

COLONIAL FIRST STATE WHOLESALE FUTURE LEADERS FUND

Adviser Investment Series

January 2019

The Colonial First State Wholesale Future Leaders Fund (the Fund) provides investors with exposure to a broad selection of small-cap Australian listed companies that are expected to provide long-term capital growth.

Advantages of investing in Small and Mid-Cap Companies

Market inefficiencies can be large in small and mid-cap stocks as they tend to be under-researched and relatively unknown in the market given their developmental stage. Investing in the right companies at this early stage can create large alpha opportunities while limited liquidity can also provide the opportunity to co-invest in the company. The limited correlation between small and mid-cap companies and the broader market makes it a pure stock pickers' universe and hence, exposure to small-caps enhances multi-managers' diversification.

Advantages of investing in the Fund

A large and experienced investment team

Our large, experienced investment team has the resources to complete deep industry analysis to better understand the drivers of return on invested capital. Our investment team understands and manages risk to deliver strong, risk-adjusted returns, and has the experience of investing over multiple market cycles.

Our analysts also have access to other specialist teams within Colonial First State Global Asset Management, such as single-sector investment teams, which provide added layers of insight into research recommendations.

A robust and proven investment process

The team believes that industry profitability dictates company profitability. We seek to identify companies which currently earn, or are expected to earn, a higher return on invested capital than the industry median, as these companies are expected to outperform their industry peers. Management capability and balance sheet strength are critical determinants in our identification of quality, small company investment opportunities outside the S&P/ASX 50 Index that are able to withstand short-term shocks. In-depth, proprietary industry and company analysis enables these opportunities to be identified.

Access to cornerstone deals

As one of Australia's largest investment managers, the Australian Equities, Growth team can have the opportunity to participate as a cornerstone investor in company capital raisings.

A long term investor with a focus on company engagement

Our team has the resources to make over 600 one-on-one company visits per year, in addition to over 300 meetings with other industry participants. We focus on building long-term, meaningful relationships with companies through our engagement activities, rather than just conducting interviews with senior management.

As well as our engagement with listed companies and visits to their operations on the ground, we make a significant effort to obtain information and views from non-listed companies and other unlisted participants. Insights from unlisted competitors, suppliers and industry experts, combined with our company engagement, allow the team to produce industry and stock reviews, and gain insights into the share price drivers of listed companies.

Portfolio construction

The Fund is suitable for investors who are seeking exposure to high quality small-cap companies in the expectation that they will provide meaningful long-term capital growth.

About the Fund

Fund philosophy

At the core of our philosophy is the belief that industry profitability dictates company profitability. Our process places an emphasis on in-depth industry and stock analysis, undertaken by specialist analysts within the team.

Fund process

The team of analysts seek to understand how and why investment markets are inefficient, and employ a 'full coverage' model to research and analyse the majority of stocks in the S&P/ASX 300 as well as numerous micro-cap stocks. The analysts input each company into a proprietary stock model template using industry profitability drivers to derive financial forecasts for the company.

Our investment process includes a rigorous company visitation program where we meet with; listed and unlisted competitors, customers and suppliers, and industry bodies and regulators. This program allows our analysts to develop a wholesome view of the industry which flows into their stock models and recommendations.

Colonial First State Wholesale Future Leaders Fund

Objective

To provide long-term capital growth by investing predominantly in small Australian companies. The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3-year periods before fees/taxes.

Minimum suggested timeframe

At least 7 years

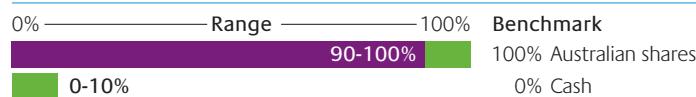
Risk



Strategy

We believe stronger returns are achieved by investing in growing companies that generate consistent returns and reinvest above their cost of capital. Indepth industry, stock and valuation analysis is the foundation of our process. Management quality and balance sheet strength are critical in identifying smaller companies able to withstand short-term shocks. The Fund predominantly invests in such Australian companies that also have earnings growth and high/improving returns on invested capital.

Allocation



Portfolio Managers



Tim Canham
Portfolio Manager



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Portfolio Manager

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