westpac Bank, which will allow APT to offer Australian customers transaction and savings accounts along with other cashflow management tools. The additional products will help cement Afterpay's dominant position in the market whilst also offering additional transaction data that will feed into APT's risk control mechanisms.

XRO rallied +10.8% as expectations of a recovery in SME activity improved. A positive first-half result provided additional support, with XRO explaining positive subscriber growth and lower costs helped margins and earnings to grow above consensus expectations. Through its cloud accounting software, subscribers are able to efficiently view and submit tax return filings, monitor live data from bank feeds and access their ledger anywhere and at any time. These items place XRO in good stead to grow its market share, particularly in the US, and drive profitability.

Somewhat dragging on the Fund's performance were the overweight position in The a2 Milk Company (A2M) and zero-weight exposure to the major bank ANZ Bank (ANZ). A disappointing trading update released in December was the key catalyst driving A2M's -18.5% decline. The continued disruption to diagou

sales activity, which represents a significant portion of infant nutrition sales, drove A2M to downgrade its FY21 sales and earnings guidance. Management noted that the protracted disruption, caused by lockdown laws and travel restrictions, had also spread to A2M's other nutritional segments. While the overall trading update was disappointing, the release also included several positive items. Chinese MBS sales activity has remained strong through 1H21 with revenue growth expected to reach 40%. Further, the liquid milk businesses in Australia and the US have been performing well and are expected to deliver strong first-half earnings growth.

ANZ (+34.2%), along with the other Australian major and minor banks, reacted positively to the initiatives included in the 2020/21 budget given optimism that the stimulus plans would help fuel an economic recovery. Although bad debt exposures are still under scrutiny, the support offered to small businesses and households should translate into reduced loan provisions and an improved outlook. ANZ also released its FY20 results in October, which detailed ongoing fee pressures and lower revenue. Overall, we are maintaining our underweight exposure to the banks given longer-term headwinds facing income, costs and capital along with rising regulatory scrutiny.

Fund Activity

We selectively added to several diversified financial positions through the quarter, such as the asset manager Magellan Financial Group (MFG). MFG has a number of growth levers available, such as new products and unlisted investment opportunities, which will help drive positive net flows and performance-fee income. Our expectations were quickly confirmed when MFG their September FUM update, which highlighted 1% FUM growth MoM and 5% over the quarter, thanks to both positive fund performances and flows. These purchases were primarily funded by profit taking of several holdings that added significant value to the Fund's performance earlier in the year, such as those in the Information Technology and the Materials sectors.

Market Outlook

With several coronavirus clusters emerging towards the end of December, the immediate focus of equity markets will be on the number of domestic coronavirus cases and how long lockdown and travel restrictions remain in place. While substantial progress has been made in regards to a coronavirus vaccine over the last few months, Australia is not scheduled to begin its rollout until late February. As a result, we believe market volatility will likely continue through 2021 as countries face the difficult task of rolling out vaccine programs and opening up their economy. Fund positioning is of key focus given the multitude of scenarios available. We believe the Fund is well positioned based on our fundamental insights, however we are not resting on our laurels and are carefully watching and will adjust the composition as information changes.

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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