PENDAL

Pendal Monthly Commentary

Pendal Sustainable Future Australian Shares Portfolio

November 2020

Market commentary

The S&P/ASX 300 posted its best month since 1988 in November – a gain of 10.2%.

Good news on the vaccine front – coupled with the prospect of a more predictable policy environment and a reasonable earnings season in the US – drove improvement in sentiment.

Investors seemed content to look through the latest Covid surge in the northern hemisphere and the risk of further lockdowns.

Resources (+10.7%) rebounded strongly for the month and marginally outperformed Industrials (+10.1%) as confidence in the economic recovery continued to drive commodity price gains.

Copper was up 11.7% and is well above pre-Covid levels. Brent Crude gained 29% for the month. Gold fell 4.9% as investors saw reduced need for portfolio insurance.

There was something of a catch-up trade in November – stocks and sectors that have generally lagged this year did well.

Energy (+28.2%) was the best-performing sector, driven by a rebound in the oil price.

Financials (+16.1%) were also strong. Updates from the major banks suggested bad and doubtful debts were tracking towards the more benign end of expectations, leaving capital in a strong position. Margins remain under pressure from low rates and strong competition, but all in all the updates were well received.

The more defensive sectors generally underperformed.

Consumer staples (-0.66%) was the only sector to go backwards, experiencing the twin impacts of a rotation away from defensives and a hit to Treasury Wines (TWE, -6.3%) as China imposed tariffs on Australian wine.

Utilities (+1.5%) and Health Care (+2.9%) lagged the market.

Technology growth stocks were generally muted.

The sector rose 4.1% but the portfolio's preferred position, Xero (XRO), was up 20.3% following a good result.

Subscriber growth in Xero's more mature markets of Australia and New Zealand suggest a post-Covid shift in mentality towards the importance of cloud-based administration for businesses.

Portfolio overview

Sustainable Future Australian Shares Portfolio	
Investment strategy	To deliver outperformance relative to the benchmark before fees over a rolling five year period by investing in companies which Pendal has identified as having leading financial, ethical and sustainability characteristics.
Benchmark	S&P/ASX 300 (TR) Index
Number of stocks	15-40 (25 as at 30 November 2020)
Sector limits	Cash 2-10%
Dividend Yield	3.18%#

Top 10 holdings

Code	Name	Weight
CSL	CSL Limited	10.16%
CBA	Commonwealth Bank of Australia Ltd	7.68%
ANZ	ANZ Banking Group Limited	6.18%
FMG	Fortescue Metals Group Limited	5.67%
TLS	Telstra Corporation Limited	5.08%
XRO	Xero Limited	4.95%
MQG	Macquarie Group Limited	4.62%
NAB	National Australia Bank Limited	4.40%
AMC	Amcor Limited	4.35%
NEC	Nine Entertainment Co Ltd	4.23%

Source: Pendal as at 30 November 2020

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
XRO	Xero Limited	4.13%
FMG	Fortescue Metals Group Limited	4.05%
NEC	Nine Entertainment Co Ltd	4.05%
JBH	JB Hi-Fi Limited	3.76%
AMC	Amcor Limited	3.63%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
BHP	BHP Billiton Limited (not held)	-5.97%
WBC	Westpac Banking Corporation (not held)	-3.87%
WES	Wesfarmers Limited (not held)	-2.99%
WOW	Woolworths Group Limited (not held)	-2.49%
RIO	Rio Tinto Limited (not held)	-2.00%

Source: Pendal as at 30 November 2020

#The Portfolio's dividend yield represents the weighted average 12-month forward-looking dividend yield of the portfolio holdings (excluding cash), as at the date of the Factsheet. Each individual security's dividend yield is calculated using market consensus Dividend Per Share (DPS) before tax and franking credits, collated by Pendal and divided by the closing market price of the security as at the date of the Factsheet. The portfolio dividend yield therefore is only an estimate, and does not reflect the actual returns of the Fund, which will be affected by market movements in the price of individual securities, the returns on other assets such as cash holdings and variances of individual security's actual dividends from the forecasted DPS.

Performance

	1 month	3 month	6 month	1 year	Since Inception (p.a.)*
Pendal Sustainable Future Australian Shares Portfolio	9.87%	10.24%	16.69%	6.59%	10.26%
S&P/ASX 300 (TR) Index	10.23%	8.27%	14.98%	-1.62%	6.81%
Active return	**-0.36%**	**1.96%**	**1.71%**	**8.21%**	**3.45%**

Source: Pendal as at 30 November 2020
*Since Inception - 16 June 2018
Performance returns are pre-fee. Investors should contact their platform provider for applicable fee rates.
Past performance is not a reliable indicator of future performance.

Top 5 contributors - monthly

Code	Name	Value Added
QAN	Qantas Airways Limited	0.52%
XRO	Xero Limited	0.39%
WOW	*Woolworths Group Limited (not held)*	*0.38%*
ANZ	ANZ Banking Group Limited	0.30%
MGR-E	Mirvac Group #EQ#	0.26%

Top 5 detractors - monthly

Code	Name	Value Added
JBH	JB Hi-Fi Limited	-0.59%
EVN	Evolution Mining Limited	-0.51%
SAR	Saracen Mineral Holdings Ltd	-0.48%
AMC	Amcor Limited	-0.24%
FMG	Fortescue Metals Group Limited	-0.22%

Top 5 contributors - 1 year

Code	Name	Value Added
FMG	Fortescue Metals Group Limited	2.43%
XRO	Xero Limited	1.92%
NEC	Nine Entertainment Co Ltd	1.52%
MTS	*Metcash Trading Limited (not held)*	*1.24%*
JBH	JB Hi-Fi Limited	0.98%

Top 5 detractors - 1 year

Code	Name	Value Added
QAN	Qantas Airways Limited	-1.31%
IAG	Insurance Group Australia	-1.05%
APT	*Afterpay Limited (not held)*	*-0.77%*
WES	*Wesfarmers Limited (not held)*	*-0.59%*
TLS	Telstra Corporation Limited	-0.54%

Source: Pendal as at 30 November 2020.
Underweight positions are in italics.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

Overweight Qantas (QAN, +28.4%)

An easing of restrictions on interstate travel opened the way for QAN to start ramping up its domestic operations. While QAN has now returned close to its pre-Covid enterprise value, we see the opportunity for further upside with a material beneficial effect on working capital as operations normalise.

Overweight Xero (XRO, +20.3%)

XRO delivered a well-received result which showed subscriber growth has continued to hold up well. The scale of policy support has kept corporate bankruptcies under control. At the same time new business formation remains strong.

Underweight Woolworths (WOW, -3.1%)

Defensive consumer staples companies – including Woolworths – underperformed as investor sentiment improved.

Three largest detractors

Overweight JB Hi-Fi (JBH, -3.6%)

Stocks such as JBH that did well during the Covid period tended to underperform in November as other parts of the market caught up. JBH has done well but remains our preferred retail exposure, given persistent tailwinds for retail spending and its strong competitive position.

Overweight Evolution Mining (EVN, -10.3%) and Saracen Mining (SAR, -16.5%)

The gold price sold off – along with gold miners including EVN and SAR – as sentiment improved. We still see an important place for gold exposure in the portfolio as a hedge against a downturn in sentiment – particularly with the Covid surge in the US and Europe. It could also perform well if we see an environment of negative real interest rates as inflation expectations increase but nominal rate remain low.

Market outlook

The S&P/ASX 300 gained 10.23% in November – its best monthly return since March 1988.

The portfolio did well in absolute terms, but was slightly behind the index. The underweight in Energy stocks, due to the exclusion of fossil fuels, played an important role given it was the best-performing sector in the market.

While improved sentiment toward US politics and vaccines drove markets, the move was supercharged by two surprises.

First, contrary to consensus expectations, there was no "Blue Wave" of change in US politics. The presidential race was very close and the Senate looks set to remain in Republican hands. This would leave the US with a far more moderate – and market-friendly – government than many expected.

Second, on the vaccine front efficacy rates of around 95% reported by Modern and Pfizer were far higher than most expected.

These positive surprises – and several negative ones which occurred in 2020 – emphasise the importance we place on building a robust portfolio. This has been the bedrock of the portfolio's performance this year.

Our approach has been to keep different types of stocks in the portfolio – positions that could perform under a number of different scenarios. We then use our insight into companies to choose the best stocks to own. These were the companies where we saw relatively limited downside, but the potential for large upside gains.

The performance in the market's plunge was driven by the defensive holdings – high-quality growth names such as CSL (CSL) and gold miners such as Evolution (EVN).

Recent performance has been driven by a different part of the portfolio – the cyclical, recovery-linked exposures such as Qantas (QAN) and REA Group (REA).

At times this year the growth exposure has worked well with names such as CSL and Xero (XRO). At other times it was the policy beneficiaries such as Fortescue Mining (FMG), JB Hi-Fi (JBH) and Atlas Arteria (ALX).

We also did well as the market recognised the value offered in long-term winners such as Nine Entertainment (NEC).

The recent strong run may mean we are in for a period of consolidation – though not necessarily any material pull-back.

The risk of prolonged recession has receded. Policy-makers remains in the mindset of "whatever it takes" – with policy settings supporting the economy and markets.

The world is in a better place than many feared in March. The economic rebound has been strong, helped by a surge in monetary and fiscal policy support. Strong industrial production in the US is helping offset weaker activity in services. Vaccines are on the horizon. The world is getting better at living with the virus and mitigating its economic damage.

Nevertheless, risks remain. The northern hemisphere Covid surge has led to renewed lockdowns and an impact on real-time economic activity. There is a great deal of complexity around the vaccines. How soon and how widespread will they be used? How quickly will we return to normal? Geopolitical risk – particularly around the relationship between China and Australia – is higher than usual.

The upshot is that we believe our balanced approach remains as valid now as it did earlier in the year.

New stocks added and/or stocks sold to zero during the month

No new stocks added or stocks sold during the month.

For more information contact your
key account manager or visit **pendalgroup.com**

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