PENDAL

Factsheet

Global Equities

April 2019

Pendal 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	3.37	3.46	4.56
3 months	8.99	9.29	12.02
6 months	8.70	9.28	9.57
1 year (pa)	12.58	13.69	14.28
2 years (pa)	13.98	15.22	13.34
Since Inception (pa)	15.09	16.39	14.32

Country Allocation (as at 30 April 2019)

Belgium	5.7%
France	10.0%
Germany	1.8%
Netherlands	1.5%
Spain	1.5%
United Kingdom	6.5%
Hong Kong	3.9%
Japan	2.0%
USA	60.6%
Cash & other	6.5%

Sector Allocation (as at 30 April 2019)

Energy	6.5%
Materials	2.8%
Industrials	10.6%
Consumer Discretionary	6.6%
Consumer Staples	13.3%
Health Care	9.4%
Information Technology	8.9%
Telecommunication Services	11.2%
Financials ex Property Trusts	22.6%
Property Trusts	1.6%
Cash & other	6.5%

Top 10 Holdings (as at 30 April 2019)

Analog Devices Inc	4.2%
Wells Fargo & Co	4.1%
Alphabet Inc	4.0%
Total Sa	3.9%
Hong Kong Exchanges	3.9%
Anheuser-Busch Inbev	3.8%
Merck & Co Inc	3.8%
Union Pacific Corp	3.7%
Lloyds Banking Group	3.6%
Mgm Resorts Internat	2.9%

Other Information

Fund size (as at 30 Apr 2019)	$306 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 markets ended the month higher, with European and US markets outperforming emerging markets and the S&P 500 once again rose close to its all-time highs. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A$) Index to close 4.6% higher.

The bulk of the US second quarter reporting season proceeded in April, with 76% of companies reporting earnings ahead of expectations and 68% reporting positive earnings growth, albeit averaging only 1.6% over the prior corresponding period. Despite a more tempered outlook commentary from corporates compared to the first quarter, consensus estimates still appear to be forecasting a meaningful re-acceleration of earnings growth in the second half of 2019. Economic data also continued to support sentiment, with first quarter GDP coming in at an annual growth rate of 3.2%. Positive data on consumer sentiment and retail sales, along with an additional 196,000 new jobs added in March also supported market sentiment. At the month's close, the S&P500 registered a 3.9% gain, while the NASDAQ had risen by 4.7%.

European share markets registered another month of strong gains, buoyed by easing concerns over the US-China trade issue and better than expected economic data out of Europe. According to preliminary data, the eurozone economy grew by 0.4% in the first quarter of 2019, somewhat above consensus estimates. Italy — Europe's third-largest economy — emerged out of a technical recession to register a 0.2% expansion for the quarter. Collectively, the data suggests conditions in the region are better than many have feared. Germany's DAX (+7.1%) equity market index topped the region's leaders board, while the UK (+1.9%), France (+4.4%), Spain (+3.6%) and Italy (+2.8%) all contributed to the region's aggregate gain of 4.9%.

Asian equity markets were mixed this month and generally underperformed western markets. China (-0.4%) was particularly weak although its sister market Hong Kong (+2.2%) fared better. Singapore (+5.8%) and Japan (+5.0%) were standout performers and reflected the flow-on prospects to these economies from a settling of US-China trade tensions. However, ASEAN markets generally underperformed, led by Malaysia (-0.1%), India (+0.9%), Thailand (+2.1%) and Indonesia (-0.1%).

The Australian dollar weakened against the majors, down 0.7% against the US dollar, 0.9% against the yen and around 0.6% weaker against the euro and British pound. In commodity markets the oil price's continued to strengthen, up 6.3% for the month to close at US$63.91 per barrel, while iron ore rose 8.8% to a level last reached in August 2014.

Fund performance

The Fund returned 3.37% (post fee, pre-tax) in April, underperforming its benchmark by 1.19%.

Defensive positioning and long term focus impacts on April's performance

The Fund delivered another strong positive return this month, albeit short of the benchmark. Underperformance this month primarily stemmed from our 6.5% cash holding as markets continue to rally. Also contributing to relative underperformance were our investments in stock exchanges, which tend to underperform in periods of low trading volumes and volatility.

Another drag on our performance this month stemmed from our 4% positon in Wells Fargo (WFC, +0.2%), which underperformed its financial peers and the broader index. We have held a position in WFC since the Fund's inception and the corporate governance scandals and subsequent regulatory actions which have emerged have naturally been disappointing. However, we believe the eventual appointment of an external CEO, the remedial actions directed at improving the sales culture, coupled with the strengthening of risk controls imposed by the Board and regulators will lead to a stronger business in the longer term. In the interim, the US Federal Reserve-imposed asset cap will likely weigh on the share price. However, we continue to believe Wells Fargo offers compelling long term value, considering its 4% dividend yield (12% including buyback), US$17b in excess capital positon and disciplined expense management. The shares have been trading recently on a price to earnings multiple of ~12x and 1.1x price to book. This compares to its Australian equivalent, the Commonwealth Bank of Australia, trading on valuation ratios of 14x price to earnings, 1.9x price to book and a 5.8% dividend yield.

Alphabet (aka Google, +2%) is another position we have held in the Fund since inception which also underperformed this month. Management announced first quarter results in which operating earnings and free cash flow beat consensus expectations, however revenues disappointed the market. More specifically, website revenue grew 19% year on year, after recording growth of 20% or above for the last 17 consecutive quarters.

As long term investors we are less inclined to focus on a 1% shortfall on revenue expectations in any one quarter. The website business generates annual revenues of around US$100b and search advertising continues to take market share in online advertising.

While we do not expect 20% growth rates into perpetuity, we do believe there are a number of growth levers in the business driven by mobile search, YouTube and Google Maps, which are currently being underappreciated by the market. Cost growth also appears to be moderating and we are comfortable with the current CFO's active role in driving Google's 'Other Bets' businesses in order to set a path for a commercial outcome.

In our view, valuation for a company that commands the number one market share in online search (ex-China) and continues to grow at double-digit rates remains compelling.

Semis make a solid contribution

Among the outperformers for the Fund this month was analogue semiconductor company, Texas Instruments (TXN, +11%). TXN announced first-quarter results to the market in April and the management team continue to exhibit a consistent approach to driving the company's growth. After 10 consecutive quarters of growth, the current weakness in demand can be attributed to cyclical factors for the semi-conductor industry. Revenue came in 3% ahead of expectations, albeit down 5% year on year.

The company acknowledges demand for their products continues to slow across most markets. Guidance for the second quarter implies revenues will be 10% lower for the year.

However, within the context of a downturn in the semiconductor cycle, the business was able to withstand the full brunt of cyclical weakness by virtue of its diversified product suite, with their communications segment recording revenues up 30% for the year, somewhat offsetting declines in the auto and industrial segments. More impressively, free cash flow over the past 12 months has grown at a 22% annual rate and represents around 38% of revenues.

Strategy and outlook

We believe the Fund is positioned to outperform over the longer term. With markets in almost all major asset classes continuing their upward trajectory and overall volatility subsiding, our current cash position reflects our concern that second-half earnings growth expectations for a number of companies appears optimistic. Our focus remains on owning companies that are equipped with robust business models, have nimble management teams and occupy dominant market shares. We buy these companies when valuations are compelling and when we have the confidence they are able to not only withstand but prosper, regardless of what the economic cycle may have to offer. An example of this resilience lies in our exposure to health and personal care companies, Colgate-Palmolive and Procter & Gamble.