PENDAL

Factsheet

Global Equities

January 2020

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 approach to the Fund's investments seeks to invest in companies that are out of favour, considered to be undervalued in the near term and offer long term capital growth. The Fund will typically hold between 35-55 stocks.

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.

Other Information

Fund size (as at 31 Jan 2020)	$454 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.03	1.11	4.35
3 months	5.36	5.60	8.35
6 months	4.26	4.75	11.28
1 year (pa)	15.75	16.83	28.31
2 years (pa)	10.29	11.33	15.43
3 years (pa)	13.66	14.84	16.33
Since Inception (pa)	13.61	14.83	15.48

We have made some historic revisions to our pre-fee returns. From December 2018 to January 2020, returns for the Fund included a 'gross up' for fees that overstated the issuer fee deducted from the Fund. The historic pre-fee returns have been reduced to reflect the correct fee 'gross up'. The magnitude of the reduction is around 0.2% p.a.

Country Allocation (as at 31 January 2020)

Belgium	5.6%
France	9.6%
Germany	2.6%
Netherlands	3.1%
Spain	1.3%
Switzerland	3.9%
United Kingdom	7.4%
Hong Kong	3.6%
Japan	2.1%
USA	57.4%
Cash & other	3.4%

Sector Allocation (as at 31 January 2020)

Energy	5.5%
Materials	3.7%
Industrials	11.4%
Consumer Discretionary	5.5%
Consumer Staples	11.7%
Health Care	7.9%
Information Technology	12.1%
Telecommunication Services	13.1%
Financials ex Property Trusts	24.9%
Property Trusts	0.8%
Cash & other	3.4%

Top 10 Holdings (as at 31 January 2020)

Lloyds Banking Group	4.4%
Analog Devices Inc	4.3%
Alphabet Inc	4.1%
Sanofi	4.0%
Wells Fargo & Co	3.9%
Colgate-Palmolive Co	3.8%
Total Sa	3.7%
Anheuser-Busch Inbev	3.6%
Hong Kong Exchanges	3.6%
Facebook Inc	3.6%

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 equity markets started the year off well with the first few weeks of January delivering positive returns, however fears of the potential economic impact of the coronavirus saw markets turn negative very quickly. Australian investors benefitted from a large fall of 4.7% in the Australian dollar vs the US dollar which saw the MSCI World ex Australia (Net Dividends) Standard in AUD return a positive 4.35%.

Driving global markets higher was the US market and especially the Nasdaq which rose 2% in local currency terms, whilst the broader S&P 500 fell 0.16%. Within the market key sectors driving returns were the Technology (7.3%) and Utilities (7.6%).

European markets also fell with the German DAX market falling 2% and the UK FTSE market falling 3.5%. Asian markets were hardest hit being the highest impact from economic impacts of the virus with the Hang Seng (6.7%), Kospi (-3.6%) and Nikkei (-1.9%). However the fall in the Australian dollar vs the Yen (-5%) and Hong Kong dollar (-5%) helped cushion these returns for Australian investors.

Whilst the fear of the unknown impact of the coronavirus continues into February the markets can now focus on company earnings season in the US to get an insight into how strong the earnings outlook is given all the uncertainty and are the companies on track relative to the high share prices currently.

Fund performance

The Fund underperformed its benchmark over the month of January.

After being one of our better performing holdings in the fund in December, Las Vegas Sands (LVS) was a drag on the performance of the fund this month, -5.5%. The outbreak of the coronavirus impacted the broader casino group, and has continued to weigh on the sector, with travel bans put in place in many parts of China. Overshadowed by the news of the coronavirus, LVS also reported their fourth quarter 2019 results in January. LVS revenues were flat in Macau in December, which given the broader industry weakness, suggests that management's strategic focus on the mass market is providing a buffer when the VIP & Premium Mass segments suffer a slow-down (as they did in December). Whilst LVS (or we) are unable to predict how long it will take the coronavirus to be contained, management acknowledged that the first quarter will be a challenging one, particularly as the coronavirus also coincided with Chinese New Year, (typically the busiest time of year for the Macau casinos). LVS are long term investors in Macau. When visitation has fallen as significantly as it has in January, there is very little LVS can do to manage the significant fixed costs (and subsequent fall in cash flows), however LVS have committed to working with both the Macau and Chinese Government, and to support and protect their predominately local staff. With the highest EBITDA margins of the sector, and the strongest balance sheet, we believe LVS management remained focus on the longer term success of the business and are in a better positon to weather the storm than their industry peers.

Wells Fargo (WFC) also underperformed, -13% the fund this month after reporting their fourth quarter results. CEO Charles Scharf, who has been CEO for less than three months hosted his first earnings call at WFC. Whilst the market was focused on the legacy issues that meaningfully impacted results, our concern lay more with what Scharf planned to do about them. He firstly acknowledged that mistakes had been made, and that the bank had not effectively addressed its shortcomings. He flagged significant changes to management, structure and process, with a Chief Operating Officer role being created to help oversee the changes. Recruitment of new senior management roles is underway, with many already appointed (including the COO). Whilst the market was disappointed with Scharf's unwillingness to give financial targets or timeframes, we believe, given he is in the midst of hiring senior management, and assessing all business units, this was the most prudent course of action. We also agree with his assessment that the "the opportunity to improve our results is significant and attainable" and with the shares trading on ~1x price to book, a PE of ~8x and a 4% dividend yield we continue to believe as long term investors our patience will be rewarded.

Outperforming for the fund this month was our holding in railway operator, Norfolk Southern up ~8% after reporting fourth quarter earnings, and 2020 guidance ahead of expectations. In 2018, the Norfolk Southern management team, who at the time were benefiting from a supportive pricing and volume environment announced an efficiency drive within the company and introduced the implementation, of what is referred to in the industry as Precision Scheduled Railroading (PSR), resulting in a target to improve their operating ratio (operating costs as a percentage of revenue) to 60% from ~68% by 2021. Whilst, there was no pressure on management at the time, given the strong share price performance and buoyant business conditions, we applauded management's acknowledgment of the cyclicality of their business and the need to positon the business for long term success. This strategy has proved successful. Despite pressure on volumes in the fourth quarter Norfolk delivered an operating ratio of ~64%, guided to ~62% for 2020, with a clear line of sight to meeting 60% target in 2021.

Outlook

We continue to believe the fund is positioned to outperform over the longer term, and that owning a concentrated portfolio of businesses, rather than having indiscriminate broader market exposure is the best way to optimise investment performance. Volatility in the share price of companies that are seen to be proxies for global growth, or with business directly linked to the Chinese economy underperformed, particularly in the later part of January resulting in our underperformance this month. We expect, until there are signs that the coronavirus is contained, that the volatility will continue. Whilst the ~75% of companies of S&P companies that have reported fourth quarter earnings so far have delivered a positive earnings surprise of ~5%, earning growth remains subdued and the outlook statements for the first quarter and 2020 reflect the uncertainty that the coronavirus currently presents. We continue to focus on owning companies that have dominant market shares, are equipped with robust business models, and have nimble management teams. When valuations become compelling we invest in these companies, and have confidence that they can prosper over the long term regardless of what the economic cycle, or geopolitical uncertainties present them with.

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