Pendal Global Select Fund
Class P

ARSN: 651 789 678

Factsheet

Global Equities

30 June 2022

About the Fund

The Pendal Global Select Fund (**Fund**) is an actively managed portfolio of global shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the MSCI ACWI NR Index (net dividends reinvested) in AUD over rolling 5 year periods. 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 listed global equities, with an investment timeframe of 5 years or greater and are prepared to accept higher variability of returns.

The Fund's strategy is based on a belief that stock markets are inefficient and aim to exploit market anomalies via an investment process that combines both top-down and bottom-up research. As investment manager, JOHCM's distinct '4-Dimensional' investment process (stocks, sectors, countries, time/change) focuses on the behaviour of each share price to determine whether the most important driver of each prospective investment is stock specific, sector or country-based.

The Fund will typically hold 30-60 stocks and is benchmark agnostic.

The investment manager recognises that ESG factors can create risks and opportunities for companies and as such incorporates ESG risks into their analytical framework and portfolio construction. Further, the Fund employs exclusionary screens to avoid investments in companies that cause significant social and/or environmental harm.

The Fund will not invest in companies directly involved in either of the following activities:

- tobacco production (including e-cigarettes and inhalers); or
- controversial weapons manufacture (such as cluster munitions, landmines, biological or chemical weapons, nuclear weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments).

The Fund will also not invest in companies which derive 10% or more of their total revenue directly from any of the following activities:

- extraction, exploration, distribution, or refinement of fossil fuels, or fossil fuel-based power generation*;
- production of alcoholic beverages;
- manufacture, ownership or operation of gambling facilities, gaming services or other forms of wagering;
- manufacture of non-controversial weapons or armaments;
- manufacture or distribution of pornography; and
- uranium mining for the purpose of nuclear power generation.

Investment Team

The strategy is managed by Christopher Lees Senior Fund Manager and Nudgem Richyal, both Senior Fund Managers at JOHCM since joining in 2008. Chris has 31 years of industry experience and Nudgem has 21 years of industry experience. Prior to joining JOHCM, Chris and Nudgem worked together at Baring Asset Management. They have employed their current approach to investing in global equities since 2004. The team leverages the full breadth of JOHCM's 40+ portfolio managers and analysts as part of the investment process.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-6.65	-6.60	-4.47
3 months	-11.74	-11.57	-7.90
6 months	-26.06	-26.14	-15.61
1 year (pa)	-	-	-
Since Inception (pa)	-19.33	-18.78	-10.56

Country Allocation (as at 30 June 2022)

Australia	2.1%
Denmark	5.6%
Netherlands	4.6%
Sweden	2.1%
Hong Kong	6.7%
Japan	4.7%
Other Asia	0.0%
Canada	0.0%
USA	68.4%
Cash	5.8%

Sector Allocation (as at 30 June 2022)

Energy	2.2%
Materials	8.8%
Industrials	9.4%
Consumer Discretionary	7.0%
Consumer Staples	2.7%
Health Care	23.3%
Information Technology	23.5%
Telecommunication Services	2.0%
Utilities	2.6%
Financials ex Property Trusts	12.6%
Property Trusts	0.0%
Cash	5.8%

Top 10 Holdings (as at 30 June 2022)

Novo Nordisk A/S Class B	3.0%
Chart Industries, Inc.	2.8%
Estee Lauder Companies Inc. Class A	2.7%
Catalent Inc	2.7%
Microsoft Corporation	2.7%
Thermo Fisher Scientific Inc.	2.7%
Agilent Technologies, Inc.	2.6%
Keysight Technologies Inc	2.6%
Orsted	2.6%
Elevance Health, Inc.	2.6%

*Companies with a climate transition plan may be exempted from this exclusion, provided that they have in place a Paris Agreement aligned transition plan and produce climate-related financial disclosures annually, which in both cases we consider credible. We define fossil fuels as coal, oil and natural gas.

Management Cost[1]

Issuer fee[2]	0.75% pa plus the performance fee
Performance fee	15% of the Class P Unit's performance (before fees) in excess of the performance hurdle[3]

[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.

[3] The performance hurdle is the performance of the Fund's benchmark (MSCI ACWI NR Index (net dividends reinvested) in AUD) plus the issuer fee. Refer to the PDS 'Additional explanation of fees and costs' for more information.

Other Information

Date of inception	30 July 2021
Minimum investment	$25,000
Buy-sell spread[4] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Yearly
APIR code	PDL3591AU

[4] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

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.
- **Emerging markets risk** – The risk of asset price volatility and higher currency, default and liquidity risk from investments in emerging markets.
- **Derivatives risk** – The risks arising from use of derivatives to manage exposures to investment markets.
- **Class risk** - The Fund has been established as a separate class of units in the Scheme. As the assets are held on trust for all investors, there is a risk that investors of one class, may be exposed to liabilities of another class of units and they could lose some or all of their investment in the Fund. There is also a risk that in the event of an insolvency, the assets of the Fund could be made available to creditors of another class of units of the Scheme.

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

Fund manager commentary

The fund underperformed its benchmark index in June, Q2 and year to date. In US$ terms, the MSCI All Country World Index fell -8.6% in June and has now fallen -20.9% this year. This is the worst first half of a calendar year in the 34-year history of the MSCI index. In June, every region and every global sector posted a negative return, with the best performing sectors year to date being hit the hardest. Inflation reached 40-year highs in many parts of the world, prompting central banks to hike interest rates more than expected, which focused investors' attention on the prospects of a global recession. Consensus earnings growth forecasts remained surprisingly resilient year to date (which stopped us getting bearish) so potential broad cuts to earnings expectations have the potential to weigh on equities in the second half and prompt a change in leadership from value/cyclical stocks to those growth/quality stocks whose earnings will be more resilient during the economic and earnings slowdown.

During the month, quarter and year to date we have underperformed for three main reasons. 1) Our investment process did not get defensive enough, so the beta of the portfolio was too high, 2) the ongoing growth to value factor rotation, which is a significant headwind for us as our investment process is 2/3rds growth/momentum and 1/3rd valuation, 3) underweight energy and overweight technology, particularly semiconductors.

What are we doing about it? 1) In Q2 we followed our top-down scorecard which increased healthcare and reduced technology. 2) We followed our sell process and "weeded out the losers." 3) We are looking for new opportunities during this crisis (eg biotech and China are beginning to recover). Most of our semiconductor holdings had reported excellent earnings in Q1, but then started to lower future revenue and earnings guidance in Q2, so we followed our investment process and started selling these 'cyclical growth stocks' (eg Applied Materials, Mediatek, NXP, Wolfspeed) to purchase some new 'stable growth stock' in the healthcare sector (eg Elevance Health, Regeneron, Vertex), and 'recovery growth stocks' in the Chinese technology sector (eg Alibaba, Tencent). We also 'weeded out the losers' in Japan as several of our holdings became what we call 'good houses in a bad neighbourhood' (eg Recruit, SBI Holdings).

Outlook and strategy

Our evidence-based probability-adjusted investment process did not get defensive enough. We went from 70% bullish (30% bearish) to 60% bullish (40% bearish) at the beginning of the year as we thought inflation would peak in Q1, but we were wrong - not helped by the war in Ukraine and then the China lockdowns. In hindsight, we got oil wrong, which meant we got inflation and interest rates wrong.

We now assess a 50% probability of equity markets continuing their fall with healthcare our favourite low beta (defensive) sector; a 35% probability of markets rallying with some of the older 'growth' leaders such as large cap profitable biotech and China technology stocks now our favourite high beta (offensive) recovery stocks; and a 15% probability of markets rallying with some of the newer 'value' leaders with commodity (not consumer or financial) stocks our favourite in this area.

Yes, we are in a bear market, but will it be a small, medium or big bear market? Small bear markets (Ursa Minor) are usually monetary tightening 'valuation' driven and average around -20%. Medium bear markets are usually recessionary 'earnings' driven and average around -30%. This is what the current bear market has evolved into at the end of Q2. Big bear markets (Ursa Major) are usually banking crisis driven and average around -50%, but we do not think this bear market will turn into a banking crisis. So our base case is now an earnings recession but not a banking crisis (ie -30% not -50% bear market).

We think the second half of this year will be very different from the first half, as markets are now on recession watch instead of inflation watch. We believe this bear market is now moving from the P to the E of the P/E ratio, and historically that is when our process usually performs better. For example, in 2019-2020 the negative earnings revisions got us defensive, but in 2022 earnings revisions remained positive until just a few weeks ago. Now that earnings revisions have only just turned negative, we expect significant earnings downgrades during the second half of 2022, and so we are focusing on quality compounders with rock solid balance sheets that we think can withstand the threats of rising interest rates, rising input costs, broken supply chains and slowing earnings growth.