PENDAL

Factsheet

Equity Strategies

April 2020

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 30 Apr 2020)	$626 million
Date of inception	April 2005
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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	9.93	10.03	9.02
3 months	-18.04	-17.62	-20.39
FYTD	-9.96	-9.10	-13.76
6 months	-11.98	-11.35	-15.58
1 year (pa)	-4.81	-3.77	-9.06
2 years (pa)	0.26	1.01	0.17
3 years (pa)	4.45	5.67	1.98
5 years (pa)	5.12	6.21	3.51

Sector Allocation (as at 30 April 2020)

Energy	6.2%
Materials	19.4%
Industrials	15.7%
Consumer Discretionary	5.5%
Consumer Staples	3.2%
Health Care	12.1%
Information Technology	3.8%
Telecommunication Services	9.2%
Financials ex Property Trusts	17.2%
Property Trusts	1.9%
Cash & other	5.8%

Top 10 Holdings (as at 30 April 2020)

CSL Limited	10.4%
BHP Billiton Limited	6.4%
Telstra Corporation Limited	6.2%
Commonwealth Bank of Australia Ltd	5.2%
Atlas Arteria	4.3%
Evolution Mining Limited	4.1%
Westpac Banking Corporation	3.8%
Aristocrat Leisure Limited	3.5%
Amcor Limited	3.4%
Qantas Airways Limited	3.3%

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 equities market orchestrated a strong rebound in April, adding +9.0% to the S&P/ASX 300 Accumulation index. This also extended the recovery from the market's recent trough on March 23rd to ~22%. Market sentiment has clearly improved in the near-term, on the back of strong support globally by central banks, the Fed in particular. Resources (+16.3%) recouped a great portion of losses incurred last month, whereas Industrials (+7.3%) underperformed the broad market. The oil price bounced 20% from its intra-month low, as some pick-up in demand will slow the rate at which storage is filled.

On the COVID-19 front, global new daily cases remains on a plateau, with Latin America offsetting improvements elsewhere. Roughly half of the states in the US have begun to relax restrictions, despite the fact that case numbers are not falling significantly. The focus in coming weeks will be on whether it has reopened too soon. Testing levels are far higher today than was the case a month ago – this allows pockets to be identified faster and local containments measures put in place, rather than a nation-wide shutdown. In Singapore, the second wave of infections seems to be under control. Daily testing in Australia has roughly doubled. This has seen new cases pick up, but overall we remain at very low levels.

Turning to stock specifics, Banks (+0.7%) underperformed the market over the month, with the regional duo (BEN, +4.3%; BOQ, +4.2%) outperforming the "big four". Both National Australia Bank (NAB, +1.7%) and ANZ (-0.4%) reported half yearly results. The market's focus was on the outlook for bad debts and additional provisioning; projections in both cases were not as conservative as many though they could have been. This does leave the door open for increases in provisioning further down the track. The largest surprise was with regard to the effect of risk weighting in the loan books; the increase in provisioning to account for potential declining credit quality in corporate lenders was greater than most expected. The net effect of the increased strain on capital is that ANZ deferred its dividend, while NAB paid a dividend, but also raised capital. ANZ had previously been in a stronger capital position than NAB, but these moves leave them roughly on par.

Also within Financials (+2.9%), insurer QBE (QBE, -1.7%) surprised the market with a capital raise. QBE's current position looks capable of dealing with the impact on their investment books and also rising claims in some parts of its book, such as trade credit. However management have raised capital as a buffer against another unforeseen event arising during this period.

Some other companies that gave the market an update during the month include Coles (COL, +2.3%). Both they and Woolworths (WOW, +1.9%) have flagged the increase in costs associated with the surge in sales in March and April. Coles management flagged that sales have scaled back in the last few weeks. Also within Consumer Staples (+2.6%), Coca-Cola Amatil (CCL,-1.8%) released a trading update which showed that volumes in the first two weeks of April were down by 30% on the prior corresponding period, with a 15% fall in Australia and a 50% fall in Indonesia. There is some base effect here in that the period leading to Easter and to Ramadan are usually strong periods.

On the other side of the spectrum, Energy (+25.2%), Information Technology (+21.8%) and Consumer Discretionary (+16.4%) were amongst the best gainers. Alongside the recovered market sentiment, there are some positive updates from individual companies. Star Entertainment (SRG, +40.9%) gave an update which included an additional debt funding facilities of $200m, with management now confident they have an ability to ride out an extended shut down. Afterpay (APT, +66.0%) rallied strongly on the back of the continued surge in tech growth stocks in the US, with the NASDAQ re-approaching its highs on the back of Amazon. The company also updated the market: the Australian business continues to track well, although management were more cautious on the outlook for the US, which is consistent with the health outcomes unfolding in each country.

Fund performance

The Fund outperformed its benchmark over the month of April.

Contributors

Overweight Santos

The oil price bounced 20% over the last week of April, recouping some of the previous losses. Some pick-up in demand will slow the rate at which storage is filled. Whilst the market remains oversupplied and we need to see further production closures, it helped to improve sentiment for the Energy sector in the near-term, which helped the likes of Santos (STO, +44.4%). In addition, STO's quarterly report was well received, confirming that it had more hedging in place than people had expected, which can help support near term cash flow. We believe it remains the best exposure to the oil/LNG complex, given its low cost base and strong management.

Overweight Evolution Mining

Gold miners continued to fare better in April, amid the heightened gold price. Our preferred gold miner, Evolution Mining (EVN, +33.8%) delivered its quarterly update during the month, which confirmed that the strong gold price has allowed it to pay down some of the debt it took on to fund its Redlake mine acquisition in Canada.

Detractors

Overweight Metcash

Metcash (MTS) fell -21% after it tapped the market for an additional $330m of equity capital. The placement spooked the market, which focused on management comments that part of the money was needed to support some distributors in the liquor division which have been impacted by the closure of pubs and clubs – as well as the more stringent lockdowns in NZ. In our view, only a small part of its business is impacted – around 20% of its liquor division – while the trading update accompanying the raise illustrated the strength in the rest of the company. This accounts for around one third of the raising, with part of the remainder needed to fund the working capital necessary to fund the rise in volumes as a result of strong demand. Management also wanted powder to be able to take advantage of any acquisition opportunities in this environment. While the raising is dilutive, we believe that the capital is earmarked for sensible use, the business remains well positioned, and there is scope for its return if we do start to see economic activity start to recover.

Overweight Telstra

Defensive names, such as Telstra (TLS, -0.7%) underperformed the market in April as investors turned risk-on. It remains in our portfolio as part of the "Recession Protection" component. Telstra's core business does not rely on face-to-face contact. There will be some impacts from Covid-19 but it remains defensive relative to other parts of the market. This was emphasised by management recent re-affirmation of earnings guidance for FY20. Also, with debate around pressure on dividends in the banking sector and in other industries which are receiving government help, Telstra stands out as one large cap where dividends should remain relatively stable.

Outlook

The Fund outperformed the index in April as markets rebounded. There was a strong contribution from a bounce in a number of companies which were at the sharp end of disruption and hard hit in the market's fall as a result. As people have become more confident that these companies can weather a tough period, we have seen a rebound in names such as Qantas (QAN) and Santos (STO). These remains part of the portfolio's "Recovery Insurance" segment; exposure to a rebound in economic activity, which should also do well in the event of a medical breakthrough and rapid resolution to the health crisis.

There were also some good gains in what we see as the "Long Term Franchise Winners" – these are companies that may see a near-term negative impact on demand, but that we believe can emerge even stronger from this period and hence offer attractive value on a medium term basis. Nine Entertainment (NEC), and JB Hi-Fi (JBH) and Aristocrat Leisure (ALL) were among the best gainers here.

Some "Policy beneficiaries" in the portfolio also did well. James Hardie (JHX) should benefit if, as expected, governments look to the housing sector in the US and Australia as an area which can quickly help boost an economic recovery. Seven Group (SVW) rose on optimism that domestic state governments will also look to infrastructure as a stimulus tool.

Defensives generally underperformed, giving back some of their gains on previous weeks as sentiment turned more positive. However the gold price – and gold miners – continued to do well, including the portfolio's position in Evolution Mining (EVN). This remains a key part of the portfolio's "Recession Protection"

It is tough to make a high conviction call on market direction from here. The essential tussle at the heart of markets is between the largest economic hit in living memory on one hand – and a package of unprecedented liquidity and fiscal support on the other. This is why we continue to position the portfolio to perform across a range of scenarios, rather than making a heroic call on the outcome.

The scale of the economic hit is still unknown, however the pathway to normalisation is a key variable. Infection rates will be crucial in coming weeks as restrictions are eased. Signs that rates remain manageable will be positive – a material second wave of infections, that requires re-implemented restrictions, would be a material negative.

In recent weeks we have seen increasing signs of a possible divergence in outlook for Australia and NZ compared to other parts of the world.

The scale and speed of containment measures here - coupled with geography and a less complicated political backdrop than the US or Europe – means that we can try a suppression/elimination strategy. In other parts of the world the only option is to build herd immunity, while keeping infections at rate with which medical systems can cope. A key element of this strategy is a large-scale testing programme which will allow new outbreaks to be quickly identified and contained at a local level, rather than returning to a national lockdown.

The implication is that we may see domestic restrictions lifted further here, while international borders remain locked down. Overseas, the need to control infection rates may mean that restrictions are only partially lifted and possibly periodically reinstated in specific locations. This is supportive for the outlook for domestically-focused companies on the ASX relative to some of those with overseas exposure.

The recent bounce reflected optimism at a pathway to recovery. However we are unlikely to recover swiftly to a pre-coronavirus level of activity. As we restrictions are rolled back and we embark of the process of discovery to assess the degree of economic damage, we think it will be harder for the market to sustain its recent rally.

That said, we are also mindful of the scale of liquidity supporting markets. This certainly provides a strong degree of downside support.

We see this phase as being very company-specific, as the market discovers which companies have been well placed and which have not – and to what degree the latter have been affected. There will be a high degree of differentiation between – and within – industries. This environment plays to our strengths.