

Pendal Concentrated Global Share Fund

ARSN: 613 608 085

Factsheet

Global Equities

February 2019

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 Cost¹

Issuer fee ²	0.90% pa
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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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	5.60	5.69	5.56
3 months	5.80	6.09	5.18
6 months	2.67	3.17	-1.78
1 year (pa)	10.62	11.67	10.06
2 years (pa)	15.86	17.13	12.99
Since Inception (pa)	14.72	16.02	12.69

Country Allocation (as at 28 February 2019)

Belgium	5.4%
France	9.9%
Germany	1.8%
Netherlands	1.5%
Spain	1.7%
United Kingdom	7.1%
Hong Kong	4.0%
Japan	3.8%
USA	58.0%
Cash & other	6.8%

Sector Allocation (as at 28 February 2019)

Energy	6.5%
Materials	3.2%
Industrials	10.6%
Consumer Discretionary	6.6%
Consumer Staples	14.4%
Health Care	10.0%
Information Technology	8.4%
Telecommunication Services	8.6%
Financials ex Property Trusts	23.3%
Property Trusts	1.6%
Cash & other	6.8%

Top 10 Holdings (as at 28 February 2019)

Wells Fargo & Co	4.4%
Merck & Co Inc	4.0%
Hong Kong Exchanges & Clearing Ltd	4.0%
Analog Devices Inc	4.0%
Total Sa	3.9%
Lloyds Banking Group Plc	3.9%
Alphabet Inc	3.8%
Union Pacific Corp	3.6%
Anheuser-Busch Inbev Sa/Nv	3.5%
Pfizer Inc	3.2%

Other Information

Fund size (as at 28 Feb 2019)	\$309 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 share markets appeared to celebrate in February, pushing valuations higher largely in reaction to better prospects on the macro horizon. The US Federal Reserve (Fed) is now in a 'no rush' stance to raise interest rates, while sentiment was also supported by what appears to be a clearer path to resolving the US and China trade dispute. China's stock market certainly reflected this prospect and experienced one of the largest relief rallies, up 13.8%. Such prospects also supported most other markets to deliver strong gains and downplay other nascent risk factors. For February, the benchmark MSCI World ex Australia (A\$) Index closed 5.6% higher.

Gains in the US share market were broadly based, although Information Technology registered the largest gains. Industrials and Materials stocks also moved higher as prospects for better trade relations with China supported investor sentiment. The US quarterly reporting season came to an end in February, with around 75% of companies reporting earnings growth on average of 12%, with the Industrials sector posting the best earning growth, averaging 17%. Guidance for the second quarter was generally muted; however, corporates—particularly in the technology sector—were optimistic for a strong rebound in second-half revenues. At the month's close, the S&P500 registered a 3.2% gain, while the NASDAQ had risen by 3.4%.

European share markets continued to build on January's gains to be led by cyclically oriented sectors, while the more defensive Real Estate and Utilities sectors lagged. Investors saw the decision by Trump to extend the March 1 tariff hike deadline as a sign that normalisation of trade may prevail, thereby having a positive flow-on effect for European companies. Hopes of the UK reaching a workable deal on Brexit prior to the 29 March deadline also supported sentiment. However, the uncertainty to date has likely taken a toll on economic growth for the UK, with the Bank of England cutting its GDP growth expectations to 1.2% from 1.7% for the year. UK inflation also fell below 2%, while the UK Purchasing Manager's Index fell to a 30-month low, signalling the extent of weakness in confidence for the economy. The UK's stock market etched out a 1.5% gain for February, lagging European markets like France (+5%), Germany (+3.1%) and Switzerland (+4.7%).

Most Asian equity markets also reflected optimism regarding the US-China trade issue, although performance was highly dispersed. China outpaced the region with a 13.8% gain following the Lunar New Year holiday period. Taiwan followed with a 4.6% return while South Korea bucked the trend, declining by 0.8% after talks between North Korea and the US were halted. Corporate earnings and inflation were both weaker for South Korea. Japan gained 2.9% while south-east Asian markets—Malaysia, Thailand and Singapore—registered smaller advances.

The Australian dollar lost ground against its major trading partners as sentiment shifted against the currency. The local unit fell by 2.5% against the US dollar, 1.8% against the euro and 3.6% on the British pound. In commodity markets the oil price's continued its rebound to close at US\$57.25 per barrel.

Fund performance

The Fund returned 5.60% (post fee, pre-tax) in February, outperforming its benchmark by 0.04%.

Heineken hops on board new markets

The price action for Heineken (+12%) was one of the highlights for the Fund in February. The company reported fourth-quarter and full-year results that were ahead of market expectations. For the full year organic sales growth of 6% was largely driven by better than expected volume growth, particularly in Europe, Africa, & the Middle East. The Heineken brand recorded its best performance in a decade, with volumes growing just under 8% which validated management's recent marketing and promotional spend.

Heineken is distributed now in 38 markets with plans to expand further in 2019. Guidance for 2019 was for "superior top-line growth driven by volume, price and premiumisation". While there is some cost pressure, the company still expects to deliver mid-single-digit earnings growth in 2019. Although top-line growth is clearly the priority of management in the shorter term, we believe market share growth will lead to operating leverage and margin expansion over time, a factor that is currently being underestimated by the market.

Analog Devices boosts dividend, holds place in portfolio

Our holding in semi-conductor manufacturer, Analog Devices (ADI) performed well this month after reporting quarterly earnings above expectations. The uncertainty resulting from ongoing US/China trade talks and the US allegations relating to intellectual property theft by China has impacted the sector. Sales for the sector are generally lower than for the same period last year. Regular readers would be aware that our investment case for ADI and Texas Instruments (the other semi-conductor company we own) is in part based on the diversity of each company's product suite and the end markets they sell into. While weaker demand from the automotive and industrial sectors has been felt across the whole industry, the strength of demand within ADI's communications business, driven by 4G network upgrades, resulted in overall sales being down only 2% for the year. Management have also signalled a stabilisation of orders in January. Although we think consensus expectations for industry sales growth in the second half of 2019 may prove to be optimistic, we remain confident in the diversity of the business model and quality of management which will support growth for the company over the longer term. Management clearly share this confidence, announcing an upward revision to their annual dividend growth target from 5-10% to 7-15%.

Another 'paid to wait' position

Caixa Bank (-4%) was a detractor from Fund performance this month. The share price fell following the release of the Spanish bank's fourth-quarter results. The bank missed consensus expectations due to a number of one-off hits. While this was disappointing, the operating results were in line with expectations and credit quality improved. However, the share price reacted negatively to cost growth guidance for 2019 of 5% (ahead of revenue growth). Caixa Bank had previously announced a restructuring program aimed at boosting efficiency. The planned restructure involved a reduction in head count and the closure of small branches in cities to focus on larger offices that offer more services.

Management had previously guided to a 3% compound average annual growth rate in costs between 2019 and 2021; this guidance has not changed, however the costs have been front loaded to the first year of the restructure, implying cost growth in 2020 will be 2%. We continue to believe Caixa Bank offers compelling value over the longer term, with asset quality trends continuing to improve and the bank remaining well capitalised with a positive outlook for revenue. The bank is trading on a 6% dividend yield and we are prepared to wait for the benefits of restructuring efforts to flow through to earnings.

Strategy and outlook

The month of February saw markets perform well, sentiment improve and volatility subside from the elevated levels in December. However, economic data is mixed and there remains a number of geopolitical uncertainties that continue to cloud the outlook for corporates. As long term investors we remain focused on owning companies that are equipped with robust business models, have nimble management teams and dominant market shares.

We buy these companies when valuations are compelling and we hold confidence in their ability to not only withstand but prosper, regardless of what the economic cycle may have to offer. In this environment, we believe owning a concentrated portfolio of businesses exhibiting these characteristics will generate better investment performance than having indiscriminate broad market exposure.

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

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