Pendal MidCap Fund

ARSN: 130 466 581

Factsheet

Equity Strategies

November 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	7.60	7.68	7.63
3 months	9.06	9.30	8.56
6 months	17.78	18.32	20.80
1 year (pa)	10.66	11.68	9.81
3 years (pa)	8.09	9.34	8.58
5 years (pa)	12.03	13.19	12.67
7 years (pa)	12.30	13.62	11.98
10 years (pa)	11.13	12.76	9.23
Since Inception (pa)	10.15	12.15	6.58

Sector Allocation (as at 30 November 2020)

Energy	1.6%
Materials	17.9%
Industrials	18.7%
Consumer Discretionary	8.4%
Consumer Staples	8.0%
Health Care	7.3%
Information Technology	9.4%
Telecommunication Services	7.4%
Utilities	0.0%
Financials ex Property Trusts	4.1%
Property Trusts	6.0%
Cash & other	11.2%

Top 10 Holdings (as at 30 November 2020)

Xero Limited	7.2%
Seven Group Holdings Ltd	5.2%
Nine Entertainment Co Ltd	5.2%
Metcash Trading Limited	4.7%
Resmed Inc	4.0%
Atlas Arteria	4.0%
Monadelphous Group Limited	3.5%
JB Hi-Fi Limited	3.3%
Bluescope Steel Limited	3.2%
Healius Limited	2.9%

Other Information

Fund size (as at 30 Nov 2020)	$508 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

The S&P/ASX 51-150 Accumulation index gained +7.6% over November, underperforming the broadcap S&P/ASX 300 Accumulation index (+10.2%). Copper was up +11.7% for the month and is well above pre-Covid level. Brent Crude also gained +29% for the month. In contrast, gold (-4.9%) continued to sell-off as need for safe haven has reduced for now. As a result, 51-150 Resources (+4.9%) underperformed 51-150 Industrials (+8.3%).

Covid cases in the US remain a risk. However European restrictions are taking swift effect – with far less economic impact than previously. Coupled with vaccine upon the horizon, the market seems to be looking through near term Covid risks to focus on a more positive 2021.

On the vaccine front questions emerged over the quality of the most recent AstraZeneca trials, which appear to have a small sample size and a skew in terms of age profile. This may lead to a delay in approval as more data on different trial groups is collected. This is a material issue in terms of the vaccination plans for countries outside the US. The latter's plan is skewed more towards Pfizer and Moderna. However in places like the EU, UK and Australia the AstraZeneca vaccine formed a much larger proportion of the proposed plan. In Australia, in particular, this places far more significance on the Novavax trials. Ultimately, this could see a vaccination programme rolled out faster in the US than in other parts of the world, with implications for relative rates of economic growth.

Turning to sector performance, double-digit gains were made by Energy (+29.1%), Financials (+17.5%), Communication Services (+12.4%) and Industrials (+10.8%); whereas Utilities (-1.0%), Consumer Staples (+2.1%) and Information Technology (+3.0%). Within Financials, banks led the gains. Bendigo Bank (BEN, +33.0%) was the largest contributor, after delivering a well-received result that highlighted good cost discipline. There was also positive read-through from the big four banks that the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Similarly, Virgin Money UK (VUK, +40.9%) was the best performer within the sector. The UK bank reported FY20 results over the month. Whilst it missed expectations on some fronts, including the 2H20 underlying Profit Before Taxes (PBT) of £4m due to higher provisions and a 1% miss in revenues, its NIM outlook was more positive than many had thought, and in conjunction with a general rotation towards Value names more recently, it finished the month higher.

On the other side of the tally board, Domino's Pizza (DMP, -12.6%), Nextdc (NXT, -11.7%), Ansell (ANN, -6.9%) and Afterpay (APT, -1.7%) were amongst the largest underperformers of the headline index. DMP held its AGM in November, which highlighted a sales slowdown from the recent surges during the Covid outbreak – Same-Store-Sales growth (SSSg) in the first 17 weeks of FY21 was 8.4%, which is a slowdown from the +11.0% delivered in the first 7weeks. In addition, the increase in the headline numbers has not fully translated into bottom-line growth to date, which has also worried the investors. That said, the Group remains on track for record store openings and has opened 74 stores to date, making a record for this time of the year.

Fund performance

The Fund performed broadly in line with the benchmark over the month of November.

Contributors

Overweight Monadelphous

Monadelphous (MND, +39.3%) held its AGM in November and provided initial guidance for 1H21 revenue guidance. Sales are expected to be up by 10% sequentially, which are circa A$880mn and better than market consensus. In addition, the mining services company was awarded three three-year master services contracts with Rio Tinto for delivery of sustaining capital projects throughout the Pilbara region; and secured a 12-month extension to its existing contract across BHP's Western Australian nickel operations.

Overweight Xero

Xero (XRO, +20.3%) delivered a good result. New subscriber growth softened in the US and UK, in line with expectations given the challenges in attracting new customers during the Covid period. However the key metrics we are watching in those markets continue to track well. There was stronger than expected subscriber growth in Australia – and particularly in New Zealand – which was surprising given that these are already heavily penetrated markets. This may suggest a further post-Covid shift in mentality towards the importance of online cloud-based accounting. There were also constructive signals around the development of the broader platform and ancillary services. XRO remains among our preferred tech growth exposures.

Detractors

Overweight Metcash

Market defensives, including the supermarket players pulled back during the month as investors turned risk-on. Metcash (MTS, +0.0%) underperformed the market as a result. Nevertheless, MTS remains our preferred exposure to the sector. It provides us exposure to a defensive earnings stream, coupled with company-specific factors such as improvements in market share on the back of improved store formats and an increase in neighbourhood-style convenience shopping.

Does not hold Seek

Seek (SEK, +21.1%) provided an upbeat trading update at its AGM in November. In particular, the Group YTD revenue is well above the assumptions underlying the illustrative scenario provided at FY20 Results. SEEK ANZ, OES and Zhaopin have performed well above the illustrative assumptions, with SEEK Asia also above those assumptions but to a lesser extent. Revenue growth has been driven by a mix of rehiring of roles lost during previous months, and growth in some sectors. Lastly, ESVs continue to perform well which has increased management's conviction levels to re-invest.

Outlook

The Midcap sector made solid gains in November. 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, leaving the US with a far more moderate – and market friendly – government than many expected.

Second, on the vaccine front, the ~95% efficacy rates reported by Modern and Pfizer were far higher than most expected. This prompted a surge in some of the more cyclical value stocks.

The Fund performed in line with the index and remains ahead of it over the preceding twelve months. Companies which are well set to benefit from the relaxation of travel and movement restrictions and recovery in the domestic economy did best. This includes Monadelphous, Seven Group and Nine Entertainment. Some of the more defensive holdings – such as Metcash and Saracen – underperformed.

Looking forward, risks remain. The surge in Covid in the Northern Hemisphere has led to lockdowns – with perhaps more coming – and is having an impact on real-time economic activity. There is a great deal of complexity around the vaccines – how soon and 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.

Nevertheless, 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. In the US, strong industrial production 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.

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

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

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