PENDAL

Pendal Concentrated Global Share Fund

Why global equities?

Australia's corporate landscape includes a number of industries and some world-leading companies. But Australia's share market value is less than two per cent of the world's total share market value. So beyond potentially improving diversification and reducing risk, investing in overseas shares can expose investors to a substantially broader opportunity set.

Global equities can reduce bias to domestic sectors

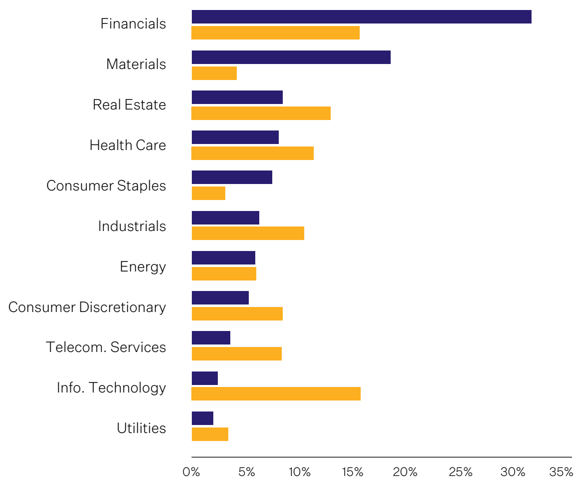
The chart across shows how the Australian share market is heavily weighted to a small number of industries, with over 34% in Financials (mainly banks and insurers) and almost 18% in Materials (mainly mining and mining services). Overseas share markets are, in aggregate, far better diversified across industries, with no one industry over 20% and five very different industries between 10% and 20%.

Gain broad exposure and access new markets

The tables below show how concentrated the Australian sharemarket is compared to the MSCI World Index, with the top 10 Australian shares making up almost half the value of the total share market. The tables also show how different the industry mix is domestically versus overseas.

Investing outside Australia provides significantly higher exposure to 'real economy' sectors like healthcare and consumer goods as well as the innovation-focussed tech sector.

Sector weights – Australia versus overseas



Source: Factset

Top 10 stock concentration

MSCI World	%
Apple	2.2
Microsoft	2.1
Amazon	1.8
Facebook	1.0
Johnson & Johnson	1.0
Alphabet Inc. Class C	0.9
JPMorgan Chase	0.9
Alphabet Inc. Class A	0.9
Exxon Mobil	0.9
Nestle	0.7
Total	12.3

S&P/ASX 300	%
Commonwealth Bank of Australia	7.7
BHP	6.5
Westpac	5.5
CSL	5.2
ANZ	4.8
National Australia Bank	4.1
Macquarie Group	2.4
Woolworths	2.2
Wesfarmers	2.2
Telstra	2.2
Total	43.0

Pendal Concentrated Global Share Fund

A contrarian, high conviction portfolio of the best companies from the best industries, world wide

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Select the highest quality…

Industry assessment and selection: we maintain a core group of preferred industries to analyse and monitor.

We exclude industries where there is doubt about the sustainability of earnings or which we see as inherently low quality. As a result, we do not invest in tobacco, high sulphur coal, intensive animal farming, uranium mining, nuclear reactors, weapons manufacturing, steel, auto manufacturing and airline operators.

Identify what we consider to be the highest quality companies in select industries: we conduct fundamental bottom-up company research to identify the top one, two or three companies in select industry peer groups based on factors including quality of management, return on capital and projected cash flows.

What do the best companies look like?

- Duopoly/oligopoly, strong balance sheet, predictable earnings, transparent capital requirements, strong free cash flow, shareholder-friendly.
- Companies that we would be happy to buy in their entirety.

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and at the right price…

We see over 80% of the market as being at or above fair value, so **we are prepared to be patient with our stock selection decisions**.

We look for significant divergence between market value and intrinsic value: we seek high quality businesses that we believe have fallen out of favour in the short term, and businesses whose true longer term value is not being appreciated by the market near term.

Potential signals include:

- Stock falls 30% or more in a short time.
- Stock has been flat for a long time, but we see a catalyst for change.

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invest with conviction.

We hold a **smaller number of positions,** each with a meaningful position size.

We construct the portfolio with **no reference to any benchmark**. The portfolio is high conviction with stock ideas coming from a range of industries and markets to ensure a high level of diversification.

Low turnover (typically five year time horizon for ideas).

BUY discipline

Be patient, wait for attractive valuations to appear due to cyclical (versus structural) changes to sentiment and buy at the right price.

SELL discipline

Sell stocks as they reach their intrinsic value or if new information changes our thesis.

The result

A concentrated, index-agnostic portfolio of 35-55 stocks. Each stock is expected to outperform over a five to seven year time frame.

Risk managed

- 35% sector cap
- 10% stock cap
- No gearing, hedging or shorting, just pure stock picking

What do the best companies look like?

Alphabet

- #1 in search with 80%+ market share (worldwide ex China) via Google
- High margin and high return on capital
- Strong balance sheet with double digit earnings growth
- Beneficiary of trend from desktop to mobile
- Entrepreneurial culture with long term mindset

We like Alphabet because…

It is a fantastic global franchise that has demonstrated an ongoing ability to win market share through innovation, which has created substantial long term shareholder value. Management will continue to leveraging its core competencies in search and data through its new growth platforms as they monetise YouTube and Google Maps.

Alphabet

Anheuser Busch InBev

- #1 global brewer with 30% of global volumes and approximately 50% of global industry profit pool
- Pricing power coupled with zero cost mentality is helping drive EBITDA margins above 40%
- Returning all FCF via dividend and buybacks
- SAB acquisition creates additional duopoly markets and upside to margins

We like ABInBev because…

It is run by outstanding management that understands the importance of scale in a global beverage business and the benefits of unrelenting cost management. Now in the last stage of global consolidation, the brewer is set to benefit from further margin improvement as it demonstrates the pricing power that comes from being the biggest and the best.

ABInBev

Lloyds Banking Group

- UK's #1 regional bank with 25% market share
- High quality loan book
- Considerable cost advantage to peers
- Currently depressed due to weak credit environment and low interest rates
- Management is committed to paying out earnings to share-holders and remaining a UK only bank
- Receiving a dividend yield of 6% pa

We like Lloyds because…

It is a simple and easy to understand business that is happy to 'stick to its knitting'. As the UK's leading bank franchise Lloyds holds a unique cost advantage which in a commoditised industry leads to superior returns over the long term and a stronger competitive position in times of distress.

LLOYDS BANK

Boeing

- World's largest commercial aircraft manufacturer trading in a duopoly market
- Superior product offering across both narrow and wide-body aircrafts versus Airbus
- Low debt and high return on assets
- Strong cash flow as production continues to be increased and efficiencies are extracted
- Low risk with backlog representing seven years of production at current rates

We like Boeing because…

It operates in the global commercial jet market that's benefitting from consistent growth in demand for air travel. This, combined with improved pricing and efficiencies from the state-of-the-art 787 Dreamliner program, sees management in a position to increase shareholder returns.

BOEING

Ashley Pittard

Portfolio Manager

Meet the manager

Ashley Pittard is the Portfolio Manager of the Pendal Concentrated Global Share Fund and Head of Pendal's Global Equities Boutique based in Sydney, Australia. With 24 years' global investment experience, Ashley is one of the most experienced managers in global equities in Australia. He joined Pendal in 2016 with 16 years' experience applying a similar approach to stock selection as the Pendal Concentrated Global Share Fund.

Sue Scott

Senior Investment Analyst

Sue's experience in the finance industry spans over 24 years, 17 of which were with Morgan Stanley in Sydney, London and Hong Kong where she spent time advising UK, European and Global investors.

Paul Gyenge

Senior Investment Analyst

Paul has over 10 years' experience in analysing and valuing international investments. Prior to joining Pendal's Global Equities team Paul worked as a Global Investment Analyst at PM Capital in Sydney.

Paul Wong

Investment Analyst

Paul spent 7 years at UBS in Sydney as an equity research analyst in the healthcare and retail sectors. He was recognised via an independent survey as part of a top three research team in the retail sector.

Ayesha Azeem

Investment Analyst

Ayesha is responsible for global coverage of the Consumer Staples sector. Ayesha has a Bachelor of Economics majoring in economics and finance at the University of Sydney.

What you should know before you invest

All investments carry risk. The likely investment return and the risk of losing money is different for each managed investment scheme as different strategies carry different levels of risk depending on the underlying mix of assets that make up each fund. While we use our expertise to manage risk, risks cannot be completely eliminated. The value of an investment will go up and down, returns will vary and are not guaranteed, and future returns may be different from past returns. Laws affecting your investment may also change. The specific risks for this fund include the risk that factors affecting one or more countries can influence the direction and volatility of an overall market, as opposed to security-specific risks; risks associated with an individual security; the risk arising from political and economic uncertainties; interest rate movements and differences in regulatory supervision associated with international investments; and currency exchange rate fluctuation risk arising from investing across multiple countries. Additionally, this fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of global shares may make the fund more volatile than a diversified global share fund with a larger number of shares. This means there is a greater risk of negative returns, particularly over the short to medium term.. The appropriate level of risk for you will depend on your age, investment time frame, where other parts of your wealth are invested and how comfortable you are with the possibility of losing some of your money in some years.

For more information call us on 1800 813 886 or visit **pendalgroup.com**

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