PENDAL

Factsheet

Equity Strategies

December 2019

Pendal Focus Australian Share Fund

ARSN: 113 232 812

About the Fund

The Pendal Focus Australian Share Fund (**Fund**) is an actively managed concentrated portfolio of Australian shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

Description of Fund

This Fund is designed for investors who want the potential for long term capital growth and tax effective income from a concentrated portfolio of primarily 15-30 Australian shares and are prepared to accept higher variability of returns. The Fund may also hold cash and may use derivatives.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

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 can also be used to gain exposure to assets and markets.

Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

Investment Team

Pendal's nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 28 years' industry experience. Crispin is also Head of Equity.

Other Information

Fund size (as at 31 Dec 2019)	$713 million
Date of inception	April 2005
Minimum investment	$25,000
Buy-sell spread[1]	0.50% (0.25%/0.25%)
Distribution frequency	Half-yearly
APIR code	RFA0059AU

Investment Guidelines

Ex-ante tracking error	4.5% - 8.0%
Max absolute stock position	15%
Min/max sector position relative to index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-1.65	-1.53	-2.02
3 months	3.44	3.72	0.71
FYTD	5.58	6.07	3.28
6 months	5.58	6.07	3.28
1 year (pa)	27.14	28.20	23.77
2 years (pa)	10.29	11.31	9.54
3 years (pa)	12.28	13.50	10.33
5 years (pa)	10.53	11.66	9.07

Sector Allocation (as at 31 December 2019)

Energy	8.2%
Materials	19.4%
Industrials	16.0%
Consumer Discretionary	3.4%
Consumer Staples	2.8%
Health Care	10.8%
Information Technology	2.7%
Telecommunication Services	9.4%
Financials ex Property Trusts	20.9%
Property Trusts	1.2%
Cash & other	5.2%

Top 10 Holdings (as at 31 December 2019)

CSL Limited	8.5%
Commonwealth Bank of Australia Ltd	6.4%
BHP Billiton Limited	6.0%
Telstra Corporation Limited	6.0%
ANZ Banking Group Limited	5.2%
Qantas Airways Limited	4.6%
Santos Limited	4.2%
Atlas Arteria	4.0%
Westpac Banking Corporation	3.7%
Macquarie Group Limited	3.5%

Management Costs[2]

Issuer fee[3]	0.75% pa
Performance fee[4]	15% x the Fund's performance (before fees) in excess of the performance hurdle.

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

[2] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[3] 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.

[4] The Fund's performance fee is 15% of the Fund's performance in excess of the performance hurdle. The performance hurdle is the performance of the benchmark (S&P/ASX 300 (TR) Index) plus the issuer fee of 0.75% pa. If a performance fee is payable, it is charged in addition to the issuer fee. The fee is calculated each Business Day based on the investment performance and value of the Fund on that day. If we are entitled to a performance fee, it is paid to us as at 30 June each year.

Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks.
- **Security specific risk**: The risks associated with an individual security.
- **Concentrated portfolio risk** - The Fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of Australian shares makes the Fund more volatile than a diversified Australian share fund.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

The Australian equity market delivered a strong returns in 2019, with the S&P/ASX 300 Accumulation index gaining +23.8%. This was despite a -2.0% pull back in December, as several earnings downgrades weighed on investor sentiment.

Aggregate index earnings declined over the year, despite an expansion in the resource sector. As such, the year's gains were driven by a valuation re-rating, helped in turn by lower interest rates and bond yields.

There was movement on the geopolitical front during the month. OPEC and it partners agreed to maintain existing production cuts which helped Brent Crude oil gain 5.7%, although this did not translate to strong gains from the large-cap energy plays.

Boris Johnson' Tories won the UK elections in convincing fashion, helping reduce Brexit uncertainty and prompting some resilience in UK-sensitive stocks such as Virgin Money UK (VUK, +4.2%) and Link Administration (LNK, +1.0%)

Meanwhile the US and China announced that they had agreed to the first phase of a new trade deal. While the agreement is thus far short on detail – and only partially rolls back the most recent set of tariffs, it served to deescalate tension and uncertainty. Iron ore gained +4.5% for the month in response.

Materials (+1.8%) was the best performing sector, bolstered by gains in the miners as the risks around trade diminished. BHP (BHP) was up 1.8%, Rio Tinto (RIO) +3.6% while Fortescue Mining (FMG) rose +9.9%. Outside of the miners, packaging company Amcor (AMC, +2.1%) also held up well, helped by a recent trends towards better volumes in North American beverages and lower plastic resin prices.

Utilities (+0.8%) was the only other sector to remain above water for the month as the two largest stocks – AGL Energy (AGL, +0.6%) and APA Group (+3.0%) – managed to eke out gains.

Several of the more defensive sectors underperformed. REITs fell -4.5%, while Consumer Staples (-7.8%) fell the furthest. Index heavyweight Woolworths (WOW, -9.1%) fell following news of a class action relating to the alleged underpayment of salaried employees. Coles (COL, -8.7%), Treasury Wines (TWE, -13.2%) and Metcash (MTS, -12.4%) were also weaker.

A weak month from Telstra (TLS, -8.3%), which gave back some of its strong surge at the end of November, dragged on the Communication Services (-5.5%) sector.

Fund performance

The Fund outperformed its benchmark over the month of December.

Contributors

Underweight Woolworths

WOW fell along with most of the consumer staples in December as the defensive sectors tended to underperform. WOW's fall was exacerbated by the news of a class action over alleged underpayment of staff. We do not own WOW, given caution over its valuation, which has been driven in large part by investor appetite for defensives.

Overweight Atlas Arteria

Rising bond yields saw most of the infrastructure sector lose ground; toll road operator Atlas Arteria (ALX, +2.4%) bucked the trend on the news it was raising capital to buyout Macquarie Group's remaining stake in the Adelac toll road operating structure. The move simplifies the structure and removes the fees previously paid to Macquarie Group. The portfolio is overweight ALX as part of the bond-sensitive exposure.

Detractors

Overweight Metcash

MTS delivered a decent full year result. Crucially, it delivered underlying food sales growth for the first time in 2012. This indicates that the recent work management have done to improve and focus the offering and service has started to bear fruit. The markets' response suggests that it remains wary of the outlook for independent supermarkets despite the improving trend, while the contract loss with 7-Eleven also seems to weigh on investor's minds. We retain confidence in the company's outlook.

Overweight Telstra

TLS gave back a large part of the strong gains from the previous month, however there was little in terms of stock-specific news. It has seen consensus upgrades over the past few weeks, following confirmation of its 2020 guidance at a November strategy day.

Strategy and outlook

The portfolio held up better than the index in December, topping a decent quarter in terms of relative performance. It outperformed the index over 2019, delivering strong absolute gains.

The portfolio's growth exposure helped relative performance over the fourth quarter of 2019. Although both Xero (XRO, -1.57%) and CSL (CSL, -2.7%) declined in December, this growth exposure has helped relative performance over the fourth quarter, with XRO up +28.4% and CSL +18.0%. It has been interesting to note that the rotation from growth to value has not been as marked in the Australian market as it has at a global level. While some of the Australian growth cohort have underperformed over the quarter - such as Afterpay Touch (APT, -18.4%) and Wisetech (WTC, -32.7%) – others such as CSL and XRO have maintained their momentum.

While bond yields have risen from a mid-year nadir, they are still low by historical standards in absolute terms. This, in turn, can continue to support higher-than-average valuations for the growth and defensive bond sensitives. As a result we maintain exposure in growth stocks, but remain selective, looking for opportunities where valuations enjoy some fundamental support at the company level – not just from the bond yield thematic. In CSL's case, this comes from a shortage in immunoglobulin product in the US, which is helping the company's volumes and margins. XRO, meanwhile, continues to make inroads into the UK market on the back of a compulsory shift to online tax returns for small businesses.

Elsewhere, Qantas (QAN) returned -2.6% in December but was among the best performers over the quarter, up +13.0% as some of the market's near-term fears over demand receded.

The strategy aims to drive performance via multiple ideas and different types of stocks, rather than via a large bet on a particular thematic. The year's performance was pleasing in this regard as the largest contributors to performance included LNG producer Santos (STO), tech company Xero, building products maker James Hardie (JHX) and health care company CSL. There was a mix of growth companies and cyclicals – as well as large, mid and small-cap companies among the best performers.

At the outset of 2020, some of the risk to global growth from US-China trade seems to have receded. We are mindful that the strategic arm wrestle between the two countries is likely to be a structural feature of markets and a source of periodic volatility, however for the moment the outlook here is less uncertain.

The domestic economic outlook remains muted. Tax and interest rate cuts seem to have helped stem a further decline, however many companies are still feeling the pressure from a lack of growth in demand. The lack of a strong cyclical tailwind emphasises the importance of management quality and business strategy – and the ability to allocate accordingly.

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

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