PENDAL

Factsheet

Pendal MidCap Fund

ARSN: 130 466 581

Equity Strategies

October 2020

About the Fund

The Pendal MidCap Fund (**Fund**) is an actively managed portfolio of Australian mid cap shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Pendal MidCap Custom 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 portfolio of primarily 40-60 Australian mid cap shares and are prepared to accept higher variability of returns. Pendal defines the mid cap universe to include companies ranked between 51 and 150 of the S&P/ASX 200 Index. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange, 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).

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

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 Equity team is headed up by Crispin Murray who has extensive experience and a strong record in equities research. Andrew Waddington is the portfolio manager for the Fund.

A combination of the Australian equities large cap and small cap teams' research is used to construct the Pendal MidCap Fund.

Investment Guidelines

Investable universe	ASX and NZX listed and soon to be listed companies, generally with a market capitalisation of A$0.5 billion to A$5 billion; derivatives; cash
Investment ranges	Australian shares 80 - 100% New Zealand shares 0 - 10% Cash 0 - 20%
Ex-ante tracking error	3 – 8%
Number of stocks	Typically 40 – 60
Absolute stock position	15%
Maximum active stock position	+/- 5%[1]
Maximum active sector position relative to index	+/- 10%[1]

[1] compared to benchmark.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	3.86	3.93	4.47
3 months	6.26	6.50	7.25
6 months	14.86	15.23	21.42
1 year (pa)	5.21	6.19	6.15
3 years (pa)	6.40	7.58	7.00
5 years (pa)	10.68	11.86	10.97
7 years (pa)	10.98	12.31	10.47
10 years (pa)	10.40	12.02	8.41
Since Inception (pa)	9.57	11.57	5.99

Sector Allocation (as at 31 October 2020)

Energy	1.2%
Materials	19.5%
Industrials	17.6%
Consumer Discretionary	7.7%
Consumer Staples	8.5%
Health Care	7.6%
Information Technology	9.4%
Telecommunication Services	8.0%
Utilities	0.0%
Financials ex Property Trusts	3.1%
Property Trusts	6.0%
Cash & other	11.4%

Top 10 Holdings (as at 31 October 2020)

Xero Limited	7.4%
Nine Entertainment Co Ltd	6.0%
Metcash Trading Limited	5.1%
Seven Group Holdings Ltd	5.0%
Resmed Inc	4.3%
Atlas Arteria	3.8%
JB Hi-Fi Limited	3.7%
Evolution Mining Limited	3.1%
Bluescope Steel Limited	3.0%
Northern Star Resources	2.9%

Other Information

Fund size (as at 31 Oct 2020)	$469 million
Date of inception	June 2008
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0313AU

[2] 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[3]

Issuer fee[4]	0.90% p.a.
Performance fee[5]	20% x the Fund's performance (before fees) in excess of the performance hurdle

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

[4] 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.

[5] The Fund's performance fee is 20% of the Fund's performance in excess of the performance hurdle. The performance hurdle is the performance of the benchmark (Pendal MidCap Custom Index) plus the issuer fee of 0.90% 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.

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

Market review

Performance of the S&P/ASX 51-150 Ordinaries Accumulation index was strong in October, recording a total gain of +4.5%. Industrials (+4.7%) outperformed over the month; whereas Resources (+3.4%) were the laggard as the gold miners and oil-related companies pulled back.

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, all the 11 GICS sectors finished the month in the black, with both Consumer Staples (+18.8%) and Information Technology (+10.6%) posting double-digit gains. This was followed by Financials (+7.1%) and Healthcare (+3.2%). Within Consumer Staples, Coca Cola Amatil (CCL, +30.8%) was subject to a bid from Coca Cola European Partners. The deal as cleverly timed from the bidder's perspective, as the stock is expected to rebound to levels nearer the bid price as a result of looser travel restrictions and cost out initiatives lately. Nevertheless, the market took the news well. Similarly, both Link (LNK, +27.9%) and AMP (+17.2%) attracted suitor's interests. In LNK's case, the Board initially rejected a conditional, non-binding offer from the consortium led by PEP/Carlyle Group, which valued the company at $5.2 per share. The consortium then revised the offer higher to $5.4, with an option for a cash bid ex PEXA at $3.8. The Board continues to assess the revised offer. For AMP, there was media rumour (later confirmed by Management) that Ares Management had made an indicative offer to buy the recently beleaguered wealth manager. The offer was said to value AMP north of A$5bn, excluding debt. Also within Financials, Challenger (CGF, +25.6%) revealed some well-received 1Q21 flows. Net inflows were +$2.3b for Fidante and +$1.2b for CIP; whereas overall FUM was also supported by the strong investment market rebound over the quarter.

On the other end of the spectrum, the rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on some of the infrastructure/utility names. This saw Spark Infrastructure (SKI, -3.2%) and Atlas Arteria (ALX, -7.1%) finished the month in the red. Within the Healthcare sector (+3.2%), Mesoblast (MSB, -39.8%) pulled back, and was the largest performance detractor. The company's share price has skyrocketed since April, as market welcomed its remestemcel-L as a potential treatment for hospitalised COVID-19 patients suffering from acute respiratory distress syndrome. In October, the company announced that the US FDA has issued a Complete Response Letter to its Biologics License Application (BLA) for remestemcel-L. This will likely to delay the approval process, and MSB has requested a Type A meeting with the FDA to discuss a potential accelerated approval with a post-approval condition for an additional study.

Fund performance

The Fund underperformed the 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.

Does not hold Mesoblast

Mesoblast (MSB, -39.8%) pulled back, and was the largest performance detractor. The company's share price has skyrocketed since April, as market welcomed its remestemcel-L as a potential treatment for hospitalised COVID-19 patients suffering from acute respiratory distress syndrome. In October, the company announced that the US FDA has issued a Complete Response Letter to its Biologics License Application (BLA) for remestemcel-L. This will likely to delay the approval process, and MSB has requested a Type A meeting with the FDA to discuss a potential accelerated approval with a post-approval condition for an additional study.

Detractors

Does not hold Afterpay

The latest Australian Federal budget underpinned several growth stocks over the month, which saw market darling Afterpay (APT) record another double-digit gain of 20.9%; and not owning that weighed on our relative performance. That said, our preferred growth exposure, Xero (XRO, +9.3%) also benefited from the measures to help accelerate investment and stop business going under.

Overweight Monadelphous

Mining service provider Mondadelphous (MND, -9.9%) took a breather in October after recording a double-digit gain during the previous month. There was no new news revealed, and we believe the resilient demand for iron ore as a result of Chinese policy, coupled with supply disruption will continue to support the outlook for increased spending by miners on production expansion and maintenance. This would in turn result in a solid pipeline of contract wins for MND.

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.

We have been adding to the recovery –aligned part of the portfolio in recent weeks, such as BlueScope Steel, as we gain more confidence and clarity on the outlook for the domestic economy. However while policy support is rendering the possibility of a double dip recession less likely, there is still the risk of a market downturn and hence we retain the portfolio’s protection in the form of companies with defensive earnings – such as Cleanaway. We also maintain the exposure to gold via a diversified basket of miners, including Evolution Mining.

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

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