PENDAL

Factsheet

Global Equities

August 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 Aug 2020)	$521 million
Date of inception	29 July 2016
Minimum investment	$25,000
Buy-sell spread[3]	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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	4.37	4.45	3.47
3 months	2.62	2.85	2.93
6 months	-6.11	-5.68	1.11
1 year (pa)	-8.14	-7.30	6.73
2 years (pa)	-0.86	0.06	7.15
3 years (pa)	6.24	7.27	12.58
Since Inception (pa)	7.92	9.05	12.05

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 August 2020)

Belgium	5.5%
France	7.5%
Germany	3.9%
Netherlands	4.8%
Spain	3.2%
Switzerland	6.1%
United Kingdom	4.5%
Hong Kong	3.0%
Japan	2.0%
USA	58.3%
Cash & other	1.2%

Sector Allocation (as at 31 August 2020)

Energy	5.1%
Materials	8.2%
Industrials	15.0%
Consumer Discretionary	4.9%
Consumer Staples	11.4%
Health Care	5.8%
Information Technology	14.4%
Telecommunication Services	13.2%
Financials ex Property Trusts	20.8%
Cash & other	1.2%

Top 10 Holdings (as at 31 August 2020)

Facebook Inc	4.4%
Alphabet Inc	4.1%
Freeport-Mcmoran Inc	4.0%
Infineon Technologie	3.9%
Anheuser-Busch Inbev	3.8%
Total Se Common Stoc	3.8%
Analog Devices Inc C	3.7%
Wells Fargo & Co Com	3.2%
Texas Instruments In	3.2%
Airbus Se Common Sto	3.1%

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 markets recorded another solid rise in August on vaccine hope and US tech. Most global DM sectors rose, with Consumer Discretionary (12.2%), Tech (10.7%) and industrials (8.7%) outperforming, while Utilities (-1.4%), REITs (0.7%) and Energy (1.7%) underperformed. Limiting returns to Australian investors was the 2.2c rise in AUD to $0.740, partly due to the large rise in iron ore prices to US$125/t and improving China growth. A falling USD and a more optimistic growth outlook saw oil prices rise modestly. Gold prices went over US$2000/oz before reverting down to US$1,957.35/oz. Global bond yields increased slightly in August, driven by rising inflation expectations.

In USD terms, DM (6.7%) outperformed EM (2.2%) in the month of August. The S&P 500 rose 7.25%, outperforming all major global markets. In USD terms the Nikkei 225 (+6.3%), and the ASC 200 (+6.0%) were the next best but still underperformed in comparison to the DM world return. The worst performing Index's in USD terms were the MSCI world emerging markets (+2.2%), and the MSCI Asia ex Japan Index (+3.6%).

Through August, global confirmed cases rose 8.0m to a record high 25.6m. The countries with the highest confirmed case counts as of 31 August were the United States (6.2m), Brazil (3.9m), India (3.6m), Russia (0.9m) and Peru (0.65m). On August 31 India broke USA's record of highest COVID-19 cases in a single day, registering over 80,000 new cases in 24 hours.

With the U.S. election just 63 days away, COVID-19 lingering and fiscal supports diminishing, getting the next "market" footstep right is complicated for investors by multiple cross-currents.

Fund performance

The Fund outperformed in August. Our positions in casino companies; Las Vegas Sands (LVS US) and MGM Resorts (MGM US) contributed to the outperformance of the fund in August. Whilst there remains uncertainty regarding the timing of a post pandemic return to normalised visitation, the market reacted positively to the news that IAC (IAC US) had acquired a 12% interest in MGM. IAC is primarily an internet and media holding company, who operate some of the most globally recognized digital brands, with management describing their basic operating principle as one of "financially disciplined opportunism". In relation to their investment in MGM, IAC suggested that MGM was a "once in a decade opportunity to own a preeminent brand in a large category with great potential to move on-line" Management, have accepted a board seat and "are taking a long term view "of their investment with the belief, similar to ours that the power of MGM's future cash-flow is not reflected in current valuations.

Further helping the casino operators with businesses in Macau, such as MGM and LVS was China's President Xi latest iteration of the country's Five Year Plan (2021-2025) which included a directive that " China should actively co-operate with and open up to any nation, region and enterprises who are willing to do business with China, including US companies". Whilst this announcement does not completely mitigate the risk associated with being a US company operating in Macau, particularly amid the current geopolitical tensions, it does give us confidence that market concerns are being overstated. An additional positive, which bodes well for future visitation in Macau, the Chinese Ministry of Culture and Tourism is reportedly building a "blacklist " of overseas gaming destinations in which it will implement travel restrictions on Chinese citizens. This move is designed in our view to encourage visitation to Macau over other gaming destinations in the region. Whilst we expect restrictions on visitation from mainland China to Macau to be lifted in a staged manner, we also expect, as was the case post the SARS pandemic that the attractiveness of Macau as a tourist destination to mainland Chinese will not be diminished.

Not owning Apple in the portfolio was a drag on performance this month. Apple shares were up ~ 30% in August, and 75% year to date. After announcing a stock split at the end of July the stock has added over $40bn in market cap in August and now has a market cap equivalent to the total German market. Our decision not to invest in Apple is not reflective of a view that Apple is a poor quality business. However we do believe that the multiple rerating that has benefitted the share price, is not justified by the company's growth profile. Whilst we regret not initiating a position in 2017, when the stock was trading at a discount to the S&P 500 and the cash repatriation laws changed in the US, at current share prices we do not have conviction that the long term earning power of the company will live up to consensus forward PE multiples (which has almost doubled in the last couple of years). Apple is a premium consumer electronics company, with hardware products accounting for ~80% of net sales and with iPhones account for 70% of product sales. Whilst Apple have cleverly built an ecosystem of products and services that are tied to the iPhone, the smartphone market is a mature market, with global shipments declining since 2016. Apple services contribute 20% of total revenues, however only a relatively small proportion of those services are subscription based, with the largest two contributors (App Store & licensing) under increasing regulatory pressure. Whilst broker reports overwhelmingly recommend buying the company at current prices, we think there are better long term, appropriately priced opportunities in the market.

At the height of the pandemic in March, we initiated a position in Flughafen Zurich (Zurich Airport). Our rationale at the time of investing, was that whilst traffic was clearly being severely impacted, the business could access sufficient liquidity to withstand an extended period of restricted air travel, and that the future long term earnings power of the business was not adequately reflected in the share price. The company reported second quarter results in August that exceeded market expectations, and hence contributed to the fund's outperformance this month. Given our longer term investment time frame, we are less focused on the quarterly results, pleasing as they may be, however we were impressed by management's cost cutting efforts. Guidance suggests that the company can expect positive free cash flow at traffic equivalent to 50% of 2019 numbers, with management conservatively not expecting a recovery to pre COVID traffic numbers until 2023. Following a similar logic we also initiated a position in Spanish airport operator, Aena in August. Whilst we expect near term operating conditions to remain challenging, Aena has a portfolio of quality assets, access to liquidity and a strong management team. The current share price in our view does not reflect the longer term earnings potential of the company.

Outlook

Whilst the COVID-19 pandemic continues to wreak havoc on economic data around the globe, US/China relations appear to have gone from bad to worse, and the US election is to be decided, it is clear that the unprecedented fiscal response to the crisis is helping propel markets from their March lows. Below the surface however, the market's breadth has narrowed considerably, and at levels not seen since 2005. We will continue to focus on owning companies that can weather the current economic downturn and grow their businesses over the longer term. We believe the greatest upside to performance will come from businesses that are currently being discounted on their near term earnings profile. We continue to believe that owning a concentrated portfolio of business, rather than having indiscriminate broader market exposure is the best way to optimise investment performance over the long term.

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