PENDAL

Factsheet

Global Equities

July 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	1.68	1.78	2.31
3 months	1.85	2.13	2.94
6 months	11.02	11.62	15.31
1 year (pa)	9.28	10.40	11.73
2 years (pa)	15.05	16.28	15.94
3 years (pa)	14.43	15.72	14.13
Since Inception (pa)	14.45	15.74	14.14

Country Allocation (as at 31 July 2019)

Belgium	6.4%
France	10.1%
Germany	2.0%
Netherlands	1.5%
Spain	1.1%
United Kingdom	5.5%
Hong Kong	3.7%
Japan	1.7%
USA	61.8%
Cash & other	6.2%

Sector Allocation (as at 31 July 2019)

Energy	6.3%
Materials	2.7%
Industrials	10.1%
Consumer Discretionary	5.1%
Consumer Staples	15.3%
Health Care	9.8%
Information Technology	9.8%
Telecommunication Services	12.4%
Financials ex Property Trusts	20.6%
Property Trusts	1.8%
Cash & other	6.1%

Top 10 Holdings (as at 31 July 2019)

Anheuser-Busch Inbev Sa/Nv	4.8%
Analog Devices Inc	4.6%
Alphabet Inc	4.3%
Wells Fargo & Co	4.0%
Total Sa	3.9%
Merck & Co Inc	3.8%
Hong Kong Exchanges & Clearing Ltd	3.7%
Mgm Resorts International	3.6%
Union Pacific Corp	3.6%
Colgate-Palmolive Co	3.5%

Other Information

Fund size (as at 31 Jul 2019)	$349 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

The major equity markets delivered mixed returns in July, with investors again preoccupied by macro developments around US-China trade which intensified over the course of the month, Meanwhile the UK installed a new Prime Minister but markets are none the wiser as to what form (if any) BREXIT will take. Anticipation of a rate cut in the US clearly helped to propel some markets higher during the month. The eventual 25 basis points (bp) cut delivered on the last day of July was accompanied by commentary indicating the move was not the start of a longer term easing cycle, which disappointed the market.

The US equity market saw investors largely focused on the latest quarterly reporting season, with particular interest in company outlook statements. As at the close of the month about 80% of the S&P 500 had reported quarterly earnings, with approximately 70% of those companies beating consensus earnings (EPS) estimates by an average of 5%. However, average earnings growth for the quarter slowed to an average of 1.3%, and earnings estimates have fallen across most sectors in both the third and fourth quarters. Record highs in the US share market during the month belie the more muted commentary on the outlook for the year ahead from many corporates. At the month's close, the S&P500 registered a gain of 1.3%, while the NASDAQ rose by 2.1%.

European markets were also mixed in July, with investors moving to a risk-off stance amid continued uncertainty over the US-China trade dispute, the UK's change in leadership and its implications for an increasingly likely 'hard' Brexit, and expectations of renewed monetary easing as economic growth indicators remain weak. The latest quarterly growth reading for the Eurozone came in at 0.2%, half of the growth in the first quarter. The latest ECB press conference all but confirmed a return to quantitative easing later this year and a possible interest rate cut in September. In terms of market performance, the region's benchmark Euro Stoxx Index gained 0.2%, with gains in the UK (+2.2%), Italy (+0.8%) and Switzerland (+0.2%) contrasted with falls in Spain (-2.5%), Germany (-1.7%) and France (-0.4%).

Most major Asian equity markets declined on the continuing lack of confidence emanating from the trade issue. Social unrest in Hong Kong also diminished confidence in this market, considering the broader implications for the China relationship. Hong Kong's stock exchange lost 2.7% in value for the month, but was surpassed by Korea's 3.9% loss. Korea declined as a number of factors impacted confidence, including the Bank of Korea's surprise interest rate cut and lowering of its full year economic growth outlook, missile launches in North Korea, and a ramping up of regional trade frictions after Japan announced that it would tighten rules on exports to Korea of key materials used in the production of semiconductors. India (-4.9%) also experienced a sell-off as markets became concerned over a proposed increase in taxes for foreign investors. Elsewhere, Japan (+1.2%), Taiwan (+0.9%) and Indonesia (+0.5%) bucked the trend.

The Australian dollar weakened by 2.5% against the US dollar at the end of the month as the US lowered interest rates. The local unit also fell against the yen (-1.7%) but rose 1.8% against the British pound. Commodity markets were relatively uneventful, although the Australian trade weighted index fell 1%, weighed down by weaker iron ore prices.

Fund performance

The Fund returned 1.68% (post fee, pre-tax) in July, underperforming its benchmark by 0.63%.

The end of July marks the three year anniversary of the Fund. Over three years the Fund has returned 14.43% pa outperforming its benchmark (after fees) by 0.30%.

ABI brews great products and a strong result

The Fund's outperformers this month include Anheuser-Busch InBev (ABI, +17%). ABI is the world's largest brewer, accounting for 30% of global volumes and 50% of the global industry profit pool. Following its US$107b acquisition of SAB Miller in 2016, ABI has increased its exposure to emerging markets from 55% to 60% and management have continued to pursue a strategy of 'premiumisation' in order to drive margin expansion in new and existing markets.

This strategy appears to be paying off. Second quarter results beat consensus estimates, with earnings (EBITDA) growth of 9.4% driven by the best volume growth in five years, pricing growth of 3.8% and 1% margin expansion.

As a result of the US$107b merger with SAB Miller in 2016, ABI's net debt/EBITDA ratio peaked at 6.6x. Since this time, management have focused on reducing debt, with a year-end debt-equity ratio target of 4x.

We believe the strong operating results, coupled with the announced intention to sell the company's lower margin Australian business - Carlton United Breweries - to Asahi for A$11.3b, will see ABI reduce debt by year end to a level beyond current guidance and consensus expectations.

We believe the stabilisation of earnings trends, the return to top-line growth and the reduction in debt will continue to drive a re-rating of the share price.

Google proves its earnings power

Another outperformer for the Fund this month was our holding in Alphabet (Google), which rose by 12.5% in the month. First-quarter results were interpreted by the market as signalling a longer term slow-down of growth in the core advertising business. However, second-quarter results appear to have dispelled those fears. The quarterly numbers exceeded market expectation, and more importantly from the market's perspective, Google website growth (adjusted for currency and hedging) accelerated to 20.5%, driven by mobile search and YouTube. YouTube is now the second-largest driver of revenue growth across the group.

Management cite ongoing product innovation, in part from the benefits of applying artificial intelligence (AI) as a key driver of their success. AI innovation applies to both the user and advertiser experience, and applies to functions within the core business as well as its 'other bets' collection of businesses. Google Cloud reached an annual revenue run rate of US$8b and continues to grow at a "significant pace", being the third-largest revenue driver for the broader business.

We continue to believe the market is underestimating not only the strength of the core digital advertising business, but the longer term revenue opportunities driven by other businesses such as YouTube, Google Cloud, and Maps.

Putting Boeing's grounding in perspective

We have written extensively about our holding in Boeing over the past few months. This month the share price declined by 6.3%. The company announced a US$5.6b write-down to earning for the next quarter related to the grounding of the 737 MAX. The inventory build-up resulting from the grounding has unsurprisingly led to lower operating cash flow and negative free cash flow for the quarter. Putting aside the 737 grounding, the rest of the business performed well, with 787 margins continuing to improve, the services business recording double-digit gains and the defence business benefitting from higher volumes.

However, we would expect the shares to underperform until there is clarity on the timing for returning the MAX 737 to service. Boeing have reiterated their timeline for an October 2019 return to service, although this is subject to receiving approvals by regulators and hence, the schedule is marred by uncertainty. We acknowledge the risks associated with further delays, but as long term investors we view the current issues as transitory. Over the longer term the strong fundamentals for airline travel and the duopoly nature of the business underpin the strong future cash flow potential of the company. Considering these supportive factors we remain committed to our investment.

Strategy and outlook

The Fund achieved another positive return this month to commemorate three years since its launch, achieving first quartile performance since inception^. We believe the Fund is positioned to continue its outperformance over the longer term.

Markets reached new highs this month in spite of mixed economic data and uncertain macro conditions. On the last day of the month the US Federal Reserve cut interest rates for the first time since December 2008. We continue to hold the view that near term earnings expectations appear optimistic.

The Fund's cash weighting of about 6% continues to reflect some concern that there is a disconnect between current valuations for some companies and the earnings trajectory implied by consensus estimates. We expect volatility to increase and our current cash position continues to reflect some 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 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. We believe owning a concentrated portfolio of businesses, rather than having indiscriminate broader market exposure is the best way to optimise investment performance.

^ Source: Morningstar, based on Fund performance relative to the Morningstar Equity World Large Blend category as at 31 July 2019.

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