First Sentier Wholesale Property Securities Fund

First Sentier Investors

Formerly the Colonial First State Wholesale Property Securities Fund

Quarterly Factsheet

30 June 2022

For Adviser use only

Portfolio Description

The fund invests in in a broad selection of Australian listed property companies, with between 10 to 20 stocks typically held in the portfolio.

Investment Strategy

The fund's strategy is to bring together specialist resources in order to identify undervalued Australian real estate securities with minimal downside risk, sustainable earnings growth and good qualitative attributes. The fund uses proprietary forecasting and valuation methodologies and a disciplined portfolio construction process with an over-riding focus on absolute and relative risk. The fund invests predominantly in Australian securities and therefore does not hedge currency exposure.

Investment Objective

To provide medium-to-long-term capital growth and income to the investor by investing in a portfolio of Australian listed property securities. The Fund aims to outperform the S&P/ASX 200 A-REIT Accumulation Index over rolling three-year periods before fees and taxes.

Key Investment Personnel and Experience (Industry / Firm)

Stephen Hayes	Head of Property Securities	(1995 / 2012)
Peter Cashmore	Portfolio Manager	(1993 / 2016)

Product Overview

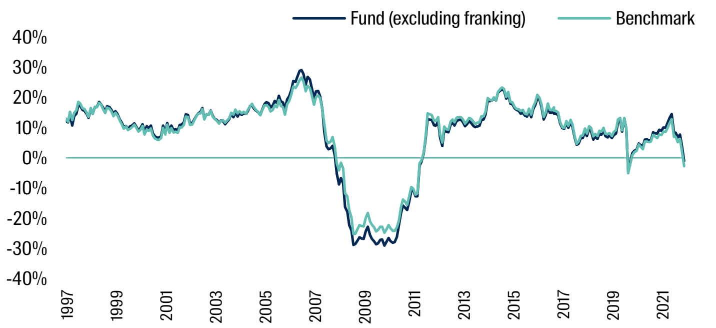
APIR code	FSF0004AU
Inception date	07 July 1994
Fund Size (A$)	321 million
Benchmark	S&P/ASX 200 A-REIT AccumulationIndex
Number of stock holdings	13
Buy / Sell spread	0.10% / 0.10%
Minimum investment (A$)	5,000
Management cost (p.a.)*	0.81%

* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

Performance Summary (%)

Period	3mth	1yr	3yr	5yr	7yr	10yr	SI
Net return	-17.0	-11.5	-1.1	5.1	5.8	9.3	6.6
Benchmark return	-17.7	-12.3	-2.8	4.4	5.4	9.2	7.2
Excess net return	0.7	0.7	1.7	0.7	0.4	0.1	-0.6

Rolling 3 year return (%)



Top 5 holdings

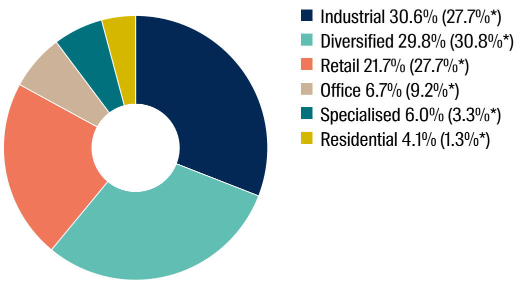
Stock
Goodman Group
GPT
Scentre Group
Stockland
Vicinity Centres

Sorted alphabetically

Risk Characteristics

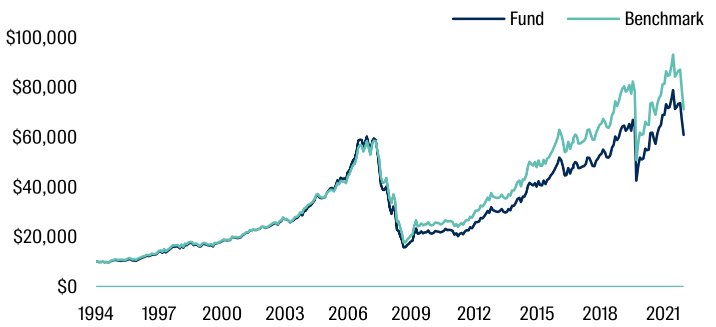
Period	1yr	3yr	5yr	7yr	10yr	SI
Fund standard deviation (%)	18.3	26.9	21.7	19.6	17.6	16.1
Benchmark standard deviation (%)	18.9	27.7	22.4	20.2	18.2	16.2
Tracking error (%)	1.0	1.7	1.6	1.5	1.4	2.3
Fund Sharpe ratio	-0.6	-0.1	0.2	0.2	0.4	0.2
Information ratio	1.4	1.5	1.0	0.8	0.7	0.1
Beta	1.0	1.0	1.0	1.0	1.0	1.0
Cashflow adjusted turnover (%)	9.7	15.9	21.4	17.0	15.7	

Sector Breakdown

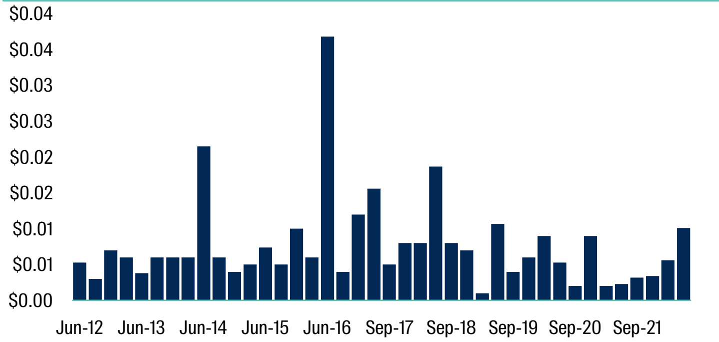


*Benchmark weight

Growth of AUD 10,000 Investment Since Inception



Distributions



Top 3 attributors to performance (3 months)

Sector	Attr.
Diversified REITs	0.68%
Retail REITs	0.27%
Specialized REITs	0.05%

Top 3 detractors to performance (3 months)

Sector	Attr.
Residential REITs	-0.11%
Office REITs	-0.11%
Industrial REITs	-0.08%

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

Market review

The ASX 200 A-REIT Index underperformed the broader market returning -17.68% in the June quarter, with the ASX 200 Index returning -11.9%.

The outperformers for the quarter included BWP Trust (-1.21%), Vicinity Centres (-1.61%), Shopping Centres Australasia (-3.11%). The underperformers for the quarter were Centuria Capital Group (-35.34%), Home Consortium (-34.64%) and Charter Hall Group (-33.21%).

Australian REITs fell in the quarter as sentiment in the sector weakened amid concerns of slower economic growth, rising rates and sustained higher inflation. A surprising 50 bps interest rate hike by the central bank in June surprised investors as well as seeing a continuation of strong overseas CPI prints (US May-22 CPI: 8.6%). Fixed income market expectations for the Dec-22 RBA cash rate also lifted significantly throughout June, from only 2.37% at the end of May to ~3.25% at the end of June.

Several A-REITs provided operational updates in the quarter with the major themes being: the Retail Sector experiencing a better recovery than expected with sales ~+10% on pre-Covid levels, the Office Sector remaining challenged as physical occupancy is still ~40% lower than pre-Covid levels and industrial tenant demand accelerating amidst declining investment demand.

The sector sell-off has been broad-based, with none of the ASX200 REITs generating a positive return in the quarter. Although the sector has been down, property revaluations in June reaffirmed strength in asset values, particularly the Industrial and Convenience Retail sectors.

With the cost of debt expected to increase in the future, a theme for ARIET management has been the improvement of their interest rate hedging positions, with a number of AREITs making adjustments in the quarter.

Fund Performance

The fund returned -16.83% in the June quarter, outperforming the ASX 200 A-REIT Index by 86bps

In the quarter the Australian REITs mostly declined due to a greater than expected interest rate hike and fears that economic conditions will worsen into 2022. The sell-off impacted high growth oriented A-REITs, particularly the logistics sector and funds management companies. As a result the funds' performance retraced in the quarter, although certain holdings were more defensive which aided the portfolios resilience.

The childcare sector outperformed the AREIT sector in the quarter, which lessened the impact of the greater sector sell-off to the fund. Arena REIT noted the new Labor Federal Government's proposed changes to the Child Care Subsidy (CCS) should bolster childcare demand which was viewed positively by investors.

Similarly, the funds shopping mall exposure benefitted performance in the quarter following better-than-expected retail trading conditions and cash collections. Vicinity Centres provided an update on its $2.9bn mixed-use development pipeline, which has now progressed to the execution phase after a number of drawbacks in recent years due to Covid. The sector significantly outperformed the AREIT sector in the quarter which aided the funds' performance.

Exposures to the logistics sector and the lifestyle communities sector both detracted from the funds' performance in the quarter. The logistics sector was affected by a pullback in development activity in response to an update released by Amazon in the quarter and the lifestyle communities sector saw a reduction in forecast residential lots sales for FY22 due to supply chain issues.

Market Outlook and Fund Positioning

In Australia, we remain well positioned in the logistics sector due to a continuation of strong tenant demand for both existing product reflected in market rent growth ranging from 6%-10% depending on the sub-market as well as a material take-up in demand for newly completed product evidenced in speculative product being fully leased either prior to or at completion. The sector is also demonstrating strong offshore institutional interest who are looking to partner with domestic groups to gain exposure to Australian logistics assets. Despite the positive momentum in valuations sourced from market evidence there is an expectation of still room for capitalisation rates to tighten albeit at a more modest rate than we have seen in the past 2-3 years.

We also remain invested in the shopping mall sector which has seen a better than expected recovery in 2022. Increases in inflation in necessities (particularly food) have not yet shown to affect consumer discretionary spend which has been a positive for the sector. Current development activity in the shopping mall sector is concentrated on backfilling underperforming tenants such as Department Stores and Discount Department Stores. Although shopping malls will be affected by structural tailwinds we continue to remain invested in positions that demonstrate implementation of mixed-use strategy and also in positions showing unwarranted valuation differential.

During June, there was evidence of cap rate expansion (~10bps) in the Australian office sector which is the first sign of what is expected to be a further expansion in the future of (~80bps). Although office utilisation rates have increased from a low base, they will continue to remain affected by remote working flexibility which we believe will affect ‘B grade’ office to a greater extent than it will ‘A grade’ office. Any exposure to the sector will mirror this view.

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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