

Pendal MicroCap Opportunities Fund

ARSN: 118 585 354

Factsheet

Equity Strategies

September 2020

About the Fund

The Pendal MicroCap Opportunities Fund (**Fund**) is a portfolio of stocks in the rapidly expanding and highly diversified micro cap sector. The universe includes more than 1,100 companies listed on the ASX and NZX with a market capitalisation of generally less than \$250 million.

Investors should be aware that due to the characteristics of micro cap companies there is some additional risk involved in investing in the Fund compared to a conventional Australian equities fund.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX Small Ordinaries (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

Investment Strategy

The Fund is actively managed and invests primarily in a portfolio of 40-60 Australian companies with market capitalisation or free float of generally less than \$250 million at initial investment that we believe are trading below their assessed valuation. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange.

The Fund's holdings that become constituents of the S&P/ASX 200 Index will generally be sold within 18 months, having regard to the interests of investors.

Investment Philosophy

At the cornerstone of Pendal's investment philosophy is the view that markets are not always rational and the inefficient market pricing of securities creates investment opportunities. This is particularly the case in micro caps where the sector is under-researched and sentiment will often drive periods of under-valuation and over-valuation. This reflects our belief that in the absence of structural change security prices will revert to their intrinsic value through the course of an investment cycle.

As with Pendal's other Australian equity portfolios, the Fund will be managed in a way that is style indifferent, it will be invested in both 'value' and 'growth' companies, without a predetermined 'value' or 'growth' bias.

Investment Team

The Pendal MicroCap Opportunities Fund is managed by Pendal's highly experienced Small Cap team. The Fund is managed by Paul Hannan, Head of Smaller Companies and Noel Webster, Portfolio Manager in the Equity team. Paul and Noel have over 52 years of investment experience between them and are supported by a highly experienced Small Cap team.

Portfolio Characteristics

| | |
|---|-------------------------------------|
| Benchmark | S&P/ASX Small Ordinaries (TR) Index |
| Number of stocks | Between 40 - 60 |
| Maximum cash weighting ¹ | 25% |
| Ex-ante (forward looking) tracking error ² | 5 - 20% |
| Maximum absolute stock position | 10% (5% for developing companies) |
| Maximum ownership of any company | 15% |
| Shorting | No |
| Borrowing | No |

¹ We may hold higher levels of cash following large applications or if suitable investment opportunities cannot be identified.

² The Fund is measured against the S&P/ASX Small Ordinaries (TR) Index, which is a widely used measure of the performance of micro cap funds. Only a portion of the index will comprise companies with a market capitalisation of less than \$150m and as a result the Fund's ex-ante tracking error is expected to vary more widely than the tracking error for most other types of active Australian share funds.

Performance

| (%) | Total Returns (post-fee) | Total Returns (pre-fee) | Benchmark Return |
|--------------|-----------------------------|----------------------------|---------------------|
| 3 months | 15.03 | 17.30 | 5.67 |
| FYTD | 15.03 | 17.30 | 5.67 |
| 6 months | 55.73 | 64.06 | 30.93 |
| 1 year (pa) | 14.87 | 20.45 | -3.33 |
| 2 years (pa) | 13.78 | 18.28 | 0.24 |
| 3 years (pa) | 14.75 | 18.01 | 6.53 |
| 5 years (pa) | 17.08 | 20.08 | 9.97 |

Sector Allocation (as at 30 September 2020)

| | |
|-------------------------------|-------|
| Materials | 6.1% |
| Industrials | 8.9% |
| Consumer Discretionary | 24.4% |
| Consumer Staples | 0.4% |
| Health Care | 7.3% |
| Information Technology | 19.9% |
| Telecommunication Services | 8.0% |
| Utilities | 0.0% |
| Financials ex Property Trusts | 10.1% |
| Property Trusts | 10.1% |
| Cash & other | 4.8% |

Other Information

| | |
|--|---------------|
| Fund size (as at 30 Sep 2020) | \$360 million |
| Date of inception | March 2006 |
| 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 | RFA0061AU |

³ The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs⁴

| | |
|------------------------------|--|
| Issuer fee ⁵ | 1.20% pa |
| Performance fee ⁶ | 20% of the Fund's performance in excess of the performance hurdle. |

⁴ You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

⁵ 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.

⁶ 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 (S&P/ASX Small Ordinaries (TR) Index) plus the issuer fee of 1.20% 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 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.
- **Currency risk** - Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Interest rate risk** - The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Credit risk** – The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Derivative risk** – The risk arising from use of derivatives to manage exposures to investment markets.
- **Small company risk** – Shares in smaller companies may trade less frequently and in smaller volumes and may experience greater price volatility than shares in larger companies.
- **Liquidity risk** - This is the risk that an investment may not be easily converted into cash with little or no loss of capital and minimum delay, because of either inadequate market depth or disruptions in the market place.

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

Market review

The Australian equities market lost momentum during the last month of the quarter. The S&P/ASX 300 Accumulation index dropped by -3.6% in September; making its performance over the quarter flat (-0.1%). In contrast, whilst the Small Ordinaries also pulled back by -2.8% over the month, it finished the quarter with a gain of +5.7%.

Small Resources (+0.9%) were the laggards when compared to Small Industrials (+6.9%), as some of the gold miners, and most of the energy companies underperformed on weaker commodity prices. In particular, oil slid in September as markets tempered expectations of the rebound in demand. The impact of aircraft fuel is playing a role in this, however diesel demand has also been weaker than many would have expected by this point.

Turning to sector performance, most of the sectors finished the quarter in the black. Consumer Discretionary (+26.1%) and Communication Services (+10.8%) both recorded double-digit gains, followed by Real Estate (+4.0%) and Materials (+2.9%). In contrast, Energy (-7.0%) was the worst performing sector over the quarter, followed by Utilities (-2.1%) and Healthcare (+0.5%).

Some of the key company updates over the quarter include:

- IDP (IEL, +22.7%) provides placement of international students into education institutions in Australia, the United Kingdom, the United States, Canada, and New Zealand. As international borders have largely closed since the onset of COVID-19, the short-term outlook for the company was rather subdued. The company reported in August, and the unexpectedly strong FY results and promising growth outlook saw its stock price rebound sharply. IELTS, an English proficiency language test that is administered by IEL reopened in 53 out of 55 countries, reinstated 55% of capacity and had a pipeline of 82K student applicants. In terms of guidance, management commented that demand was matching available capacity.

- PointsBet (PBH, +114.3%), which is a corporate bookmaker offering racing and sports betting products and services direct to clients reported FY20 NPAT of A\$39.7m. Whilst this undershot market expectation somewhat, the share price of PBH skyrocketed after the company announced the 5-year media partnership with NBCUniversal. Lastly, CTD rose on the back of expectation for the return of corporate travel in offshore markets, as noted by management in its FY21 outlook statement. The company reported underlying EBITDA of \$65.0m and underlying NPAT of \$32.0m for FY20.

- ZIP (Z1P, +18.0%). There were a few updates from the buy-now-pay-later (BNPL) player, including a trading update of its newly acquired US business, QuadPay; the announcement of its partnership with eBay Australia as well as its FY20 results.

Momentum remained strong for QuadPay, which achieved monthly transaction volume in excess of \$70M in July, representing +30% increase on June quarter average and +600% year-on-year. The business added 133,000 customers in July and surpassed the 2m customer milestone in August. ZIP did give back some of the gains in September following the news that Paypal intends to enter the BNPL market in the US.

- Unibail-Rodamco (URW, -40.1%) fell after announcing a €9bn reset program, which included a €3.5bn capital raise and €4bn of disposals. The aim of the plan is to strengthen URW's balance sheet and increase financial flexibility to execute its long-term strategy. Management also took the opportunity to provide an update on footfall, tenant sales and rent collection. URW has reopened all of its shopping centres globally, though indoor operations in five centres in Los Angeles County continue to be suspended, which represent 4% of the shopping centre portfolio by value.

Fund performance

The Fund outperformed the benchmark over the September quarter. Key contributors to performance were overweight positions in Adairs Limited, Bigtincan Holdings Limited and Codan Limited. Key detractors from performance were overweight positions in MNF Group Limited and Infomedia LTD.

Outlook

The Australian Federal budget was stimulatory, as expected. On balance, the size of the total package 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.

This is a material shift in mindset away from the fiscal prudence and balanced budgets that Western governments have generally adopted over the last three to four decades. It is an important factor at play in the determining the ultimate economic impact of Covid 19 and the speed of the recovery.

Both government and central bank rhetoric – in Australia and in many countries overseas – is emphasizing the determination to limit the structural economic and social damage from the virus and shutdowns. The outcome is likely to be loose monetary policy for some time – alongside large scale stimulus from the government.

At this point the constraint on fiscal stimulus is either rampant inflation or loss of confidence in government credit. Neither issue is in play at the moment. Over time, we think there is a chance of a period of negative real interest rates, as inflation expectations rise while nominal rates are kept low. This is one factor in the portfolio's exposure to gold miners – as real assets such as gold, commodities and property tend to do well in period of negative real rates.

We remain mindful of the resurgence of Covid cases in the US and, more recently, in Europe. The second wave in the US has thus far not stalled the economic recovery and the hospitalization and mortality rates remain far below the levels of the first wave. Likewise, in Europe, there has not been any material impact on economic activity so far.

In the US the rate of the rebound is slowing as household income falls. However at this point it seems that accrued savings from the previous months – when the savings rate spiked – is helping offset the effect of previous support rolling off.

The impasse over the next stimulus package remains and it appears increasingly unlikely that an agreement will be reached prior to the Presidential election, with Senate Republicans focused instead on nomination of a new Supreme Court Justice. At this point the notion of a Democrat sweep of the White House and Senate – supported by current bookmaker odds – and therefore a larger package post-election is doing enough to calm market fears on this front.

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

PENDAL

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental MicroCap Opportunities Fund (Fund) ARSN: 118 585 354. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.pentalgroup.com. You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

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.