PENDAL

Pendal Imputation Fund

ARSN: 089 614 693

Factsheet

Equity Strategies

November 2020

About the Fund

The Pendal Imputation Fund (**Fund**) is an actively managed portfolio of Australian shares. The Fund invests in a portfolio which we believe will provide a higher yield than the market average. It is intended that the portfolio will-be well diversified across sectors and not biased structurally to invest only in traditional 'yield stocks'.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 (TR) Index over the medium to long term. The suggested timeframe for holding the investment 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, diversification across a broad range of Australian companies and industries and are prepared to accept higher variability of returns. The Fund will primarily invest in Australian shares, including Australian listed property securities and convertible preference shares, that offer above average income returns. The Fund may also 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).

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 nineteen member Equity team is one of the largest in the Australian funds management industry. The portfolio managers for the Fund are Andrew Waddington and Jim Taylor, who have a combined 56 years industry experience.

Performance

Total Returns (%)	1 mth	3 mths	6 mths	1 Year (p.a)	3 Years (p.a)	5 Years (p.a)	10 Years (p.a)
Fund (Pre-Fee)	12.47	10.55	15.71	-5.04	6.06	7.79	7.91
Fund (Post-Fee)	12.39	10.30	15.19	-5.89	5.11	6.83	6.95
Benchmark	10.23	8.27	14.98	-1.62	7.06	9.14	8.01
Excess return (Post-Fee)	2.16	2.03	0.21	-4.27	-1.95	-2.31	-1.06
Franking Credits Returns[1]							
Fund	0.09	0.20	0.40	0.91	1.41	1.92	1.97
Benchmark	0.08	0.20	0.43	0.89	1.20	1.29	1.39
Returns Grossed Up For Franking Credits[1]							
Fund (Post-Fee)	12.48	10.50	15.59	-4.98	6.51	8.75	8.92
Benchmark	10.31	8.47	15.41	-0.73	8.26	10.43	9.40

Fund Returns (%) As at 30 June 2020	3 Years (p.a)	5 Years (p.a)	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Post-Fee	2.70	3.69	-3.89	15.11	13.50	8.77	-12.25
After Tax[2] (Superannuation tax rate)							
Pre-Liquidation[3]	3.58	5.00	-1.97	17.16	14.37	9.90	-11.59
Post-Liquidation[3]	3.74	5.18	-0.82	16.50	13.36	9.46	-9.99
After Tax[2] (highest marginal tax rate)							
Pre-Liquidation[3]	1.73	2.28	-5.74	12.81	12.62	7.66	-13.18
Post-Liquidation[3]	2.09	2.73	-2.95	11.20	10.25	6.64	-9.44

[1] Franking credit returns reflect the value, expressed as a percentage of the Fund's net asset value, of franking credits earned, directly or indirectly, by the Fund on the dividends it has accrued. Returns grossed up for franking are calculated by adding the franking credit returns to the total returns after-fees. The Fund's actual entitlement to franking credits is only known at 30 June each year and therefore amounts during the year are estimates only, subject to revision. Franking credit returns, and returns grossed up for franking, for the Benchmark are calculated on an equivalent basis.

[2] After-tax returns should only be viewed as a guide to the after-tax position of an investor in the Fund. The after-tax returns of the Fund will depend on an investor's individual tax situation and may differ from those shown. There have been a number of assumptions made in the calculation of after-tax returns, which include: investors are Australian resident taxpayers; investors hold their units on capital account; returns assume reinvestment of after-tax distributions on the distribution period end date; returns are calculated using applicable income tax rates at the time of each distribution; capital gains concessions (CGT discount) are always available to the investor; tax credits distributed by the Fund can be fully utilised by the investor; investors will be able to immediately offset any loss made on their units against capital gains from other sources. FY Stands for Financial Year, which runs from July 1 to June 30.

[3] The pre-liquidation returns refer to the after-tax returns assuming a continuing investment in the Fund. It is calculated using the actual discounts that applied to the fund on any realised capital gains and assuming the distributions are reinvested on an after-tax basis. Post-liquidation returns refer to the after-tax returns assuming a full redemption of an investor's units. It is calculated by including, in addition to the reinvestment of after-tax distributions, the unrealised gains, based on the assumption that the asset has been held for more than 12 months and that the CGT discount rate is applied to the unrealised gains and, in the case of unrealised losses, that those losses would be immediately available to the investor.

Sector Allocation (as at 30 November 2020)

Energy	5.5%
Materials	20.7%
Industrials	8.8%
Consumer Discretionary	4.2%
Consumer Staples	4.0%
Health Care	10.4%
Information Technology	0.0%
Telecommunication Services	8.4%
Utilities	0.0%
Financials ex Property Trusts	31.1%
Property Trusts	5.7%
Cash & other	1.2%

Top 10 Holdings (as at 30 November 2020)

	Weight	12 Mnth Fwd Div. Yield^
CSL Limited	9.2%	1.0%
Commonwealth Bank of Australia Ltd	9.1%	3.7%
BHP Billiton Limited	8.3%	5.9%
ANZ Banking Group Limited	5.6%	4.5%
Westpac Banking Corporation	5.3%	4.4%
Telstra Corporation Limited	5.0%	5.2%
Qantas Airways Limited	4.4%	0.0%
Macquarie Group Limited	4.0%	3.5%
Rio Tinto Limited	3.4%	6.2%
Amcor Limited	3.1%	4.3%

^Derived from the consensus broker forecast for dividends from FactSet and the stock price as at the end of the fact sheet period.

Investment Guidelines

Ex-ante (forward looking) tracking error	2.0% - 6.0%
Min/max stock position	+/-4%[4]
Min/max sector position	+/-8%[4]

[4] Compared to benchmark

Other Information

Fund size (as at 30 Nov 2020)	$186 million
Date of inception	October 1999
Minimum investment	$25,000
Buy-sell spread[5] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	RFA0103AU

[5] 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[6]

Issuer fee[7]	0.90% pa

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

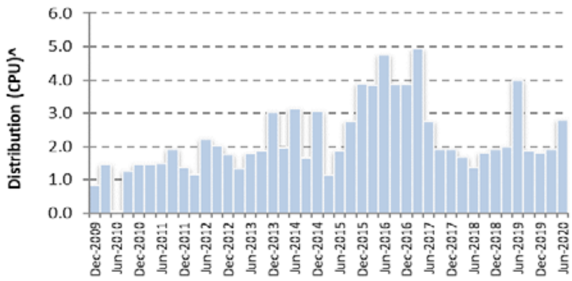
[7] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Risks

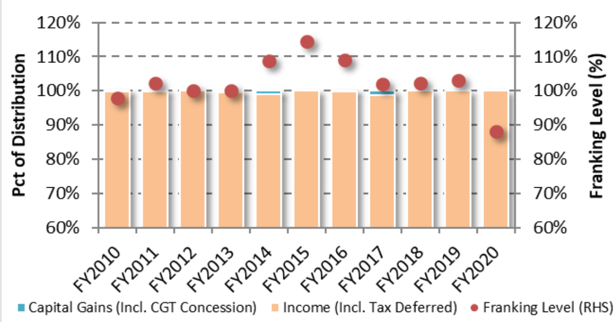
An investment in the Fund involves risk, including:

- **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.



^Historic distributions are not representative of future distributions.



Market review

The S&P/ASX 300 Accumulation index gained +10.2% over November – the best monthly return achieved since 1988. Resources (+10.7%) rebounded strongly during the month and marginally outperformed Industrials (+10.1%); as confidence in the economic recovery continued to drive commodity price gains. Copper was up +11.7% for the month and is well above pre-Covid level. Brent Crude also gained +29% for the month. Demand remains a key difference between copper and oil – as the lack of air travel continues to weigh on the latter. In contrast, gold (-4.9%) continued to sell-off as need for safe haven has reduced for now.

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, Energy (+28.2%) was the best performing sector on the back of the stronger oil price; followed by Financials (+16.1%), Communication Services (+14.4%), Real Estate (+13.2%) and Industrials (+12.0%). The big four banks all performed strongly during November, ranging from +14.3% (WBC) to +24.8% (NAB), as their latest updates got well received by the market. The outlook remains unconvincing - revenue trends remain challenged, credit growth - while stabilising - is still low, margins remain under pressure and any tangible benefit from cost out is an FY22 story. However, they remain propped up by the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Without BDD deterioration it is hard to see the sector underperform materially.

In terms of more stock-specific news, Telstra (TLS) gained +14.6% following the AGM update, where management clarified that the return-on-invested-capital (ROIC) target was 8%, up from the "above 7%" range outlined at their result. This is important as it removes much of the doubt around the dividend sustainability. They also outlined a restructuring which will provide better scope for splitting out parts of the business, allowing monetisation of the value in areas such as infrastructure assets.

Elsewhere, 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, 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.

In contrast, Treasury Wines (TWE, -6.3%) took a hit over the month and dragged on Consumer Staples (-0.7%). The company went into a trading halt as its stock price fell on the news of Chinese tariffs on Australian wine. With interim tariffs in the region of 170% on its Chinese imports, this is a huge blow to TWE. Exports to China and HK accounted for 38% of Group EBIT in FY19, with material implications for wine supply more broadly.

Fund performance

The Fund outperformed its benchmark over the month of November.

Contributors

Overweight Qantas (QAN)

Travel stocks responded to expectations of further domestic re-opening, which saw our key position Qantas (QAN, +28.4%) outperform. With the national airliner set to ramp up domestic capacity in the near-term, and we see more upside from its current price levels.

Not Held Woolworths (WOW)

Supermarket giant Woolworths (WOW, -3.1%) pulled back amongst the market defensives as investors turned risk-on over the month. This is in spite of the company reporting a good set of sales numbers for 1Q21. We do not hold WOW and this helped on the portfolio's relative performance. We retain exposure to the supermarket sector via the position in Metcash and its IGA franchise. This provides 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.

Detractors

Overweight Saracen Minerals (SAR)

Gold continues to sell-off amid the rise of the long-term bond yields, as investor's need for safe haven reduces for now. This saw gold miners, including Saracen Minerals (SAR, -16.5%) pull back during the month.

Underweight NAB (NAB)

The big four banks all performed strongly during November, ranging from +14.3% (WBC) to +24.8% (NAB), as their latest updates got well received by the market. The outlook remains unconvincing - revenue trends remain challenged, credit growth - while stabilising - is still low, margins remain under pressure and any tangible benefit from cost out is an FY22 story. However, they remain propped up by the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Without BDD deterioration it is hard to see the sector underperform materially. We still prefer ANZ and WBC over NAB and CBA.

Strategy and outlook

The S&P/ASX 300 gained 10.23% in November – its best monthly return since March 1988. It was also a good month for the Fund, which outperformed.

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.

These positive surprises – and the several, more negative ones which occurred through 2020 - emphasise the importance we place on building a robust portfolio. This has been the bedrock of the Fund's performance this year. Our approach has been to have different types of stocks in the portfolio – positions that could perform under a number of different scenarios. We then use our insight into companies to choose the best stocks to own. These were the companies where we saw relatively limited downside, but the potential for large upside gains.

The Fund's performance in the market's plunge was driven by the defensive holdings such as Metcash (MTS) and Telstra (TLS), by its high quality growth names such as CSL (CSL), and by the portfolio insurance provided by gold miners (eg Evolution (EVN)).

Performance in November has been driven by a different part of the portfolio; the cyclical, recovery-linked exposures such as Qantas (QAN), Santos (STO) and Monadelphous (MND).

At times this year the Fund's growth exposure has worked well – names such as CSL. At other times it was the policy beneficiaries such as JB Hi-Fi (JBH) and Atlas Arteria (ALX).

We have also done well as the market recognised the value offered in long-term winners such as Aristocrat (ALL), and Nine Entertainment (NEC).

The recent strong run may mean we are in for a period of consolidation – although not necessary any sort of material pullback.

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**

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