Pendal Concentrated Global Share Fund

Factsheet

Global Equities

October 2018

Previously known as 'BT Concentrated Global Share Fund'

ARSN: 613 608 085

About the Fund

The Pendal Concentrated Global Share Fund (**Fund**) is an actively managed concentrated portfolio of global shares diversified across a broad range of global sharemarkets. The Fund is managed by Pendal's Global Equities team and typically holds between 35-55 stocks that we believe are undervalued in the near term and offer long term capital growth.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the MSCI World ex-Australia (Standard) Index (Net Dividends) in AUD over the medium to long term. The suggested investment timeframe is five years or more.

Description of Fund

The Fund is designed for investors who want the potential for long term capital growth from a concentrated portfolio of global shares, diversified across a broad range of global sharemarkets and are prepared to accept higher variability of returns. The Fund invests in global companies that offer attractive investment opportunities predominately in markets such as the USA, UK, Continental Europe, Asia and Japan. The Fund may also hold cash and use derivatives.

Pendal's investment process for global shares aims to add value through active stock selection and fundamental company research. Pendal focuses on identifying a company's long term value and potential risk reward opportunity and is benchmark agnostic. Our high conviction, contrarian approach to the Fund's investments seeks to invest in companies that are considered to be undervalued in the near term and offer long term capital growth.

The Fund has assets that are denominated in foreign currencies. This means that changes to the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. Generally, these currency exposures will not be hedged to the Australian dollar but Pendal may do so from time to time.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives may also be used to gain exposure to assets and markets.

Investment Team

Pendal's Global Equities team is led by Ashley Pittard. Ashley has been analysing and investing in global businesses for over 20 years and was appointed as Pendal's Head of Global Equities in 2016. The five person Global Equities team is organised on an industry basis and has an average finance industry tenure of over ten years. The Global Equities team will also be able to leverage Pendal Group's global resources, including those of J O Hambro Capital Management, 100% owned by Pendal Group, an investment management business with offices in London, Singapore, New York and Boston.

Management Cost[1]

Issuer fee[2]	0.90% pa

[1] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[2] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-3.12	-3.05	-5.40
3 months	-1.30	-1.08	-0.94
6 months	3.57	4.04	4.30
1 year (pa)	11.05	12.18	9.60
2 years (pa)	17.17	18.49	15.63
Since Inception (pa)	14.42	15.73	13.08

Country Allocation (as at 31 October 2018)

Belgium	4.3%
France	8.6%
Germany	1.9%
Netherlands	1.1%
Spain	1.8%
United Kingdom	5.4%
Hong Kong	3.3%
Japan	6.0%
USA	57.3%
Cash & other	10.3%

Sector Allocation (as at 31 October 2018)

Energy	6.7%
Materials	2.1%
Industrials	6.9%
Consumer Discretionary	5.9%
Consumer Staples	10.5%
Health Care	11.1%
Information Technology	8.0%
Telecommunication Services	8.7%
Financials ex Property Trusts	28.1%
Property Trusts	1.7%
Cash & other	10.3%

Top 10 Holdings (as at 31 October 2018)

Wells Fargo & Co	4.5%
Total Sa	4.5%
Analog Devices Inc	4.0%
Alphabet Inc	4.0%
Pfizer Inc	3.8%
Merck & Co Inc	3.6%
Mgm Resorts International	3.5%
Hong Kong Exchanges & Clearing Ltd	3.5%
Lloyds Banking Group Plc	3.5%
Sanofi	3.0%

Other Information

Fund size (as at 31 Oct 2018)	$284 million
Date of inception	29 July 2016
Minimum investment	$25,000
Buy-sell spread[3]	0.50% (0.25%/0.25%)
Distribution frequency	Yearly
APIR code	BTA0503AU

[3] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Concentrated portfolio risk –** The 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.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

Global equity markets experienced a long anticipated reversal of fortunes in October as the sustained positive sentiment holding markets afloat this year gave way to a number of causes for concern. US online mega-retailer, Amazon, spooked investors after issuing a caution on expectations for its festive season trading volumes. Alphabet added to the concerns after reporting its advertising revenue was lower than expected. These came amid some disappointing earnings results from the technology sector. Adding the concerns of continued US monetary tightening and the Sino-US trade tensions was enough to send markets into a correction mode.

The broader US stock market was tempered somewhat by a favourable earnings season, with more than 80% of companies exceeding market earnings expectations. The Energy, Consumer Discretionary and Industrials were the weakest sectors over the month, while investors shifted support towards the less economically sensitive sectors like Consumer Staples, which was the only sector with a positive return for the month. Data on the economy continued to indicate solid expansion. US economic growth expanded at an annual rate of 3.5% in the third quarter, lower than the 4.2% rate of the prior quarter, albeit still robust. Expansion was supported by strength in consumer spending, which accounts for around two-thirds of economic growth. For the month of October, the S&P500 declined by 6.9% while the NASDAQ lost 9.2% of value.

European markets were almost uniformly lower, in concert with developments in the US although regional factors dominated sentiment. Italy was again in the spotlight after the European Union rejected its latest budget proposal. Subsequent reports emerged that Italy would target lower budget deficits for 2019 and 2020, although ratings agency Moody's proceeded to announce a downgrade to Italy's sovereign debt rating to Baa3 – one notch above junk bond status. Elsewhere, markets were impacted by lower oil prices and growing uncertainty over the shape and form of Brexit as the target date draws near. Italy (-8.0%) led the region lower for October, followed by France (-7.3%) and Germany (-6.5%) and Spain (-5.3%), while losses were limited for Switzerland (-0.7%). The UK (-5.1%) was also decidedly lower.

Asian equity markets were not immune to the weakness across the developed world, with prospects for regional trade under the microscope thanks to the newly installed tariff regime. China's economic growth also eased to 6.5%, signalling a slowing of expansion, while weakness in technology stocks offshore transpired to weakness among Asia's technology sector. China's Shanghai Composite index ended the month 7.8% lower, while Korea (-11.6%), Taiwan (-10.9%), Hong Kong (-10.1%), Japan (-9.1%) and Singapore (-7.1%) all succumbed to weakness.

The Australian dollar resumed its weakening trend to end the month 2.1% lower against the US dollar. It was however 0.5% stronger against the euro and relatively unchanged against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 10.8% to close at US$65 per barrel, while Gold rose by 1.9% to just over US$1200.

Fund performance

The Fund returned -3.12% (post fee, pre-tax) in October, outperforming its benchmark by 2.28%.

October lived up to its reputation of being a difficult month. The S&P 500, which closed down 7%, had its worst monthly performance since September 2011, whilst the VIX index, a measure of future volatility, spiked by75%. Outside of the US, markets exposed to China and technology also suffered, with the Chinese, Hong Kong, Japanese and German markets all having their worst month since January 2016. US markets are the only major market still in positive territory for the year to date, with the S&P having risen by 1.4% in 2018, after briefly flirting with negative territory during the month of October.

Amid the turmoil, the bulk of US companies reported third-quarter earnings in October. Of the companies that reported, 87% of them reported earnings growth, with aggregate growth of 23%. While about 82% of companies reported earnings ahead of consensus expectations, with an aggregate 'beat' of 6.3%. However, the performance of equity markets this month has been less about third-quarter results and more about the increasingly uncertain outlook for earnings, amid escalating tensions between China and the US, a stronger US dollar and stronger US bond yields. Commentary from management teams, particularly in the technology and industrial sectors, suggest a slow-down in sales was evident in the later part of the quarter, while outlook statements have certainly become less certain in regard to the prospects for 2019.

The best performer for the fund this month was CME (+8%). CME is the largest derivatives exchange operator in the world, with the company handling more than 90% of futures trades in the US. Its products include futures and options on interest rates, equities, foreign exchange and metals. Our position in CME is consistent with the view we held at the time of Fund launch. Interest rates would normalise over time and volatility would increase from cyclically low levels. While volumes in the third quarter were flat over the prior year, fourth-quarter volumes are currently tracking at around 30% higher. The product pipeline is encouraging, as is management's control on costs. The acquisition of UK trading and technology company, NEX, is expected to complete at year end, with the combined company becoming the dominant player in the US$500b a day US government debt market. With significant leverage to increasing market volatility and volumes, a strong balance sheet, operating margins in excess of 65% and a 4% dividend yield, we remain of the view the market is underestimating the company's ability to drive volume growth.

With weakness in Chinese companies generally together with a weaker technology sector, our holding in Chinese internet search engine, Baidu (-17%), detracted from returns in October. Baidu's third-quarter results were in line with consensus estimates, with revenues up 27% over the year and adjusted net profit rising by 47% over the same period. Management set a more cautious tone on the near-term outlook for revenue growth, although they maintained guidance for annual growth for the fourth quarter of between 20-26%, reflecting the impact of macro and regulatory uncertainty on some of its advertiser segments. Baidu is the number-one search engine for PCs in China, with an 80% market share .Internet penetration is 60% in China compared with 90% in the US. In our view, investments being made in technology will continue to grow their market share and drive revenues over the longer term.

Strategy and outlook

We expect continued volatility in markets. Equity markets are in the midst of transition from an environment where they have benefited from low interest rates with plentiful liquidity to an environment that is moving in the opposite direction. We believe owning a concentrated portfolio of companies, rather than having indiscriminate broader market exposure, is the way to maximise equity market returns. We own a resilient portfolio of companies that have the business models to not only withstand volatility but prosper, regardless of the ups and downs of economic cycles.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**