

30 SEPTEMBER 2019
QUARTERLY REPORT
REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 30 September 2019	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (% pa) ⁵	3 years (% pa) ⁵	Since Inception ⁴ (% pa) ⁵
Model Portfolio return (gross) ¹	1.21	3.40	13.26	13.86	11.65	10.92	7.14
– Model Portfolio cash income	0.37	1.21	2.59	6.19	5.49	5.36	5.24
– Model Portfolio price return (gross)	0.84	2.19	10.67	7.67	6.16	5.56	1.90
Benchmark return ²	1.49	4.18	13.84	13.93	11.91	10.58	7.40
Active return (gross) ³	-0.28	-0.78	-0.58	-0.07	-0.26	0.34	-0.26

Source: Navigator Australia Ltd

Past performance is not necessarily indicative of future performance.

1. Redpoint Industrials Separately Managed Account (SMA) (Model Portfolio) – gross performance is before management fees and transaction costs (as calculated by Navigator Australia Ltd).
2. S&P/ASX 100 Industrials Accumulation Index (Benchmark).
3. Active return is the difference between Model Portfolio gross return and Benchmark return.
4. The Model Portfolio was established on 30 April 2015.
5. Returns are annualised for periods of 12 months or more.

INVESTMENT OBJECTIVE

The Model Portfolio 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 Model Portfolio seeks to deliver the key income and growth characteristics of the Benchmark while holding less than half the companies in the Benchmark. The Model Portfolio 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 poorer rated companies. The Model Portfolio will usually hold 30 to 40 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

MODEL PORTFOLIO

For the three-month period ending 30 September 2019 the gross return of the Model Portfolio was +3.40%. The gross return of the Model Portfolio is comprised of two (2) key components: a capital (price) return of +2.19%; and an income (dividend) return of +1.21%. Over the same time period, the total return of the Benchmark was +4.18%. Consequently, the Model Portfolio underperformed the Benchmark by -0.78% (active return) for the September quarter.

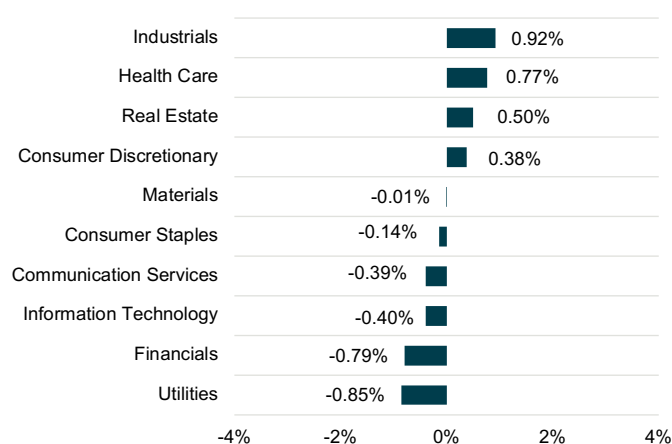
The September quarter delivered a cash yield of 1.21% for the Model Portfolio versus 1.17% for the Benchmark (on an ex-dividend basis). This was more or less in line with our forecasts made in the June 2019 investment performance report (1.07% for the Model Portfolio and 1.10% for the Benchmark respectively).

MARKET

The Australian equity market, as represented by the S&P/ASX 100 Industrials Index (Benchmark), continued its strong performance by posting a total return of +4.18% for the September quarter (comprising total returns of +3.40%, -0.72% and +1.49% for July, August and September respectively). By comparison, the total return of the S&P/ASX 200 Index, which includes resources companies, was +2.37% for the quarter, reflecting the fact that industrials companies outperformed their resources counterparts over the quarter.

The best performing sectors for the quarter were Consumer Staples (+12.6%), Information Technology (+11.8%), Consumer Discretionary (+9.7%) and Health Care (+7.3%), which outperformed the boarder market, while the worst performing sectors for the quarter were Communication Services (-2.8%), Industrials (+0.04%) and Utilities (+0.07%), which underperformed the boarder market, as represented by the Benchmark.

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)	Active (%)
Commonwealth Bank of Australia	11.40	10.74	0.65
CSL Ltd	8.35	7.99	0.36
Westpac Banking Corporation	7.87	7.69	0.18
National Australia Bank Ltd	6.42	6.47	-0.05
ANZ Banking Group Ltd	5.43	6.24	-0.80
Woolworths Group Ltd	4.40	3.70	0.71
Macquarie Group Ltd	3.96	3.13	0.83
Wesfarmers Ltd	3.86	3.41	0.45
Telstra Corporation Ltd	3.84	3.15	0.68
Transurban Group	2.33	2.89	-0.57

MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size (\$)	156,904,747
Number of holdings	40
Inception date	30 April 2015

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SECTOR ATTRIBUTION

Sector	Model Portfolio Average Active Weight (%)	Sector Allocation (%)	Stock Selection (%)
Health Care	0.86	0.03	0.17
Financials	-0.18	-0.01	0.18
Consumer Staples	-0.25	-0.02	0.06
Utilities	-0.83	0.03	-0.03
Real Estate	0.54	-0.01	0.00
Consumer Discretionary	0.32	0.01	-0.07
Communication Services	-0.31	0.02	-0.19
Industrials	1.04	-0.04	-0.16
Information Technology	-0.89	-0.14	-0.20
Materials	-0.29	0.02	-0.42
Total	0.00	-0.11	-0.67

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 28 June 2019 to 30 September 2019.

ATTRIBUTION COMMENTARY

The active return for the September quarter (-0.78%) can be decomposed into two (2) components:

- Benchmark stocks held by the Model Portfolio contributed +0.17% to active return; and
- Benchmark stocks not held in the Model Portfolio detracted -0.95% from active return.

Furthermore, a returns-based attribution shows that active return is comprised of two (2) key components:

- sector allocations, which detracted -0.11% from active return; and
- stock selection within the sectors, which detracted -0.67% from active return.

SECTOR ALLOCATION

From a sector allocation perspective, underweight positions in the Utilities, Communication Services and Materials sectors and overweight positions in the Health Care and Consumer Discretionary sectors collectively contributed +0.11% to active return.

This positive outcome was more than offset by underweight positions in the Information Technology, Consumer Staples and Financials sectors and overweight positions in the Industrials and Real Estate sectors, which collectively detracted -0.22% from active return. Of note is that the underweight position in the Information Technology sector and overweight position in the Industrials sector detracted -0.14% and -0.04% respectively from active return.

STOCK SELECTION

Stock selection in the Financials, Health Care and Consumer Staples sectors added the most value, collectively contributing +0.41% to active return. Stock selection in the Financials and Health Care sectors had the largest impact, contributing +0.18% and +0.17% respectively to active return.

This positive result was more than offset by stock selection in the Materials, Information Technology, Communication Services, Industrials, Consumer Discretionary and Utilities sectors, which collectively detracted -1.06% from active return. Stock selection in the Materials, Information Technology, Communication Services and Industrials sectors had the largest impact, detracting -0.42%, -0.20%, -0.19% and -0.16% respectively from active return.

LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Lend Lease Group	1.30	0.69	0.20
Qantas Airways Ltd	1.68	0.71	0.17
ResMed Inc	1.62	0.58	0.15
Downer EDI Ltd	1.31	0.35	0.13
Flight Centre Travel Group	1.04	0.20	0.13
The A2 Milk Company Ltd	0.00	0.82	0.10
Woolworths Ltd	4.30	3.61	0.09
CYBG Plc	0.00	0.19	0.09
AMP Ltd	0.00	0.44	0.07
Ramsay Health Care Ltd	0.00	0.69	0.06

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Adelaide Brighton Ltd	0.65	0.00	-0.26
CIMIC Group Ltd	0.96	0.27	-0.25
Treasury Wine Estates Ltd	0.00	0.96	-0.22
James Hardie Industries Plc	0.00	0.73	-0.21
Wisetech Global Ltd	0.22	0.22	-0.18
Afterpay Touch Group Ltd	0.00	0.38	-0.15
Aurizon Holdings Ltd	0.00	0.88	-0.10
Tabcorp Holdings Ltd	0.00	0.71	-0.08
JB Hi-Fi Ltd	0.00	0.27	-0.08
Dexus Property Group	1.96	1.09	-0.07

Note: Contributions shown in the above tables are to the active return of the Model Portfolio.
Period: 28 June 2019 to 30 September 2019.

ASSETS

Some of the best performing stocks for the quarter were overweight positions in Lend Lease Group (Real Estate), Qantas Airways Ltd (Industrials), ResMed Inc (Health Care), Downer EDI Ltd (Industrials), Flight Centre Travel Group Ltd (Consumer Discretionary) and Woolworths Ltd (Consumer Staples) and underweight positions (i.e. not held by the Model Portfolio) in The A2 Milk Company Ltd (Consumer Staples), CYBG Plc (Financials), AMP Ltd (Financials) and Ramsay Health Care Ltd (Health Care), which collectively contributed +1.19% to active return.

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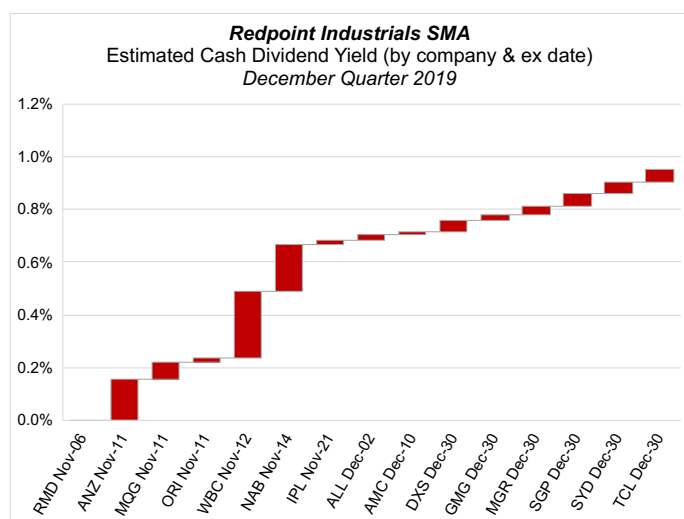
ATTRIBUTION COMMENTARY (CONT'D)

By contrast, some of the worst performing stocks for the quarter were overweight positions in Adelaide Brighton Ltd (Materials), CIMIC Group Ltd (Industrials), WiseTech Global Ltd (Information Technology) and Dexus Property Group (Real Estate) and underweight positions (i.e. not held by the Model Portfolio) in Treasury Wine Estates Ltd (Consumer Staples), James Hardie Industries Plc (Materials), Afterpay Touch Group Ltd (Information Technology), Aurizon Holdings Ltd (Industrials), Tabcorp Holdings Ltd (Consumer Discretionary) and JB Hi-Fi Ltd (Consumer Discretionary), which collectively detracted -1.61% from active return.

DIVIDEND INCOME

A key characteristic of the Model Portfolio 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 diversified set of companies that we wish to hold for the longer term.

Cash dividend income expectations for the December quarter are currently estimated at 0.95% for the Model Portfolio versus 0.96% for the Benchmark. The Model Portfolio is forecast to receive dividends from 15 companies; the Benchmark is expected to have dividends declared by 24 companies. The following chart shows the dividends expected to be earned by the Model Portfolio over the course of the December quarter.



Source: Redpoint, Bloomberg

GENERAL COMMENTARY

Australian equity and global equity markets were positive in the month of September after falling in August. Across the developed markets a further wave of monetary stimulus was applied by central banks: interest rate cuts were made in the United States, Europe and Australia during the quarter. These events have delivered an increase in risk appetite for investors as well as a chase for dividend yield as bond and cash markets continue to be unattractive.

While listed equity markets have been choppy, they have been resilient to a range of otherwise unnerving events such as: the ongoing trade-battle rhetoric between the United States and China; political unrest in Hong Kong; Brexit concerns in the United Kingdom; and attacks on Saudi Arabian oil producing assets. The extent to which ongoing monetary stimuli can continue to bolster equity markets remains a key concern as equity markets are generally trading above long-term valuation norms.

Against this backdrop, it was unsurprising to see valuation fare better as a stock selection discipline in September. The Financials sector (in Australia and internationally) performed strongly with many stocks in this group already trading at below average multiples and buoyed by the easing of monetary settings across the globe. Retail focused companies also fared better on expectations that sales would remain buoyant with both monetary and fiscal (tax cut) stimuli in Australia. Quality underperformed, especially from mid-August to quarter-end as investors turned their sights towards riskier names, emboldened by central bank actions aimed at further stimulating the global economy.

The Model Portfolio's focus on better quality companies has been unrewarded relative to Benchmark over the recent past due to these events driving market sentiment. Nonetheless, we retain conviction in the merits of a long term, risk managed approach to deliver consistent dividend yield via a diversified core holding of better-quality industrial companies.

POSITION CHANGES

As at 30 September 2019 the Model Portfolio holds 40 of the 80 companies in the Benchmark universe.

Over the quarter the Model Portfolio established new positions in two (2) companies (Incitec Pivot Ltd and WiseTech Global Ltd), representing about 1.92% of portfolio value (as at 30 September 2019), and sold completely out of two (2) companies (Challenger Ltd and Adelaide Brighton Ltd), representing about 1.41% of portfolio value (as at 30 June 2019).

There was some minor trading (primarily purchases) due to net positive investor inflows for the quarter. Despite these position changes, the turnover for the Model Portfolio continues to be low.

The S&P/ASX will review index memberships in December 2019 and any additions/deletions to the Benchmark may prompt a rebalance of the Model Portfolio at that time.

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