PENDAL

Factsheet

Pendal Imputation Fund

Equity Strategies

ARSN: 089 614 693

January 2021

About the Fund

The Pendal Imputation Fund (**Fund**) is an actively managed portfolio of Australian shares. The Fund invests in a portfolio which we believe will provide a higher yield than the market average. It is intended that the portfolio will-be well diversified across sectors and not biased structurally to invest only in traditional 'yield stocks'.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 (TR) Index over the medium to long term. The suggested timeframe for holding the investment 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, diversification across a broad range of Australian companies and industries and are prepared to accept higher variability of returns. The Fund will primarily invest in Australian shares, including Australian listed property securities and convertible preference shares, that offer above average income 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.

Investment Team

Pendal's nineteen member Equity team is one of the largest in the Australian funds management industry. The portfolio managers for the Fund are Andrew Waddington and Jim Taylor, who have a combined 56 years industry experience.

Performance

Total Returns (%)	1 mth	3 mths	6 mths	1 Year (p.a)	3 Years (p.a)	5 Years (p.a)	10 Years (p.a)
Fund (Pre-Fee)	0.18	13.40	15.25	-6.44	5.61	8.64	7.63
Fund (Post-Fee)	0.10	13.14	14.73	-7.27	4.67	7.67	6.66
Benchmark	0.33	12.05	13.42	-2.69	7.13	10.14	7.77
Excess return (Post-Fee)	-0.23	1.09	1.31	-4.58	-2.46	-2.47	-1.11
Franking Credits Returns[1]							
Fund	0.01	0.12	0.46	0.93	1.41	1.93	1.97
Benchmark	0.00	0.09	0.43	0.90	1.20	1.29	1.39
Returns Grossed Up For Franking Credits[1]							
Fund (Post-Fee)	0.11	13.26	15.19	-6.34	6.08	9.59	8.64
Benchmark	0.33	12.14	13.85	-1.79	8.33	11.43	9.17

Fund Returns (%) As at 30 June 2020	3 Years (p.a)	5 Years (p.a)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Post-Fee	2.70	3.69	-3.89	15.11	13.50	8.77	-12.25
After Tax[2] (Superannuation tax rate)							
Pre-Liquidation[3]	3.58	5.00	-1.97	17.16	14.37	9.90	-11.59
Post-Liquidation[3]	3.74	5.18	-0.82	16.50	13.36	9.46	-9.99
After Tax[2] (highest marginal tax rate)							
Pre-Liquidation[3]	1.73	2.28	-5.74	12.81	12.62	7.66	-13.18
Post-Liquidation[3]	2.09	2.73	-2.95	11.20	10.25	6.64	-9.44

[1] Franking credit returns reflect the value, expressed as a percentage of the Fund's net asset value, of franking credits earned, directly or indirectly, by the Fund on the dividends it has accrued. Returns grossed up for franking are calculated by adding the franking credit returns to the total returns after-fees. The Fund's actual entitlement to franking credits is only known at 30 June each year and therefore amounts during the year are estimates only, subject to revision. Franking credit returns, and returns grossed up for franking, for the Benchmark are calculated on an equivalent basis.

[2] After-tax returns should only be viewed as a guide to the after-tax position of an investor in the Fund. The after-tax returns of the Fund will depend on an investor's individual tax situation and may differ from those shown. There have been a number of assumptions made in the calculation of after-tax returns, which include: investors are Australian resident taxpayers; investors hold their units on capital account; returns assume reinvestment of after-tax distributions on the distribution period end date; returns are calculated using applicable income tax rates at the time of each distribution; capital gains concessions (CGT discount) are always available to the investor; tax credits distributed by the Fund can be fully utilised by the investor; investors will be able to immediately offset any loss made on their units against capital gains from other sources. FY Stands for Financial Year, which runs from July 1 to June 30.

[3] The pre-liquidation returns refer to the after-tax returns assuming a continuing investment in the Fund. It is calculated using the actual discounts that applied to the fund on any realised capital gains and assuming the distributions are reinvested on an after-tax basis. Post-liquidation returns refer to the after-tax returns assuming a full redemption of an investor's units. It is calculated by including, in addition to the reinvestment of after-tax distributions, the unrealised gains, based on the assumption that the asset has been held for more than 12 months and that the CGT discount rate is applied to the unrealised gains and, in the case of unrealised losses, that those losses would be immediately available to the investor.

Sector Allocation (as at 31 January 2021)

Energy	5.3%
Materials	22.3%
Industrials	7.9%
Consumer Discretionary	4.3%
Consumer Staples	3.8%
Health Care	9.9%
Information Technology	0.0%
Telecommunication Services	8.5%
Utilities	0.0%
Financials ex Property Trusts	31.0%
Property Trusts	5.2%
Cash & other	1.8%

Top 10 Holdings (as at 31 January 2021)

	Weight	12 Mnth Fwd Div. Yield^
Commonwealth Bank of Australia Ltd	9.5%	3.9%
BHP Billiton Limited	9.4%	5.6%
CSL Limited	8.3%	1.1%
ANZ Banking Group Limited	5.8%	4.7%
Westpac Banking Corporation	5.5%	4.5%
Telstra Corporation Limited	5.0%	5.1%
Macquarie Group Limited	3.7%	4.0%
Rio Tinto Limited	3.7%	7.0%
Qantas Airways Limited	3.6%	0.0%
Amcor Limited	2.8%	4.3%

^Derived from the consensus broker forecast for dividends from FactSet and the stock price as at the end of the fact sheet period.

Investment Guidelines

Ex-ante (forward looking) tracking error	2.0% - 6.0%
Min/max stock position	+/-4%[4]
Min/max sector position	+/-8%[4]

[4] Compared to benchmark

Other Information

Fund size (as at 31 Jan 2021)	$182 million
Date of inception	October 1999
Minimum investment	$25,000
Buy-sell spread[5] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	RFA0103AU

[5] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs[6]

Issuer fee[7]	0.90% pa

[6] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

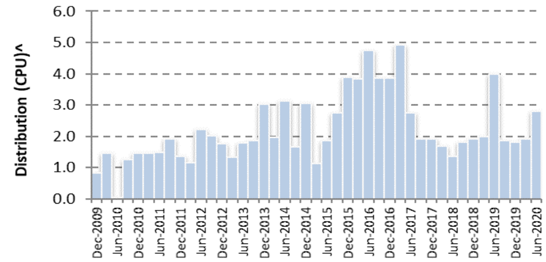
[7] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Risks

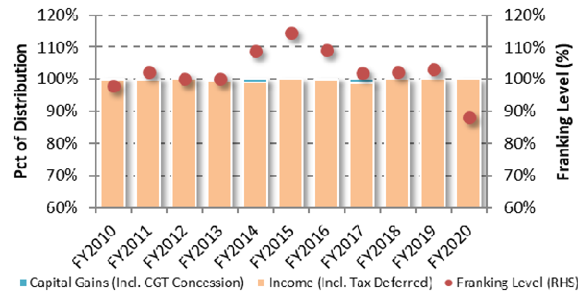
An investment in the Fund involves risk, including:

- **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.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.



^Historic distributions are not representative of future distributions.



Market review

Global equity markets fell in January. The recent positive sentiment around vaccines wobbled, with concerns over mutated strains and worries over production issues. This was exacerbated by some selling by hedge funds forced to de-lever in response a squeeze on some heavily shorted stocks. This dragged on the US market, whilst dampening market sentiment around the world. Against this backdrop, the S&P/ASX 300 Accumulation index finished the month flat (+0.3%), as a result of a large unwind in cyclical stocks over the last week of the month. Industrials (+0.6%) also gradually outperformed their Resources (-0.6%) counterpart.

On the Covid/vaccine front in particular, there was a lot of new data to digest. The Novavax vaccine trial data showed efficacy as good as Moderna's, with better tolerance and has a great ability to quickly ramp up production. The 65% jump in Novavax stock reflected how well the trial was received. Australia has signed up for 51m doses of this vaccine.

Trials in the UK and South Africa showed that efficacy fell from 96% for the original strain, to 86% for the UK variant and 49% for the South African version (60% for patients without HIV). Their plan is to develop a booster to deal with this, likely to be available in Q3. The other point is that this partial immunity still gives protection against severe infections - even with the South African strain.

Lastly, Johnson and Johnson vaccine was more disappointing. Overall efficacy is around 66%; 72% for the original strain, down to 57% for the South African variant. Importantly, while it may be less effective than other vaccines at stopping infection, it is still very effective in preventing severe infections. As such, it will play a role in alleviating pressure on health care systems and reducing mortality. The company is also running two-dose trials which may lead to improved results. It is important in that it is a key part of the European supply and can be rolled out more easily.

There was some divergence in sector performance over the month, with Real Estate (-4.3%), Industrials (-3.1%), Health Care (-1.7%) and Materials (-1.0%) finishing the period in the red; whilst Financials (+2.3%), Consumer Discretionary (+4.8%), Consumer Staples (+2.0%) and Communication Services (+2.6%) recorded some gains.

Turning to company specifics, the market saw a few updates prior to February reporting season. Atlas Arteria (ALX, -2.6%) delivered a well-received update on traffic numbers for its French asset, APRR. Traffic was down -25% year-on-year for December – however this was half the effect of the 51% year-on-year fall of the previous lockdown. And heavy vehicle traffic, which provides a higher proportionate share of tolls, was only down -2%.

BlueScope Steel (BSL, -5.1%) also announced an upgrade on improved earnings and margins. The latter is particularly strong in the US, where mothballed steel capacity is yet to be brought back on line. Nevertheless, broader weakness in the materials sector dragged the stock down.

Fund performance

The Fund underperformed the benchmark over the month of January.

Contributors

Overweight Incitec Pivot

The Tampa Ammonia price has increased US$60/t to US$330/t for February delivery, and it is the reference price for ammonia sold at IPL's Waggaman plant in Louisiana. The stronger price for fertiliser has been underpinned by strong crop prices, supply tightness and improving industrial demand. As such, the share price of IPL reacted positively in January.

Overweight Telstra

Telstra (TLS, +4.7%) outperformed in January as a defensive yield play, without much more new company specific information. We continue to see TLS benefit from an improvement in cost control, capex discipline and improved industry structure in mobile, which in turn can help support pricing.

Detractors

Overweight Qantas

Travel stocks responded negatively to the latest slew of vaccine data; in particular with concerns over mutated strains and worries over production issues. This saw Qantas (QAN, -7.2%) fall over the month. The key question is whether the lower efficacy to the South Africa variant and the manufacturing issues in EU will delay economic re-opening. In our view, whilst this is likely to cause a small delay – maybe 1-2 months - and may limit the level of international travel for longer; fundamentally, it does not prevent us from reaching herd immunity or diminishing the more serious effects of Covid.

Do not hold Wesfarmers

It was a strong month for Wesfarmers (WES, +8.4%) which outperformed the broad market. Its latest trading update from November last year shown good sales results across all divisions. As domestic economy reopens further, the market is expecting this strong sales trend to continue.

Outlook

There are signs of excess in pockets of the market. It is showing up in the performance of concept stocks like Tesla, in IPOs, in renewable energy ETFs, in bitcoin – and in January, the surge in retail money designed to squeeze the shorts in certain stocks. This is likely a consequence of the combination of stimulus cheques, lockdowns, the Northern hemisphere winter and a lack of other spending options.

However in our view it does not necessarily signal that the market as whole is in froth territory. Valuations in growth stocks remain well above historical highs – but that is not the case for other parts of the market, or for markets in aggregate.

We are also mindful of the degree to which fiscal and monetary policy setting underpin equity markets. A Democrat administration in the US looks set to inject a massive stimulus package into the economy – at the point where vaccination programmes should start taking effect, paving the way for a reopening. This is likely to drive economic momentum and earnings growth.

At the same time, central banks are being extraordinarily accommodative. Rates are flagged to stay low until inflation and employment milestones are reached – which could still be some years away. They have also been quick to hose down any speculation over tapering – mindful of the 2016 taper tantrum. This abundant liquidity is supporting markets and increasing the relative attraction of equities.

In combination, we think it reduces the risk of a material drawdown – and could very well support further equity markets gains in 2021.

The key proximate risk is around vaccines. Optimism over vaccinations is a key facet of recent market strength. Any disappointment around vaccine efficiency could hurt sentiment. Mutated strains of Covid are key to watch in this regard. At the moment, while vaccine efficacy is lower against the South African variant, in particular, they still work to reduce severity and mortality.

Nominal bond rates continue to rise, driven largely by inflation expectations on the back of stimulus packages. Higher nominal yields are good for financials, while higher break-even rates (ie inflation expectations) are generally good for cyclicals. At the same time real rates, which are historically correlated with growth, look to have troughed for the moment.

This is driving a shift in market leadership from growth to cyclicals and financials - although it is not seeing a material sell down in growth. We are mindful of the material risks and maintain our balanced portfolio construction – however within this context we have recently been increasing the cyclical and financial exposure in the portfolio.

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

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