PENDAL

Factsheet

Global Equities

August 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.86	-0.77	0.27
3 months	5.84	6.13	7.99
6 months	4.22	4.80	9.52
1 year (pa)	7.00	8.12	7.57
2 years (pa)	14.25	15.46	15.63
3 years (pa)	13.55	14.82	13.74
Since Inception (pa)	13.71	14.99	13.83

Country Allocation (as at 31 August 2019)

Belgium	5.6%
France	10.6%
Germany	2.1%
Netherlands	1.5%
Spain	1.1%
United Kingdom	5.7%
Hong Kong	3.4%
Japan	1.9%
USA	62.4%
Cash & other	5.7%

Sector Allocation (as at 31 August 2019)

Energy	6.3%
Materials	3.0%
Industrials	10.2%
Consumer Discretionary	4.9%
Consumer Staples	15.0%
Health Care	10.1%
Information Technology	9.6%
Telecommunication Services	13.1%
Financials ex Property Trusts	20.7%
Property Trusts	1.5%
Cash & other	5.6%

Top 10 Holdings (as at 31 August 2019)

Analog Devices Inc	4.4%
Alphabet Inc	4.3%
Merck & Co Inc	4.1%
Anheuser-Busch Inbev Sa/Nv	4.1%
Total Sa	4.0%
Wells Fargo & Co	3.9%
Colgate-Palmolive Co	3.7%
Mgm Resorts International	3.5%
Sanofi	3.4%
Facebook Inc	3.4%

Other Information

Fund size (as at 31 Aug 2019)	$346 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 retreated during August amid waning sentiment on the likelihood of resolution to the US-China trade issue, a persistent impasse on the Brexit issue and a more recent issue affecting bond markets. In terms of the latter, August saw an inversion of the US and UK yield curves, whereby the shorter dated yields have inverted to be higher than their 10-year counterparts. Such a development has been associated in the past as a predictor of a recession. Exacerbating the general uncertainty was a historic one-day market drop in Argentina, together with mixed global economic data. These developments, coupled with the latest instalment in the tariff saga with China announcing it would apply tariffs of 5-10% on US$75b worth of US imports from September, contributed to further caution on equity markets.

The US equity adopted the trade rhetoric with an unsurprising negative tone, with a number of flat-to-down days characterising the month. Acceptance of the continued growth mantra that has supported the market appeared fragile, as evidenced by news that US economic growth decelerated in the second quarter by more than initially reported. Investors promptly drew conclusions about the growing impact of Trump's tariffs on the country's economic expansion. The US second-quarter reporting season also drew to a close, with numbers on the whole better than consensus. That said, in aggregate the market has recorded a second consecutive quarter of negative earnings growth. At the month's close, the S&P500 registered a decline of 1.8%, while the NASDAQ fell by 2.6%.

The major European markets were uniformly down in August. Negative sentiment emanating from the global economy's health was exacerbated by further complications with the UK's uncertain Brexit path, together with the UK debt yield curve inversion — being the first such instance since 2008. UK economic data released during the month revealed a slowdown in economic growth through the first half of 2019, largely explained by weaker business investment and slowing global economic growth. Elsewhere in Europe, earlier weakness was recouped to a degree by month end, although a definite bias emerged towards defensive sectors such as Consumer Staples, Utilities and Health Care and away from the cyclically oriented Financials, Information Technology and Energy sectors was evident. In terms of market performance, the region's benchmark Euro Stoxx Index declined by 1.2%, with the UK (-5.0%), Germany (-2.1%) and Spain (-1.8%) leading the region lower.

Asian equity markets were far from a place of refuge for investors during August. Social unrest in Hong Kong continued while the Chinese yuan was allowed to fall through a key threshold to an 11-year low, attracting accusations of currency manipulation by Trump. China's economic data provided little comfort, with industrial production slowing to a lower-than-expected 4.8% year-on-year growth in July, while fixed asset investment rose 5.7% over the first seven months of the year. The manufacturing purchasing managers' index (PMI) slipped further into contractionary territory to a reading of 49.5 in August compared with 49.7 in July. Hong Kong (-7.4%) bore the brunt of selling, followed by Singapore (-5.9%), Japan (-3.4%) and Thailand (-3.3%).

The Australian dollar weakened against all major currencies, headlined by falls of 3.9% against the yen, 1.6% against the US dollar and British pound, and 0.8% against the euro. Commodity markets trended lower, led by a 6% fall in the oil price. Weaker iron ore prices also contributed to the Australian trade weighted index being down by 1%.

Fund performance

The Fund returned -0.86% (post fee, pre-tax) in August, underperforming its benchmark by 1.13%.

Rio Tinto takes a step down on earnings while posting record dividend

Underperforming this month was our holding in Rio Tinto (-11.7%). The company reported its half-yearly results at the beginning of August, causing some of the share price decline. The results were in line with consensus estimates, with the 11% year on year rise in earnings (EBITDA) being driven by iron ore operations in the Pilbara. The iron ore division benefitted from a 31% increase in prices, which more than offset the 8% decline in volumes resulting from maintenance and weather related issues. The company remains committed to returning excess cash to shareholders, demonstrated by the record A$3.5b first-half dividend, (including a A$1b special dividend), which reflect 90% of free cash flow being returned to shareholders.

The disappointment reflected in the share price stemmed from operational issues being experienced in the Pilbara, as well as the A$0.8b impairment taken on RIO's share of the Oyu Tolgoi (OT) copper project in Mongolia.

A technical review is currently underway at OT, with expectations that a new estimate for development capital spend and production timeline will be released in the second half of 2020. Project delays are not ideal; however, given the complex geological challenges of an underground mine we would prefer operators to protect the long-term value of the asset if unforeseen technical difficulties arise, by ensuring thorough due diligence is completed before proceeding.

We will assess the new production timeline and cost update when this is announced. While being of strategical importance, OT represents less than 5% of the net present value of Rio Tinto and in our view, the share price underperformance this month is more directly associated to the 20%-plus fall in the iron ore price. Despite the fall, iron ore prices remain over 25% higher for the year to date. Around 70% of RIO's earnings are derived from iron ore, cash flow generation is significant and the balance sheet is strong. If iron ore prices were to fall further, we are comfortable that the company can remain profitable through the cycle, given their industry-leading margins. As shareholders, we are also happy to continue to benefit from those profits being distributed back to shareholders, with the company currently trading on a dividend yield of around 10%.

Las Vegas Sands delivers on earnings

Our holding in integrated resort operator, Las Vegas Sands (LVS, -8.2%), also underperformed this month. With almost 60% of LVS' consolidated earnings being derived from their Macau operations, the share price has been caught in the cross-hairs of the US/China trade conflict. However, the second-quarter results did not reflect these negative headlines. Macau earnings grew 2% year on year, but more significantly, mainland Chinese visitation was up 12% over the period, with mass market table wins growing by 5.2%, a second-quarter record. The LVS strategy in Macau has been to focus primarily on the mass market, with a view that the infrastructure build-out within both Macau and in mainland China would allow visitors to travel further and to stay longer in Macau.

With over 12,000 hotel rooms, 1.9m square feet of retail space and more entertainment venues than any other operator, the company is uniquely positioned to cater to the mainland Chinese market. While we acknowledge the risks associated with deteriorating relations between the US and China, particularly in light of the upcoming concession renewals in 2022), we believe company management are doing everything to mitigate those risks by working closely with the Macau Government and supporting non-gaming development initiatives.

As Macau's largest employer they are an integral part of Macau's economic prosperity. We expect the volatility to continue; however, considering LVS' underlying business strength and the share price trading on a 6% dividend yield, we are happy to retain our position.

CME finds its NEXus

Outperforming for the Fund this month was our holding in the world's largest financial exchange company, CME Group (+11.8%). The strong performance followed the release of its second-quarter earnings result. While volume growth remains unsurprisingly muted, management are focused on the metrics they can control. They lowered operating expense guidance for 2019, de-leveraging post the NEX Group acquisition and are focused on maintaining operating margins at around 65%. We remain of the view that the market is yet to appreciate the extent of the benefits that will flow from the NEX acquisition, which closed in the fourth quarter of 2018.

NEX operates a leading electronic foreign exchange and fixed income cash execution platform as well as OTC post-trade services. While the full extent of revenue synergies will not be realised until 2020/21, we remain confident the strategic rationale of the NEX deal will prove well-founded. In the interim, the company trades on a dividend yield of 3%.

Strategy and outlook

During August the markets retraced the highs recorded in July. Economic data remains mixed, macro conditions are uncertain and we continue to believe that near-term earnings expectations appear optimistic. We also expect market volatility to increase. Our current cash position continues to reflect some concern that second-half earnings growth expectations for a number of companies appears optimistic.

We believe the Fund is positioned to outperform over the longer term. 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.

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

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