30 JUNE 2020

# QUARTERLY REPORT

## REDPOINT INDUSTRIALS FUND

| Fund performance as at 30 June 2020 | 1 month (%) | 3 months (%) | 6 months (%) | 1 year (%) | 2 years (% pa) [5] | Since Inception [4] (% pa) [5] |
|---|---|---|---|---|---|---|
| Fund return (net) [1] | 2.96 | 10.97 | -12.93 | -10.33 | -0.38 | 0.62 |
| *– Fund cash income* | *0.35* | *0.57* | *1.27* | *3.16* | *4.09* | *4.24* |
| *– Fund price return (net)* | *2.61* | *10.40* | *-14.20* | *-13.49* | *-4.47* | *-3.62* |
| Benchmark return [2] | 3.32 | 13.48 | -11.10 | -7.77 | 1.20 | 2.02 |
| Active return [3] | -0.36 | -2.51 | -1.83 | -2.56 | -1.58 | -1.40 |

*Source: Redpoint Investment Management* *Past performance is not necessarily indicative of future performance.*

1. Redpoint Industrials Fund (Fund) – net performance is before taxes, but after management fees and transaction costs (net return).
2. S&P/ASX 100 Industrials Accumulation Index (Benchmark).
3. Active return is the difference between Fund net return and Benchmark return.
4. The Fund was established on 18 December 2017.
5. Returns are annualised for periods of 12 months or more.

## INVESTMENT OBJECTIVE

The Fund aims to provide a return in line with the S&P/ASX 100 Industrials Accumulation Index (Benchmark), after management fees, over rolling five-year periods. The Fund seeks to deliver the key income and growth characteristics of the Benchmark while holding less than half the companies in the Benchmark. The Fund is specifically built to capture these characteristics with low turnover.

Redpoint combines long horizon sustainable quality metrics and risk management expertise to exclude or underweight poorly rated companies. The Fund will usually hold 35 to 45 companies and aims to deliver a portfolio with low active risk relative to the Benchmark while being tilted towards companies with better quality characteristics.

## PERFORMANCE COMMENTARY

### FUND

For the three-month period ending 30 June 2020 the net return of the Fund was +10.97%. The net return of the Fund is comprised of two (2) key components: a capital (price) return of +10.40%; and an income (dividend) return of +0.57% (i.e. from dividends paid by companies in the Fund during the quarter). Over the same time period, the total return of the Benchmark was +13.48%. Consequently, the Fund underperformed the Benchmark by -2.51% (active return) for the June quarter.

The June quarter delivered a cash yield of 0.57% for the Fund versus 0.36% for the Benchmark. This was substantially lower than our forecasts made in the March 2020 investment performance report (1.06% for the Fund and 1.04% for the Benchmark respectively) as companies moved to retain cash in response to the economic slowdown delivered by COVID-19 pandemic. Please see the Dividend Income section of this report (page 3) for further analysis of the realised dividend yield for the June quarter and the expected dividend yield of the Fund in the September quarter.

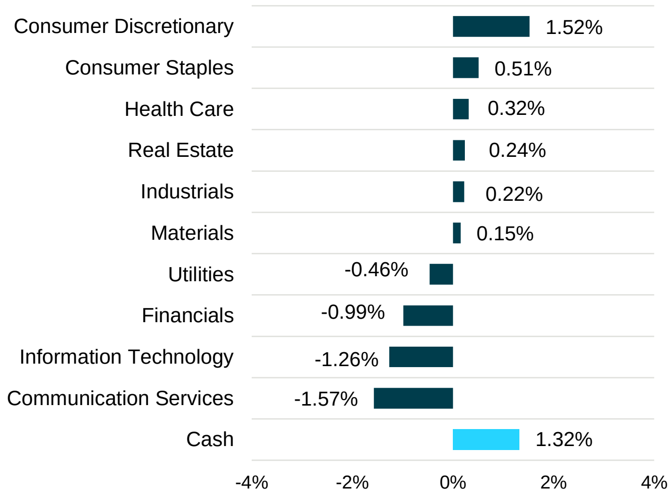
## FUND FACTS

| APIR | ETL7683AU |
|---|---|
| Fund size ($) | 2,842,112 |
| Number of holdings | 41 |
| Inception date | 18 December 2017 |
| Buy/sell spread | +/- 0.15% |
| Income distribution | Semi-annually |

## UNIT PRICES AND DISTRIBUTION

| Transaction type | Unit price ($) |
|---|---|
| Net asset value (cum distribution) | 0.9469 |
| Application | 0.9483 |
| Redemption | 0.9455 |
| Income distribution (ex 1 July, paid 14 July 2020) | 0.0035 |

## SECTOR ACTIVE WEIGHTS




## TOP 10 HOLDINGS

| Company | Fund (%) | Benchmark (%) | Active (%) |
|---|---|---|---|
| Commonwealth Bank of Australia | 11.64 | 10.49 | 1.15 |
| CSL Ltd | 10.73 | 11.13 | -0.40 |
| Wesfarmers Ltd | 5.57 | 4.34 | 1.23 |
| ANZ Banking Group Ltd | 5.40 | 4.51 | 0.88 |
| Woolworths Group Ltd | 5.02 | 4.02 | 1.00 |
| Westpac Banking Corporation | 4.41 | 5.54 | -1.12 |
| Macquarie Group Ltd | 4.16 | 3.34 | 0.82 |
| National Australia Bank Ltd | 4.10 | 4.97 | -0.87 |
| Telstra Corporation Ltd | 3.53 | 3.18 | 0.35 |
| Transurban Group | 2.69 | 3.30 | -0.61 |

# QUARTERLY REPORT

REDPOINT INDUSTRIALS FUND

## CASH & SECTOR ATTRIBUTION

| Sector | Fund Average Active Weight (%) | Cash & Sector Allocation (%) | Stock Selection (%) |
|---|---|---|---|
| Health Care | -0.35 | -0.01 | 0.24 |
| Consumer Discretionary | 0.88 | 0.08 | -0.05 |
| Energy | 0.00 | 0.00 | 0.00 |
| Consumer Staples | 0.25 | 0.00 | -0.07 |
| Utilities | -0.73 | 0.05 | -0.13 |
| Financials | -0.45 | -0.10 | 0.01 |
| Industrials | -0.03 | -0.02 | -0.11 |
| Real Estate | 0.15 | 0.02 | -0.27 |
| **Cash** | **1.53** | **-0.25** | **0.00** |
| Communication Services | -1.00 | -0.01 | -0.45 |
| Information Technology | -0.59 | -0.15 | -0.48 |
| Materials | 0.34 | 0.04 | -0.69 |
| **Total** | **100.00** | **-0.35** | **-2.00** |

**Note**: Contributions shown here are to the active return of the Fund.

## PERFORMANCE COMMENTARY (CONT'D)

### MARKET

The Australian equity market, as represented by the S&P/ASX 100 Industrials Index (Benchmark), experienced a total return of +13.48% over the June quarter, recovering slightly from the declines in March 2020 (-21.66% as measured by the Benchmark at quarter-end). This rebound in equity markets has been surpising given the high levels of uncertainty still facing the global economy as it comes to grips with the COVID-19 pandemic. The market discounted the impact of the pandemic as the June quarter evolved, with total returns of +6.69%, +2.95% and +3.32% for April, May and June respectively.

By comparison, the total return of the S&P/ASX 200 Index, which includes metals, mining and energy related companies, rose by +16.48% over the quarter, reflecting the fact that resources companies tended to outperform their industrials counterparts over the quarter.

The best performing sectors for the quarter were Information Technology (+60.13%), Consumer Discretionary (+29.81%), Materials (+22.20%) and Real Estate (+21.36%), which outperformed the broader market, while the worst performing sectors for the quarter were Health Care (+1.34%), Utilities (+5.49%) and Consumer Staples (+7.91%), which underperformed the broader market, as defined by the Benchmark.

## ATTRIBUTION COMMENTARY

The active return for the June quarter (-2.51%) can be decomposed into four (4) elements:

- Benchmark stocks held by the Fund contributed +0.06% from active return
- Benchmark stocks not held in the Fund detracted -2.16% from active return
- Non-Benchmark assets held by the Fund (in this instance, cash) detracted -0.25% from active return; and
- Management fees and other costs detracted -0.16% from active return.

Furthermore, a returns-based attribution shows that active return is comprised of three (3) key components:

- an allocation to cash, which averaged 1.53% for the quarter, detracted -0.25% from active return;
- sector allocations, which detracted -0.10% from active return; and
- stock selection within the sectors, which detracted -2.00% from active return.

## LARGEST CONTRIBUTORS

| Company | Fund Average Weight (%) | Benchmark Average Weight (%) | Contribution (%) |
|---|---|---|---|
| Ansell Ltd | 1.31 | 0.39 | 0.16 |
| Wesfarmers Ltd | 4.94 | 4.03 | 0.16 |
| Downer EDI Ltd | 0.87 | 0.23 | 0.15 |
| Macquarie Group Ltd | 3.79 | 3.06 | 0.15 |
| Stockland Corporation Ltd | 1.43 | 0.68 | 0.14 |
| CSL Ltd | 11.85 | 12.44 | 0.12 |
| Xero Ltd | 1.33 | 0.79 | 0.10 |
| Computershare Ltd | 1.02 | 0.55 | 0.09 |
| ASX Ltd | 0.47 | 1.47 | 0.07 |
| Treasury Wine Estates Ltd | 0.00 | 0.67 | 0.06 |

## LARGEST DETRACTORS

| Company | Fund Average Weight (%) | Benchmark Average Weight (%) | Contribution (%) |
|---|---|---|---|
| Afterpay Ltd | 0.00 | 0.76 | -0.80 |
| James Hardie Industries Plc | 0.00 | 0.92 | -0.28 |
| Seek Ltd | 0.00 | 0.58 | -0.17 |
| Boral Ltd | 0.00 | 0.32 | -0.17 |
| AGL Energy Ltd | 2.09 | 1.02 | -0.15 |
| AMP Ltd | 0.00 | 0.46 | -0.11 |
| Scentre Group Ltd | 0.57 | 1.05 | -0.11 |
| Coca-Cola Amatil Ltd | 1.06 | 0.41 | -0.11 |
| Incitec Pivot Ltd | 0.76 | 0.34 | -0.11 |
| Carsales.com Ltd | 0.00 | 0.33 | -0.10 |

**Note**: Contributions shown in the above tables are to the active return of the Fund.

## CASH ALLOCATION

The Fund typically holds a small percentage of portfolio value in cash. An overweight position (relative to the Benchmark) of 1.53% in cash detracted -0.25% from active return for the quarter. In this instance, cash had a much larger than usual impact on the relative performance of the Fund due to the significant total return of +13.48% for the Benchmark over the quarter.

## SECTOR ALLOCATION

From a sector allocation perspective, overweight positions in the Consumer Discretionary, Materials and Real Estate sectors and an underweight position in the Utilities sector collectively contributed +0.19% to active return. The overweight positions in Consumer Discretionary and Materials sectors and the underweight position in the Utilities sector had the largest positive impact, contributing +0.08%, +0.04% and +0.05% respectively to active return for the quarter.

This positive outcome was more than offset by underweight positions in the Information Technology, Financials, Industrials, Communication Services and Health Care sectors, which collectively detracted -0.30% from active return. The underweight positions in the Information Technology and Financials sectors had the largest negative impact, detracting -0.15% and -0.10% respectively from active return for the quarter.

## ATTRIBUTION COMMENTARY (CONT'D)

### STOCK SELECTION

Stock selection was best in the Health Care and Financials sectors, which collectively contributed +0.25% to active return, with the vast majority of this coming from stock selection in the Heath Care sector, which contributed +0.24% to active return. This result was primarily driven by an overweight position in Ansell Ltd, which contributed +0.16% to active return, and an undwerweight position in CSL Ltd, which contributed +0.12% to avtive return.

The positive outcome was more than offset by stock selection in the Materials, Information Technology, Communication Services, Real Estate, Utilities, Industrials, Consumer Staples and Consumer Discretionary sectors, which collectively detracted -2.25% from active return. Stock selection in the Materials, Information Technology, Communication Services and Real Estate sectors had the largest negative impact, detracting -0.69%, -0.48%, -0.45% and -0.27% respectively from active return.

### ASSETS

### CONTRIBUTORS

On a relative basis, some of the best performing stocks for the quarter were overweight positions in Ansell Ltd (Health Care), Wesfarmers Ltd (Consumer Discretionary), Downer EDI Ltd (Industrials), Macquarie Group Ltd (Financials), Stockland Corporation Ltd (Real Estate), Xero Ltd (Information Technology) and Computershare Ltd (Information Technology) and underweight positions in CSL Ltd (Health Care), ASX Ltd (Financials) and Treasury Wine Estates Ltd (Consumer Staples), which collectively contributed +1.20% to active return.

### DETRACTORS

By contrast, some of the worst performing stocks for the quarter were underweight positions in Afterpay Ltd (Information Technology), James Hardie Industries Plc (Materials), Seek Ltd (Communication Services), Boral Ltd (Materials), AMP Ltd (Financials), Scentre Group Ltd (Real Estate) and Carsales.com Ltd (Communication Services) and overweight positions in AGL Energy Ltd (Utilities), Coca-Cola Amatil Ltd (Consumer Staples) and Incitec Pivot Ltd (Materials), which collectively detracted -2.09% from active return.

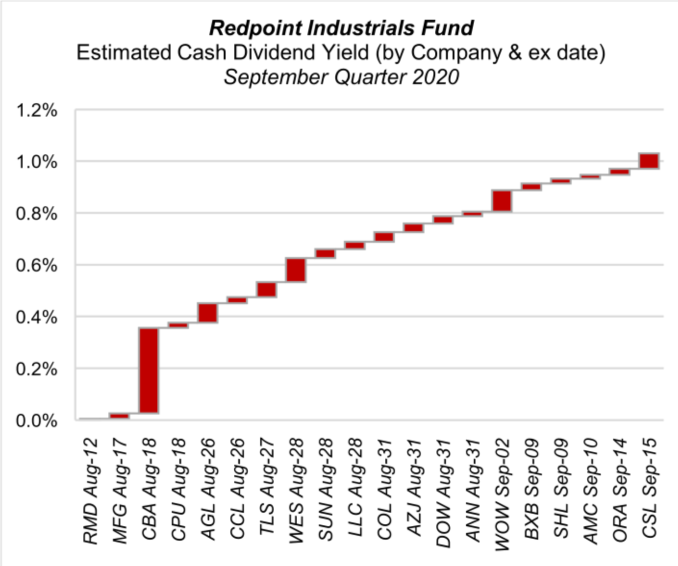
#### Aferpay Ltd (ASX: APT)

Afterpay Ltd has surged further in June with its share price rising to be over $60 per share from its low of $8.90 per share on 23 March (the stock experienced a total return of 224.4% in the June quarter). The stock remains a loss making entity and expectations are that profitability will not occur until 2022. This has not deterred investors. In fact, the company is now worth over $18 billion and is trading at revenue multiples not seen for any company since the technology bubble of 2000. The Fund has maintained this stock at an underweight (not held) position primarily due to negative signals from our quality and growth disciplines. Our valuation metrics indicate that the company trades at an unattractive price, however, the timing elements within our approach to valuation are currently resetting our valuation view to neutral due to the company continuing to be loss making. This implies that its valuation is being driven by other factors beyond current and near term profitability.

## DIVIDEND INCOME

A key characteristic of the Fund is its focus on capturing the key income and growth drivers of the Benchmark over the longer term in a low turnover, risk managed portfolio. To deliver this outcome we utilise a combination of risk management and long horizon quality metrics to select a diversifed set of companies that we wish to hold for the longer term.

Cash dividend income expectations for the September 2020 quarter are currently estimated at 1.00% for the Fund versus 0.93% for the Benchmark. The Fund is forecast to receive dividends from 20 companies; the Benchmark is expected to have dividends declared by 34 companies. The following chart shows the dividends expected to be earned by the Fund over the course of the September 2020 quarter.




**Source**: Redpoint, Bloomberg

Uncertainty remains regarding company dividend forecasts for the quarter ahead. The bulk of the income is being derived from Commonwealth Bank of Australia, Wesfarmers Ltd, AGL Energy Ltd and Woolworths Group Ltd.

We continue to be cautious against chasing higher yielding stocks at this juncture as these high yields can simply be due to a price fall and could indicate that the company is stressed as opposed to being an investment opportunity. We believe that our focus on company quality and strength of cash flow will be rewarded in times such as these, when uncertainty is at its highest.

During the June quarter, the actual dividend yield based on 15 companies was about 0.34%, which was substantially lower than our estimated dividend yield of 1.06% reported in the March quarter report. The decrease in dividend yield was due to dividend cuts (10 companies) and dividend cancellations (5 companies). The portfolio also benefited from a return of capital paid by Orora (ORA) during the June quarter.

ANZ Banking Group Ltd, Westpac Banking Corporation, Aristocrat Leisure Ltd, Incitec Pivot Ltd and Sydney Airport Holdings Ltd all cancelled their dividends. ResMed Inc, Amcor Plc, Dexus Property Group and Goodman Group paid dividends in line or slightly higher than expected. Macquarie Group Ltd, National Australia Bank Ltd, Orica Ltd, Mirvac Group, Stockland Corporation Ltd and Transurban Group all paid a dividend but were between 25% and 60% lower than expected.

The Fund is still forecast to deliver a cash yield of over 3.5% over the next 12 months notwithstanding these current dividend cuts and omissions. Investors need to consider that the total return from the Fund is delivered by both income (dividends) and price change (growth). Experience indicates that share prices will recover before dividends return to normal and investors should be careful to not miss the price recovery by selling due to disappointment over lower dividend realisation in the short term.

**30 JUNE 2020**

# QUARTERLY REPORT

REDPOINT INDUSTRIALS FUND

## GENERAL COMMENTARY

Equity markets closed the financial year in a quasi-euphoric state. This has occurred against a backdrop of massive economic and social upheaval due to the COVID-19 pandemic. These events are unprecedented and the short and long-term impacts of this global pandemic are still unfolding.

The S&P/ASX 200 Index fell by -7.7% over the course of the 2020 financial year. This was the worst fiscal year return since 2009 (-20.1%) and slightly worse than 2012 (-6.7%). The year itself was split into three (3) distinct periods: July to mid-February delivered +10.7%; the fall to late March retraced by -35.9%; and then the rebound to 30 June returning +30.1%. There was no shortage of investor confidence during the past quarter with each month delivering positive returns: +8.78%, +4.36% and +2.61% for April, May and June respectively.

What has been surprising is the phenomenal speed with which this reversal has occurred while global economic uncertainty remains higher than was the case in early 2009. Equity markets in general across the world have shrugged off the current situation rallying strongly into fiscal year end. This has been supported by fiscal and monetary support from governments and central banks across the globe. Social media reports regarding the surge in retail share trading (especially across China and the United States) are spurring a FOMO (fear of missing out) sentiment, which is carrying share prices higher. Investors seem confident that the support by central banks and government fiscal stimuli will provide downside protection. Investment in equities is supported by a lack of attractive alternatives (cash and fixed income). At the same time, valuations are stretched in the belief that a “return to normal” is imminent. Over the past few years, we have marvelled at how equity markets have run to new highs in light of a range of economic and political uncertainties: the current rebound is yet another example.

This price move has occurred within an information vacuum as most companies withdrew their earnings guidance as the economy moved into lockdown in mid-March. Similar moves are evident across global equity markets resulting in stretched valuations, especially within those companies already trading at high multiples to forward earnings. On our measures, the valuation spread (between expensive and growth) remain at equivalent levels to those seen in the late 1990s (Technology Bubble). In Australia, this gap has been driven by the underperformance of large banks (being cheap) versus health care and information technology stocks being bid up to extreme valuations.

While the Fund outperformed as markets fell in February to mid-March the latest rebound has not favoured our tilt towards better quality stocks. Focusing on companies with balance sheet strength, strong cash flows and being managed sustainably for the longer term has detracted value in the recent months. Our conviction in the merits of our approach for the long term are unchanged. The upcoming reporting season will be a key information point for the market to assess how corporates are faring in a COVID-19 affected business environment.

## POSITION CHANGES

As at 30 June 2020, the Fund holds 40 of the 81 companies in the Benchmark universe.

Over the June quarter, the Fund established new positions in three (3) companies (Aurizon Holdings Ltd, JB Hi-Fi Ltd and Sonic Healthcare Ltd), representing about 3.48% of portfolio value as at 30 June 2020, and sold completely out of two (2) companies (ASX Ltd and Atlas Arteria Group), representing about 2.71% of portfolio value as at 31 March 2020. There was some other trading (primarily sales) due to net negative investor capital flows of -$351,093 for the quarter. Despite these position changes, the turnover for the Fund continues to be low.

The S&P/ASX implemented a review of the Index effective 19 June 2020. As part of this rebalance, there was one (1) addition to the Index (NEXTDC Ltd) and one (1) deletion from the Index (Unibail-Rodamco-Westfield). The Fund did not hold a position in this deletion during the quarter and did not open new positions in the stocks added to the Index.

## KEY CONTACTS

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