Pendal Concentrated Global Share Fund

ARSN: 613 608 085

Factsheet

Global Equities

March 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 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.15	-0.05	1.49
3 months	9.71	10.01	11.50
6 months	1.88	2.40	-0.87
1 year (pa)	10.93	12.00	12.30
2 years (pa)	14.27	15.52	12.81
Since Inception (pa)	14.17	15.46	12.89

Country Allocation (as at 31 March 2019)

Belgium	5.6%
France	10.0%
Germany	1.8%
Netherlands	1.6%
Spain	1.5%
United Kingdom	6.9%
Hong Kong	4.0%
Japan	3.5%
USA	57.8%
Cash & other	7.3%

Sector Allocation (as at 31 March 2019)

Energy	6.4%
Materials	3.2%
Industrials	10.6%
Consumer Discretionary	6.6%
Consumer Staples	14.7%
Health Care	10.1%
Information Technology	8.4%
Telecommunication Services	8.6%
Financials ex Property Trusts	22.5%
Property Trusts	1.6%
Cash & other	7.3%

Top 10 Holdings (as at 31 March 2019)

Wells Fargo & Co	4.2%
Merck & Co Inc	4.1%
Hong Kong Exchanges & Clearing Ltd	4.0%
Alphabet Inc	4.0%
Analog Devices Inc	3.9%
Total Sa	3.8%
Anheuser-Busch Inbev Sa/Nv	3.7%
Lloyds Banking Group Plc	3.7%
Union Pacific Corp	3.6%
Rio Tinto Plc	3.2%

Other Information

Fund size (as at 31 Mar 2019)	$308 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 retained their positive trajectory of this year, with investors seemingly taking comfort on progress being made in US-China trade negotiations. Sentiment was further supported by a forecast by the US Federal Reserve indicating it would not raise rates this year. Markets were pushed higher despite signs of weakness in economic growth, particularly in Europe. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A$) Index to close 1.5% higher.

Positive tones on the macroeconomic front supported gains in the US share market, with a number of growth-oriented stocks continuing to ascend after the significant sell off late in 2018. However, lingering concerns on growth prospects for the US considering the duration of its economic expansion and a downward revision to the earlier estimate of US economic growth led investors to steer towards defensive sectors, which saw Real Estate and Utilities deliver good gains. At the month's close, the S&P500 registered a 1.8% gain, while the NASDAQ had risen by 2.6%.

Most European share markets registered gains for the month, although their progression moved towards a risk-off mode. One of the catalysts for this was commentary from the European Central Bank (ECB), whereby the Board cut growth forecasts and revised their guidance to leave interest rates unchanged "at least to the end of 2019". Pushing out expectations of monetary tightening impacted the interest rate sensitive Financials and growth oriented sectors, leaving defensive sectors like Consumer Staples, Health Care and Utilities to support the overall market. Germany came into closer focus after its 10-year government bond yield fell below 0% to send bond valuations higher. The Manufacturing component of its Flash PMI measure of industrial output fell to its lowest level since 2012. Germany's DAX equity market index ended the month largely unchanged, while the UK (+2.9%), France (+2.1%) and Italy (+3.0%) led the region to an aggregate 1.6% gain.

Asian equity markets registered mixed fortunes this month. China (+5.1%) set pace for the region to continue a rally that began with the Lunar New Year as expectations of a resolution on the trade issue supported sentiment. Hong Kong (+1.5%) and Taiwan (+2.4%) were also higher. India (+7.8%) was the best performing market after exhibiting a pre-election rally with opinion polls indicating a return to Government for the Modhi administration and a continuation of its pro-growth reformist agenda. At the other end of the spectrum, Japan (-0.8%) and Korea (-2.6%) languished on economic growth concerns and downward revisions to corporate earnings expectations as well as weak readings on their respective manufacturing surveys. These are particularly important indicators for export oriented economies.

The Australian dollar as relatively unchanged against the US dollar but stronger against the euro and British pound. In commodity markets the oil price's continued to strengthen, up 5% for the month to close at US$60.10 per barrel as Russia, Saudi Arabia and other top exporters constrained production in response to a growing oversupply.

Fund performance

The Fund returned -0.15% (post fee, pre-tax) in March, underperforming its benchmark by 1.64%.

Tragedy weighs on Boeing's share price

Boeing (-15%) was a drag on the Fund's performance this month, a clear reflection of the market's response to the tragic loss of a second 737 MAX8 aircraft. Boeing represents 3% of the Fund's holdings, a position we initiated in January 2017. As investors, we are taught to focus on the facts and not let emotions or market speculation cloud our views.

The facts on Boeing are:

- 346 people travelling in Boeing 737 MAX8 aircraft were tragically killed in two separate aircraft crashes five months apart.
- MAX8 aircraft have been grounded by regulators around the world, and numerous investigations are underway to determine the cause of both accidents.
- The share price fell around 20% from its highs at the beginning of March.

We have detailed our investment case for Boeing in previous reports. However, when a stock falls 20 % in a short space of time, our investment process requires us to revisit the investment case, taking into account the new information.

In wanting to respect those grieving the loss of life associated with the crashes, it is not appropriate to dissect the potential financial implications of the tragedy at this time. However, we have spent the last few weeks listening to company conference calls, taking note of industry and regulatory reports and engaging with the company directly. As a result of that work we decided to add to our position when the share price dropped during the month. In adding to the position we have been able to retain Boeing at a circa 3% weighting in the Fund.

Boeing management have subsequently acknowledged that the activation of the Manoeuvring Characteristics Augmentation System (MCAS) played a role in both tragedies and are planning to release a software update, with an associated comprehensive pilot training and education program. Boeing management have also made the decision to cut 737 production rates from 52 to 42 planes per month effective mid-April. We will continue to focus on the facts as they come to light and closely monitor the ongoing investigations into the cause of the crashes.

Overreaction at Discovery

Our holding in pay TV content company, Discovery Inc (-7%), also contributed to underperformance in March.

Essentially, the share price was impacted by:

- Lack of earnings guidance for the full year; and
- AT&T's decision to repackage and reprice content.

The company's fourth-quarter operating income reported at the end of February exceeded expectations by about 4%. In part this was a reflection of the revenue growth and cost synergies from Discovery's acquisition of Scripps Networks Interactive. Although the market was disappointed with the lack of specific earnings guidance, we expect continued synergies to offset the incremental increase in operating costs associated with investment in their digital strategy. We also remain comfortable that the balance sheet deleveraging is on track.

Discovery's content is distributed through AT&T's pay TV offerings as well as other network operators. During March AT&T announced a decision to repackage and reprice its 'skinny bundles' package through streaming subsidiary, Direct TV Now. These skinny bundles replace channels from AMCX, Discovery, Viacom and A&E with HBO. Direct TV Now only has 1.6m subscribers and is unprofitable for AT&T. However, the impact on Discovery is negligible as revenue from this distributor accounts for less than 1% of total affiliate revenue.

Given the slimmed down version of the offering we expect Direct TV Now to continue losing subscribers. Should those subscribers move to the alternate providers—Hulu or Sling TV providers—Discovery should benefit considering the content deals signed with these operators last year.

Growing market share and strong guidance drives P&G higher

It was pleasing to see our holding in home and personal care company, Proctor & Gamble (P&G, +5%) perform well this month. P&G is a relative newcomer to the Fund, which we initiated a position in December last year. While the release of Nielsen data on market share for February suggested gains have been made, we believe the driver behind the strong share price this year is a growing appreciation by the market of the portfolio restructuring that has been underway at the company over the past 10 years, refined in particular over the last three years. As a result, the portfolio has been rationalised from 200 to 65 brands operating in 10 core categories.

Investment in the brands has been maintained, with local managers being incentivised to respond quickly to market developments. As a result, P&G enjoy the largest market share in seven of their ten core categories. Initiatives at the supply chain level are producing cost savings and at the same time, product price increases have not impacted sales. We are comfortable with management's guidance for 4% organic sales growth this year and believe the market's scepticism regarding restructure of the P&G portfolio will dissipate over time as they deliver on organic sales guidance.

Strategy and outlook

March capped of a successful quarter for markets. Debate as to what are the implications of the Federal Reserve actions (or lack of) and the subsequent inversion of the yield curve means for equity markets, however continues. While volatility in markets has subsided, lower volumes suggest uncertainty on the outlook by investors. While we a cognisant of macro conditions our real focus is 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 when we have the confidence they are able to withstand, but also prosper regardless of what the economic cycle may have to offer. We believe owning a concentrated portfolio of businesses, rather than having indiscriminate broader market exposure is the best way to optimise investment performance.

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

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