

Pendal Concentrated Global Share Fund No.3

Global Equities

Previously known as 'Pendal International Share Fund'

September 2020

ARSN: 087 593 299

About the Fund

The Pendal Concentrated Global Share Fund No.3 (**Fund**) is an actively managed concentrated portfolio of global shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds 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 can 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 be able to leverage Pendal Group's global resources, including those of J O Hambro Capital Management, 100% owned by offices in London, Singapore, New York and Boston.

Management Costs¹

Issuer fee ²	0.95% pa
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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.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	0.75	0.98	3.78
FYTD	0.75	0.98	3.78
6 months	6.94	7.43	9.94
1 year (pa)	-7.05	-6.17	4.30
2 years (pa)	-3.14	-2.21	6.69
3 years (pa)	3.23	4.23	11.21
5 years (pa)	4.81	5.82	10.10

The investment manager for this Fund changed on 21 February 2020. Performance before this date may not be directly comparable.

Country Allocation (as at 30 September 2020)

Belgium	5.3%
France	7.1%
Germany	4.2%
Netherlands	4.6%
Spain	3.2%
Switzerland	5.9%
United Kingdom	4.4%
Hong Kong	2.5%
Japan	2.3%
USA	59.3%
Cash & other	1.2%

Top 10 Holdings (as at 30 September 2020)

Freeport-Mcmoran Inc	4.3%
Infineon Technologie	4.2%
Alphabet Inc Common	3.9%
Facebook Inc Common	3.9%
Analog Devices Inc C	3.9%
Anheuser-Busch Inbev	3.7%
Total Se Common Stoc	3.5%
Texas Instruments In	3.4%
Wells Fargo & Co Com	3.3%
Union Pacific Corp C	3.2%

Other Information

Fund size (as at 30 Sep 2020)	\$38 million
Date of inception	August 1996
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	BTA0056AU

³ The buy-sell spread represents transaction costs 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.

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

Market review

Following five consecutive months of gains, global equity markets had a weak end to the quarter as the global macro horizon darkens under the looming US election, US fiscal cliff, Brexit, and COVID-19 second wave fears. Despite the soft end to the quarter, the MSCI World gained 7.93% over the September quarter in US dollar terms. Late in the quarter, Value outperformed Growth by 130bp, which marked September as the first month the former has prevailed since Sep-19. Although the fall of -3.6% in the Australian dollar vs the US dollar benefitted Australian investors in September, the AUD ended positive over the quarter diminishing returns for Australians.

Despite global equity markets falling in September, investors experienced positive returns over the quarter. In the US, the Nasdaq (11.02%) outperformed the S&P500 (8.47%) in US dollar terms. In Europe, the German DAX had a strong quarter (3.65%) while the FTSE 100 (-4.92%) experienced negative returns. Looking to Asia, Japan outperformed with the Nikkei gaining 4.02% in local currency terms, while the Hang Seng fell -3.96% in local currency terms.

The exceptional runs of iron ore and gold came to an end in September, with the former dropping 4.9% - the first decline since April. The rising USD (+1.3%) was a factor in the broadbased weakness across the commodities complex.

A resurgence in COVID-19 across Europe and weakening Eurozone flash PMIs has led our European economists to cut their growth estimates. Spain was the hardest hit, with 3Q20 forecasts lowered by 10%. The UK is approaching its second wave and with daily case counts at higher levels than seen in April. As a result, the UK government has re-imposed lockdown measures that may be extended for six months if case numbers remain high. Thankfully the European second wave appears to be less deleterious than the first due to increased testing, improved treatments and more effective separation from vulnerable groups such as the elderly.

Fund performance

The Fund underperformed in the September quarter amid fears of a second wave of COVID-19, and the potential implications for the global economy as a consequence. It appears likely that many forms of restrictions will remain in place globally until a vaccination has been widely distributed. As a consequence, we expect operating conditions for many companies to remain challenging for some time. We continue to focus on owning the companies we know can survive the pandemic, and where we believe the market is not giving them credit for their post pandemic earnings power.

Our positions in financials underperformed this quarter. Uncertainty over credit losses, margin pressure as a result of low interest rates, and regulatory pressure seeking to enable the support of a functioning economy has contributed to pressure on share prices. Amid this environment the stronger banks have sought to consolidate their position, with a number of M&A deals in the quarter either speculated or announced. One such deal was the announcement by Caixa Bank, (a holding in the fund) that they would merge with rival Spanish Bank, Banxia. Caixa Bank will pay a total of 4.3bn euro for 100% of Banxia via a share swap, which equates to a price of .3x price to book value. The merger will create the largest banking franchise in Spain, with loan and deposit market shares of close to 30%. We view the cost saving and earnings accretion potential to be significant. As shareholders we would prefer the companies that we own to experience only optimal operating conditions, however when events outside the control of management present themselves it is pleasing, that they have foresight, and the courage to implement strategies for the long term good of shareholders.

Our holding in Intel Corporation, the world's largest designer and manufacturer of semiconductor chips underperformed this quarter after the release of their second quarter result in July. Whilst the results were ahead of consensus estimates and the company also guided revenue for the full year which will represent their fifth consecutive year of record revenue, the market was disappointed by the suggestion that there would be delays to the release of their next generation semi-conductor chips. Intel is the world's only designer & manufacturer of leading edge CPU chips for servers, PC and notebooks. This business accounts for ~50% revenues, and Intel's only competitor is Advanced Micro Devices (AMD). AMD design the chips, however outsource manufacturing to semiconductor manufacturer, TSMC. Whilst Intel still retain over 80% share of the market, AMD have been growing share in the last two years. The CPU market is a mature market, which Intel acknowledged a number of years ago when they implemented a very deliberate strategy to leverage their scale, research and development budget to expand their total addressable market into other semi-conductor products. Whilst the manufacturing delays are disappointing, we believe the resulting share price declines failed to reflect the long term growth potential of this "data centric" business.

Strategy and outlook

The third quarter of 2020, saw a continuation of positive momentum in most major markets, with continued outperformance in the US, particularly the technology sector. Unprecedented monetary and fiscal stimulus continues to buoy markets, however uncertainty still remains as to the path of the pandemic and the longer term economic fall-out. We would expect volatility to remain elevated amid continuing geo-political tensions, BREXIT negotiations and an upcoming US election. We remain cognisant of this environment, and focused on owning a portfolio of companies that have the ability to withstand a lengthy slow-down in the economy if it is to eventuate, yet at the same time outperform peers. We will also remain vigilant in looking for opportunities to buy businesses that are trading in our view at significant discounts to what we consider to be their long term value. We remain very much of the view that in order to optimise equity market returns, investors are best placed by owning a concentrated portfolio of companies, who have the ability to sustain their business models over the longer term.

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

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.