PENDAL

Factsheet

Equity Strategies

January 2021

Pendal MidCap Fund

ARSN: 130 466 581

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	-1.11	-1.04	-0.78
3 months	11.08	11.32	10.02
6 months	18.03	18.56	17.99
1 year (pa)	11.08	12.11	8.87
3 years (pa)	7.84	8.91	8.63
5 years (pa)	12.74	13.83	13.54
7 years (pa)	12.79	14.08	12.41
10 years (pa)	11.10	12.73	8.97
Since Inception (pa)	10.29	12.28	6.67

Sector Allocation (as at 31 January 2021)

Energy	1.4%
Materials	21.1%
Industrials	18.1%
Consumer Discretionary	8.7%
Consumer Staples	8.3%
Health Care	7.9%
Information Technology	4.8%
Telecommunication Services	7.4%
Utilities	0.0%
Financials ex Property Trusts	4.4%
Property Trusts	5.6%
Cash & other	12.3%

Top 10 Holdings (as at 31 January 2021)

Metcash Trading Limited	5.7%
Nine Entertainment Co Ltd	5.2%
Seven Group Holdings Ltd	4.6%
Resmed Inc	3.8%
Atlas Arteria	3.7%
Bluescope Steel Limited	3.5%
Monadelphous Group Limited	3.4%
Healius Limited	3.4%
JB Hi-Fi Limited	3.3%
Evolution Mining Limited	2.7%

Other Information

Fund size (as at 31 Jan 2021)	$525 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

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 51-150 Accumulation index finished the month with a minor loss (-0.8%), underperforming the broad market by -1.1%. Resources (-2.5%) underperformed their Industrials (-0.2%) 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.

Turning to sector performance, some divergence was evident over the month. Consumer Discretionary (+3.7%) was the best performing sector, followed by Utilities (+1.6%), Consumer Staples (+1.2%) and Health Care (+1.1%). English testing service provider IDP Education (IEL, +15.8%) rose ahead of February reporting season as some sell-side analysts upgraded their numbers on the company, citing improved trading conditions as well as significant pent up demand from students. Similarly, we saw Harvey Norman (HVN, +13.9%) and JB Hi-Fi (JBH, +6.5%) continue to edge higher, as the market expects both to report the ongoing strength in their topline growth. Elsewhere, ARB (+14.1%) provided an upbeat trading update for 1H21 that was well received: revenue for the half grew by +21.6% compared to 1H20, a further acceleration from the +17.7% recorded in the first quarter. Margins have also improved over the period.

On the other end of the spectrum, Information Technology (-5.2%), Real Estate (-4.9%), Energy (-2.5%) and Financials (-2.2%) all recorded losses over the month. Link (LNK, -13.9%) retreated after SS&C, which previously made a non-binding, conditional takeover proposal withdrew its offer. The negative sentiment was somewhat offset by the company's upgrade of 1H21 guidance later in the month, now expecting1H21E Operating NPATA at $65m, which is ahead of prior communicated guidance of $57m.

Fund performance

The Fund underperformed the benchmark over the month of January.

Contributors

Do not hold Magellan (MFG)

Magellan (MFG, -10.7%) provided its FUM/Flow update of the December quarter in January. Whilst flows have been resilient, FUM was down by 1.6% from A$103bn to A$101.4bn, driven by negative investment returns which also weighed on the performance fees earned. This saw MFG pull back over the month.

Overweight Nine (NEC)

Nine Entertainment (NEC, +3.9%) benefitted from growing confidence that there would be a media deal in Australia leading to higher revenue for their news content. Advertising also remains strong, as companies look to leverage their brands to the optimism surrounding a roll back in restrictions and re-opening economy. This saw the stock outperform during January.

Detractors

Overweight Xero

Xero (XRO, -11.5%) was caught in the crosshairs of some hedge fund deleveraging during the month, after a year of strong outperformance. It is one of our preferred growth names, which we believe will be a beneficiary of digitisation of the economy and low interest rates. Despite some near-term headwinds on expected SME churn and failure rates, we believe that the structural shift to the cloud will be further accelerated as a result of COVID and that the relationship between accountants, SMEs and software has never been more important.

Do not hold Zip (Z1P)

Zip (Z1P, +37.4%) provided a solid 2Q trading update during the month, which saw its US business Quadpay continue to grow strongly. Quadpay's key metrics accelerated in December, with a +215% year-on-year growth in Total-Transaction-Volumes (TTVs), a further step up from the 205% recorded in November. The business also added another 394k customer in December, compared to the 296k added in November.

Outlook

The S&P/ASX 51-150 index ended the month down, with the Fund behind the index.

There were some good gains from Nine Entertainment, which continues to benefit from a recovery in advertising demand, and from JB Hi-Fi, which continues to see strong sales growth.

However some of the more defensive names in the portfolio also made good contributions, including Metcash and Healius.

A strong bid for the IPO of buy-now-pay-later company Affirm in the US lifted the broader sector in Australia. Zip (Z1P) rose 37.4%; not holding it was a material detractors from the Fund's relative performance.

The position in Xero (XRO) detracted as it gave up some of the recent strong gains.

We do not believe that equity markets, in aggregate, are grossly overvalued – particularly given the strong rebound in earnings growth likely to come through in the next half. However there are pockets of excess, fuelled by stimulus payments and abundant liquidity. In the US, this is showing up in some of the high profile retail trades, in Renewable Energy ETFs, and in flagship thematic stocks.

IPOs are another area to be watched. There is a strong IPO pipeline here in Australia, however there have been very mixed outcomes. There are signs that the local market is being more discerning, with a couple of proposed IPOs being withdrawn after launch.

Recent volatility is linked to some wavering sentiment around vaccines, given noise in Europe over alleged production issues and also concern that they are not as effective against mutating strains of the virus. This remains a risk, although at this point we remain reasonably optimistic.

Production data suggests there should be enough vaccines – and programmes in the UK and US are proceeding at a rapid pace. At the same time expert consensus is that vaccines, while not as effective as preventing the infection of some new strains, still materially reduce its severity. As a result it still helps accomplish the goal of reducing mortality and the pressure on health care systems.

Meanwhile, monetary and fiscal policy remains extraordinarily supportive for markets. Government programmes are underpinning spending, while Central banks have been quick to head off any concerns over a tapering in bond purchases.

As a result, the portfolio continues to have exposure to companies leveraged to the recovery in both the domestic and global economies, while retaining a defensive portion as a hedge against a rise in Covid-related risks or a prolonged downturn in sentiment.

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

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