

Pendal Geared Imputation Fund

ARSN: 102 970 089

Factsheet

Equity Strategies

December 2020

About the Fund

The Pendal Geared Imputation Fund (**Fund**) is an actively managed fund that invests in a geared portfolio of Australian shares.

Investors should be aware that due to the Fund's geared investment strategy there is some additional risk involved in investing in the Fund compared to a conventional Australian equities fund. Gearing magnifies both investment gains and losses⁵.

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 long term. The suggested timeframe is seven years or more.

Description of Fund

This Fund is designed for experienced 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 high variability of returns. The Fund will primarily invest in a geared portfolio of 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.

The Fund currently invests in the Pendal Geared Imputation Trust (**Trust**). The Trust borrows money to increase the amount it can invest in assets, thus potentially increasing investment performance. This is known as gearing.

Gearing means borrowing to invest and therefore magnifies both investment gains and losses. This means that returns are higher during a rising market and losses greater during a falling market (in each case less the interest paid on the borrowings), compared to a similar investment that is not geared. Due to the Fund's geared investment strategy there is some additional risk involved in investing in the Fund compared to a conventional Australian shares fund.

The maximum amount borrowed is 60% of the fund's assets. Gearing levels may vary daily with movements in interest rates and dividend yields. Refer to the Product Disclosure Statement for full details of the gearing process.

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.

Advantages of investing through a geared fund:

- easier and quicker than applying for a personal borrowing facility
- due to its size, the Fund may borrow at a very competitive interest rates
- does not require the investor to meet or provide additional security repayments in case of a market downturn
- provides access to a geared investment for entities that may be restricted from this type of investment themselves

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 57 years industry experience.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
3 months	26.42	26.88	13.79
FYTD	23.59	24.50	13.73
6 months	23.59	24.50	13.73
1 year (pa)	-15.28	-14.04	1.73
2 years (pa)	9.49	11.09	12.21
3 years (pa)	3.52	5.04	6.87
5 years (pa)	8.13	9.71	8.84

Sector Allocation (as at 31 December 2020)

Energy	8.9%
Materials	36.0%
Industrials	12.6%
Consumer Discretionary	6.3%
Consumer Staples	7.5%
Health Care	17.0%
Telecommunication Services	12.9%
Utilities	0.0%
Financials ex Property Trusts	49.5%
Property Trusts	9.3%
Cash & other	-60.0%

The cash position in this Fund should always be negative as it borrows more cash than it has in order to buy securities.

Investment Guidelines

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

*Compared to benchmark

Other Information

Fund size (as at 31 Dec 2020)	\$16 million
Date of inception	January 2003
Minimum investment	\$25,000
Buy-sell spread ¹	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Yearly
APIR code	RFA0130AU

¹ The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs²

Issuer fee ³	1.45% pa
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² You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

³ 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 As gearing magnifies both gains and losses from the investments, investors in the Fund need to understand that returns can be volatile. In extreme circumstances, such as a share market fall of around 40%, investors are at risk of losing all the money they have invested.

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.
- **Gearing risk** - Gearing generally involves the use of borrowed money or derivatives to increase the potential return from an investment. Gearing occurs where the level of exposure to investments exceeds the amount of cash invested. As a result, gearing magnifies both potential investment gains and losses. Losses from geared investments can be substantial and can exceed the original amount invested.

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

Market review

The S&P/ASX 300 Accumulation index rebounded strongly over the December quarter (+13.8%), capping the year's return at +1.7%. Stronger commodity prices, the iron ore in particular, which gained ~70% over the year propelled returns for Resources (+18.6%/+9.2% Q4/CY20); whereas Industrials (+12.6%/-0.1%) were the laggard.

Covid cases in the US continue to rise and Europe has started to deteriorate again. In the UK concern centres on the rise of cases in London, and the focus has been on a potentially new strain/variant of Covid-19. While it has proven more infectious, there is no evidence to suggest this new strain will make people sicker or is more resistant to vaccines. The latter is critical to market sentiment.

Despite worsening health news and greater restrictions, the economy is holding up better than expected. This is despite softer consumer confidence and shoppers holding back from physical retailers and restaurants. November retail sales, released in December were softer, but real time measures suggest this may have picked up again. Surveys for holiday sales continue to look ok, with a substantial shift to online.

Turning to sector performance, Healthcare (-1.0%) and Utilities (-5.4%) were the only GICS sectors that recorded a loss over the quarter. In contrast, Financials (+22.8%), Information Technology (+22.8%), Energy (+26.1%), Materials (+15.9%), Real Estate (+13.7%), Communication Services (+12.7%) and Consumer Discretionary (+11.1%) all posted double-digit gains.

The "big four" banks all recoded strong gains over the quarter, ranging from +16.9% (WBC) to 34.2% (ANZ). For ANZ, its latest results revealed some trends that are prevalent within the sector. The good news was the bad and doubtful debts (BDD) provisions were lower, which helped drive a better capital position. However margins were softer and the cost outlook was a bit higher due to the need for investment in technology. Pre-provision profit forecasts were cut by 3-4%. There is a silver lining in that the company acknowledges the outlook for BDDs looks better than feared. This could lead to EPS and DPS upgrade in future years.

Elsewhere, iron ore miners, including BHP (+19.9%), Fortescue Metals (FMG, +43.7%) and Rio Tinto (RIO, +20.7%) continued to rise on the back of the strong iron ore price – seaborne iron ore surpassed US\$160/mt over the month, a price level that was last seen in 2011. End-of-year restocking, as well as concerns that recommendations on the government inquest into the Juukan Gorge incident may have some impact on supply.

Lastly, Afterpay (APT, +47.5%) and Xero (XRO, +45.7%) were the largest two return contributors within the IT sector. APT provided a trading update for November at the beginning of December, which saw its global underlying sales grow by +112% from last year to A\$ 2.1b. The US region recorded sales of 1.0b, exceeding ANZ's 0.9bn for the first time. Referrals to global retailers also continued to grow strongly with over 35m leads generated during the month of November, which was 147% up on November 2019. In the same vein, XRO delivered a good result in November. 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.

Fund performance

The Fund outperformed the benchmark over the December quarter.

Contributors

Overweight Nine Entertainment

Nine Entertainment (NEC, +33.0%) upgraded revenue for Dec as advertising rose from 30 to 40% - brands are trying to get in front of consumers after a tough 2020. While the recent outbreak has the chance to derail this in the short term, we believe the trend will continue from here.

Overweight ANZ

The big four banks all performed strongly during quarter, ranging from +16.9% (WBC) to 34.2% (ANZ), as their latest updates got well received by the market. For ANZ, its latest results revealed some trends that are prevalent within the sector. The good news was the bad and doubtful debts (BDD) provisions were lower, which helped drive a better capital position. However margins were softer and the cost outlook was a bit higher due to the need for investment in technology. Pre-provision profit forecasts were cut by 3-4%. There is a silver lining in that the company acknowledges the outlook for BDDs looks better than feared. This could lead to EPS and DPS upgrade in future years.

Detractors

Underweight Fortescue Metals Group

Iron ore miners, including FMG continued to rise on the back of the strong iron ore price – seaborne iron ore surpassed US\$160/mt over the month, a price level that was last seen in 2011. End-of-year restocking, as well as concerns that recommendations on the government inquest into the Juukan Gorge incident may have some impact on supply.

Overweight Saracen Mineral Holdings

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 Mineral pull back during the quarter. Nevertheless, the production report from October showed that the miner remains on track for FY21 guidance.

Market outlook

The rate of Covid infection continues to deteriorate in the northern hemisphere, leading to lockdowns. Jobs have stalled well below pre Covid-levels in the US as the restrictions hit sectors such as leisure and hospitality. Health care systems are under pressure in several countries and regions. Meanwhile, a Covid outbreak in NSW has led to localised restrictions and state border closures.

Nevertheless, the market remains relatively positive, driven by the twin beacons of vaccines and policy support.

Vaccination programmes are ramping up – at differing rates – across many countries. This is giving hope of rolled back restrictions and demand growth. This remains a key risk to watch – any disappointment here could hit markets and the recovery sectors which have recently run hard.

Policy remains a key bulwark of market support. The Democrat victory in the Georgia run-off hands them control of the Senate – and Congress. This means more fiscal stimulus, against the backdrop of already extremely accommodative monetary policy.

The current policy settings are extraordinary. In short, we could see stimulus worth near 9% of US annual GDP channelled into the first quarters of 2021. Even if only a fraction gets spent in that period, it means both growth and earnings are likely to be a lot higher than current consensus expectations.

At the same time, we don't believe that the Georgia win leads to legislation of some of the more radical Democrat policies, given that their majority remains thin in both Houses. The markets concerns are centred on the potential for tax increases. Corporate tax rates are likely to increase, but from 21% to something in the vicinity of 23-25%, rather than the 28% pledged by Biden on the campaign trail.

It is also important to remember the importance of the Fed's conceptual shift from expected to actual inflation targeting and its stated desire to see inflation run above 2% for a sustained period. This is likely to require unemployment to drop below 3%, which is going to take some time. To give some context to this shift the Fed indicated that under the current policy framework the rise in rates post-GFC would have been delayed around 2 ¾ years.

The combination of this fiscal stimulus and Fed accommodation means the US economy could grow above 6% through 2021, driving earnings upgrades and supporting valuation.

Markets have run hard – and a period of consolidation may be in order. The roll out of vaccinations also presents a potential risk of disappointment and must be watched. Nevertheless, we continue to see considerable support on the policy side. We maintain the portfolio's balanced construction, positioned for performance in a range of scenarios, however in recent times we have been adding to some of the more cyclical exposures as the scale of policy support has looked likely to increase.

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

PENDAL

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