PENDAL

Factsheet

Pendal Focus Australian Share Fund

Equity Strategies

ARSN: 113 232 812

October 2020

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 Oct 2020)	$895 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	2.22	2.41	1.89
3 months	3.44	3.78	1.22
FYTD	2.42	2.82	1.83
6 months	8.98	9.46	9.09
1 year (pa)	-4.08	-2.97	-7.91
2 years (pa)	6.42	7.44	4.90
3 years (pa)	5.31	6.32	4.22
5 years (pa)	8.05	9.13	6.89

Sector Allocation (as at 31 October 2020)

Energy	4.1%
Materials	22.8%
Industrials	12.2%
Consumer Discretionary	6.0%
Consumer Staples	5.9%
Health Care	9.8%
Information Technology	4.9%
Telecommunication Services	7.7%
Financials ex Property Trusts	22.1%
Property Trusts	2.6%
Cash & other	1.9%

Top 10 Holdings (as at 31 October 2020)

CSL Limited	9.6%
BHP Billiton Limited	8.9%
Westpac Banking Corporation	6.0%
Commonwealth Bank of Australia Ltd	5.5%
ANZ Banking Group Limited	4.8%
Qantas Airways Limited	4.3%
Metcash Trading Limited	4.3%
Xero Limited	4.3%
Telstra Corporation Limited	4.2%
James Hardie Industries Plc	3.9%

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 S&P/ASX 300 Accumulation index gained +1.9% over October; although -4% was wiped off the market during the last week of the month. Resources (-1.2%) continued to underperform Industrials (+2.7%) as performance miners and energy companies remained lackluster.

The continued surge in new Covid cases in the US and Europe led to the start of lockdowns in the latter. Meanwhile Pfizer announced that the interim results of its vaccine trial would be delayed. In the US there were some speculation that the election may be tighter than people expected a few weeks ago, while results season has been a touch disappointing thus far. The key issue is how the combination of the pandemic, US election and policy responses will impact on the potential for rotation within the market. The market is at historical extremes when it comes to the outperformance of growth over value and also on the latter's valuation premium.

Domestically, the Australian Federal budget was stimulatory, as expected. On balance, the scale of injection was probably a touch larger than consensus was looking for. The scale of measures, which will drive the budget deficit close to 12%, demonstrates the willingness of policy makers to underpin the economy. The shift in mindset away from fiscal prudence and balance budgets is material and suggests that there is more the government can do if required.

Turning to sector performance, there were five sectors finishing the month in the red, led by Industrials (-3.5%). The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names. Transurban (TCL, -4.6%), Sydney Airport (SYD, -7.0%) and Atlas Arteria (ALX, -7.1%) were amongst the largest performance detractors within their sector. The acceleration in Covid cases and the newly declared lock-down in France also weighed on investor sentiment for ALX.

Elsewhere, Materials (-1.1%) and Energy (-1.0%) both pulled back, as some of the sector heavyweights such as BHP (-5.1%), Rio Tinto (RIO, -2.0%), Origin Energy (ORG. -7.0%) and Santos (STO -3.1%) all recorded losses. Partially offsetting some of these losses, markets approved of the intended merger of gold miners Northern Star (NST, +8.9%) and Saracen (SAR, +9.1%). The resulting company will be a clear number two in Australia behind Newcrest (NCM, -6.4%). Ampol (ALD, +8.3%) also outperformed following its announcement of a review of its refining operations, potentially with a view to closing the Lytton refinery in Brisbane. The notion that this would do more to encourage government support for remaining refining capacity in Australia also benefited Viva Energy (VEA, +7.2%).

On the other end of spectrum, Financials (+6.3%), Information Technology (+8.6%) and Consumer Staples (+4.6%) were the best performing sectors. Within Financials, the market had the first bank result from ANZ (ANZ, +9.2%) which was mixed. The good news was the bad and doubtful debts (BDD) provisions were lower, which helped drive a better capital position. However margins were softer and the cost outlook was a bit higher due to the need for investment in technology. Pre-provision profit forecasts were cut by 3-4%. There is a silver lining in that the company acknowledges the outlook for BDDs looks better than feared. This could lead to EPS and DPS upgrade in future years which saw the other "Big Four" also outperformed from +4.8% (NAB) to +8.5% (CBA).

Fund performance

The Fund outperformed its benchmark over the month of October.

Contributors

Overweight Nine Entertainment

Domestic cyclicals outperformed, as optimism over easing border restrictions continued to support expectation for earnings recovery. This saw Nine Entertainment (NEC, +19.2%) contribute the most to the fund's outperformance over the month. In addition, the latest SMI data also pointed to the ongoing improvement in TV markets.

Overweight Coca-Cola Amatil

Coca Cola Amatil (CCL, +30.8%) was subject to a bid from Coca Cola European Partners. We see the deal as cleverly timed, from the bidder's perspective. We expected to see the stock rebound to levels nearer the bid price as a result of looser travel restrictions and cost out initiatives – so the takeover premium looks light.

Detractors

Overweight Atlas Arteria

The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names, including French toll road operator Atlas Arteria (ALX, -7.1%). In addition, the market remains cautious over the acceleration of Covid cases and the newly declared lock-down in France.

Overweight BHP

BHP (-5.1%) delivered its 1QFY21 production report in October, which was in line with market expectation. Total production was up 2% year-on-year, led by iron ore (+7%) and metallurgical coal (+4%), with record production achieved at Jimblebar. However, Covid impact at Escondida saw copper production down by 4% year-on-year. The company's major projects under development in petroleum, copper and iron ore also remain on track. There was no change made to the guidance.

Strategy and outlook

The "Blue wave" did not emerge in the US election. While the Democrats seem set to take the White House, they underperformed expectations in both Houses. Their majority in the House of Representatives was reduced, while the Senate also looks set to retain a republican Majority. The Democrats have done worse than expected in the House of Representative, losing nine seats thus far. They should retain a majority, albeit smaller.

The prospect of divided government means lower likely stimulus, but also less chance for some of the more contentious policy changes such as higher taxes. Without the control of Congress Biden is likely to plump for a more centrist cabinet, potentially taking some of the more left wing agenda off the table. It is also notable that Biden has a strong relationship with Republican Senate Leader McConnell, which may be constructive for some degree of cooperation. All in all, the outcome has been broadly welcomed by markets.

Covid cases continue to deteriorate throughout Europe and the US, with increased test positivity indicating the momentum continues to rise.

Total US hospitalisations are up to 50k, versus the previous peak of 60K. In this instance they are spread wider geographically and there are no signs of strain on the system as yet. However this remains a key factor to watch.

Several European countries have reinstated lock downs. However the market seems to be taking a relatively sanguine view at this point and appears to be looking through this wave of Covid on a combination of:

- a better understanding of the virus,
- better healthcare system preparation,

- a view that lockdowns work within a reasonable time frame,
- that policy stands ready to plug the economic gap,
- that liquidity is so prevalent it means any sell-off is quickly supported,
- optimism on positive vaccine developments.

The prospect of further trade friction with China remains a risk to Australian equities. There has been speculation of additional measures on some goods – for example of low grade iron ore. At this point Beijing may be happy to have these additional threats in conversation without acting on them, but this is an issue which must be watched.

That said, we are mindful that there are several positives lining up which can support the market into the year's end. These include:

1. Supportive global markets
2. Fiscal stimulus from the budget flowing through
3. Melbourne re-opening, perhaps more quickly now than hoped
4. Borders re-opening
5. Pent-up demand, with more people than usual staying in Australia over Christmas
6. More stimulus from the RBA
7. Cautious positioning from investors
8. The potential for M&A activity.

As a result we remain reasonably constructive on markets near term. However we retain our balanced portfolio construction, rather than making a binary call on the outcome of the health and economic issues. This reflects the still heightened uncertainty prevailing in the macroeconomic environment.

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

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