31 DECEMBER 2020

QUARTERLY REPORT

REDPOINT INDUSTRIALS SMA

redpoint Investment Management

Investment Approach

Redpoint employs a disciplined approach which seeks to construct a representative portfolio of better-quality companies that provides a return broadly comparable to that of the benchmark on an after fees basis.

The approach is designed to provide a model portfolio for implementation as an SMA with low turnover, appropriate risk controls relative to the benchmark and comparatively lower costs. Redpoint's selection bias towards quality companies is expected to give the portfolio a slight defensive tilt. This is anticipated to provide a modest outperformance during periods of market stress but marginal underperformance when speculative stocks are in favour. This slight bias is Redpoint's preferred method for sensibly allocating capital given the strategy is constrained to holding less than half the stocks in the benchmark universe.

Investment Objective

The Model Portfolio aims to provide a return in line with the 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 usually holding between 30-40 companies from within the Benchmark.

Market Commentary

The S&P/ASX 100 Industrials Accumulation Index had a total return of 12.63% for the quarter. The last quarter in the 2020 calendar year had a positive rise in October and November and a minor decline in December. The month of November was the best calendar month for ASX100 Industrials in history. The index rose 10.12% following positive COVID-19 vaccine news, further cut in interests rates by the Reserve Bank and announcement of a $100b government bond buying program. For the quarter, the best performing sectors were Information Technology (+28.0%) and Financials (+22.7), whilst the worst performing sectors were Utilities (-5.4%) and Health Care (-1.4%).

Risk appetite has materially increased over the quarter and this thematic is driving re-rating in lower quality stocks at this time. The portfolio has successfully captured a higher income relative to the index over the course of 2020 and is well placed to do so again in 2021. The cost of this has been under exposure to riskier names which have sharply outperformed causing a relative underperformance in price terms since later March.

The best performing stock for the quarter was Challenger which was bolstered by a positive quarterly update, reaffirmation of its Standard & Poors 'A' credit rating and acquisition of MyLife MyFinance Limited in December. From the Information Technology sector, Link Administration was the best performing stock as its share price rose on the back of multiple takeover bids for the company (the highest bid from SS&C was withdrawn in early January causing the share price to fall back as management indicated that they are investigating other potential asset sales). Appen Group was the worst performing stocks in the ASX 100 Industrials which fell after downgrading full year earnings guidance due as its major customer base in California remains impacted by the U.S. COVID lockdowns. AGL Energy also disappointed during the quarter revealing a larger than expected earnings downgrade due to lower than expected wholesale electricity prices and a shutdown after an accident at its Liddell plant.

Position Changes

At month end the model portfolio held 40 companies from the benchmark universe. During the quarter, the model portfolio added a new position in Carsales.com and exited from Suncorp. Carsales.com owns and operates a portfolio of automotive classified websites in Australia and Asia and complements the portfolio's position in Telstra within the Communication Services sector. The company is an industry leader and a high-quality business which scores well within Redpoint's ESG framework.

Across the existing positions, the model portfolio increased exposure in AGL Energy, National Australia Bank and Scentre Group, whilst decreasing exposure in Coca-Cola Amatil and Commonwealth Bank.

Dividend Income

The expected cash dividend yield or the Model Portfolio is forecasted to be 3.4% over the next 12 months versus 3.2% for the benchmark. Additional franking credits of approximately 1% are also expected over the next year.

While uncertainty of forward dividend payments remains high there is growing expectation that dividend payouts will resume for many stocks in the year ahead and revert back towards 2019 levels by 2022. This represents an attractive yield for investors with a long term perspective who are able to endure the shorter term price gyrations of equity markets. Our expectations are for monetary policy to remain accomodative for an extended period which will mean that cash and fixed interest investments will remain low yielding.

Top 10 Holdings

Company	Model Portfolio %
Commonwealth Bank of Australia	11.55
CSL Ltd	10.09
Australia & New Zealand Banking	6.17
National Australia Bank Ltd	5.83
Wesfarmers Ltd	5.48
Woolworths Group Ltd	4.53
Westpac Banking Corp	4.45
Macquarie Group Ltd	4.28
Telstra Corp Ltd	3.36
Coles Group Ltd	2.74

Sector Allocation

Sector	Model Portfolio %
Consumer Discretionary	8.60
Information Technology	3.99
Industrials	9.58
Communication Services	4.67
Financials	37.20
Materials	4.02
Consumer Staples	7.81
Health Care	14.08
Real Estate	8.23
Energy	0.00
Utilities	1.82

Model Portfolio Facts

Model Portfolio Code	RISMA
Benchmark	S&P/ASX 100 Industrials Accumulation Index
Inception Date	30 April 2015
Number of Holdings	40
Aggregate FUM	$196.4m

Available Platforms

MLC Wrap / MLC Navigator

Email: info@mlcam.com.au

Phone: 1300 738 355

Macquarie Wrap

Email: managedaccounts@macquarie.com

Phone: 1800 501 180

Investment Manager

Max Cappetta / Toby Bellingham
Phone: (02) 9119 5800

Address

Level 19, Governor Macquarie Tower
1 Farrer Place, Sydney, NSW, 2000

Website

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Performance

Performance (%)	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (%pa)	3 years (%pa)	4 years (%pa)	5 years (%pa)	Since Inception (%pa)
Model Portfolio Total Return	-0.93	12.22	10.51	-3.69	8.78	4.55	5.45	5.80	4.79
Income Return	0.16	0.51	1.46	2.73	3.91	4.40	4.52	4.64	4.70
Price Return	-1.09	11.72	9.04	-6.42	4.87	0.16	0.92	1.15	0.09
Benchmark Total Return	-0.67	12.63	11.52	-0.86	10.45	5.40	6.16	6.44	5.48
Active Return	-0.27	-0.41	-1.02	-2.83	-1.67	-0.85	-0.71	-0.65	-0.69
Estimated Franking Credits	0.00	0.13	0.42	0.67	1.11	1.23	1.33	1.41	1.45
Estimated Gross Income Return	0.16	0.63	1.88	3.40	5.02	5.62	5.86	6.05	6.15

1. Model Portfolio Total Return is before management fees and transaction costs (calculated by Navigator Australia Limited).
2. Estimated Gross Income Return is the sum of Income Return and Estimated Franking Credits

Model Portfolio Commentary

The Redpoint Industrials SMA (Model Portfolio) underperformed the S&P/ASX 100 Industrials Index by -0.41% for the quarter with a gross return of +12.22% vs +12.63% for the Index.

The gross return of the model portfolio is comprised of a price return (capital) of +11.72% and cash income return from dividends of +0.51% plus estimated tax credits of 0.13% (0.64% gross).

Attribution Commentary

A sector-based attribution shows that sector allocation detracted -0.17% and stock selection detracted the remaining -0.29% from active return.

Sector Allocation

Underweight exposure to Information Technology and Overweight exposure to Consumer Staples were the worst contributors to relative performance during the quarter. The IT sector was buoyed by strong performances from AfterPay (not held) and Accounting software firm Xero (held overweight). Not holding Afterpay has detracted 1.1% from relative performance over the past six months and is a major source of the underperformance of the Model Portfolio in 2020. Link Administration (not held) also outperformed due to takeover bids being made for the company.

An underweight to the Utilities sector added value over the quarter. Utilities are a more defensive equity exposure given that electricity demand is less cyclical and provides more modest, yet consistent, long term growth profile. Such characteristics are not in demand as investor risk appetite is currently high and there is increased focus on investing in high growth names.

Stock Selection

Stock selection added most in the Consumer Staples, Financials and Health Care sectors.

A2 Milk (not held) shares have halved since their mid 2020 highs on increasing fears of COVID related disruption of sales to China. This was confirmed in December when the company materially reduced its full year revenue guidance (from NZ$1.8b to NZ$1.4b) as well as guiding for a lower operating earnings margin on sale.

Within the Financial Sector the Model Portfolio benefited from having no exposure to the underperforming ASX as well as being rewarded for maintaining an overweight position in health insurer NIB after the stock was removed from the ASX100 Industrials Index in December. The Model Portfolio's positioning within the major banks also added value (overweight ANZ and Commonwealth Bank but underweight Westpac).

The Model Portfolio's long-term overweight holding in global respiratory specialist Resmed added value during the quarter. The company is one of few index members to have maintained their dividends through the COVID pandemic to date. The company posted a strong than expected quarterly result showing ongoing revenue and profitability growth which now points to a higher dividend rate in calendar 2021.

Top 5 Contributors

Company	Model Portfolio %	Index %	Contribution %
ASX Ltd	0.00	1.20	0.32
Nib holdings Ltd	1.14	0.15	0.31
A2 Milk Company	0.00	0.79	0.28
Xero Ltd	1.93	1.14	0.22
Australia & New Zealand Banking	5.84	4.64	0.22

Top 5 Detractors

Company	Model Portfolio %	Index %	Contribution %
Afterpay Ltd	0.00	1.79	-0.55
AGL Energy Ltd	1.78	0.64	-0.30
carsales.com Ltd	1.03	0.40	-0.22
Ansell Ltd	1.32	0.38	-0.19
SEEK Ltd	0.00	0.68	-0.14

Sustainability

Our proprietary asset ranking model [0-1] evaluates the investment quality of a company along environmental, social and corporate governance (ESG) criteria. The table below shows that the Model Portfolio maintains a higher average score to companies that rate well according to each individual component and ESG in aggregate. The Model Portfolio has a 25% lower carbon Intensity than the index and a 50% lower carbon intensity than the ASX200 Index.

Cohort	Model Portfolio	ASX100 Indl	ASX200
Redpoint ESG	**0.70**	**0.63**	**0.68**
Environmental	0.71	0.66	0.67
Social	0.60	0.55	0.66
Governance	0.59	0.55	0.57
Carbon Intensity	**150.96**	**206.12**	**298.15**

Carbon Intensity is measured as Tonnes of CO_2 emissions divided by revenue

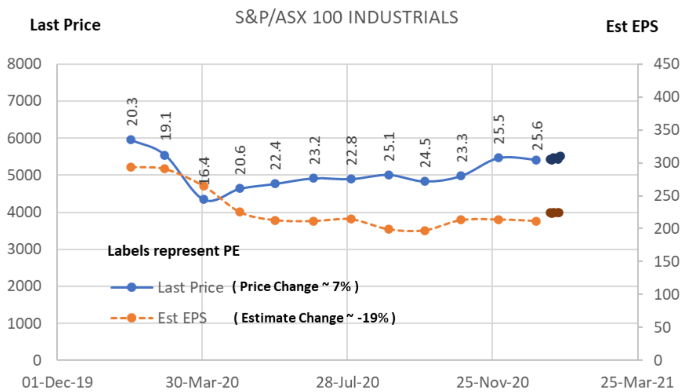
2020 in review and 2021 outlook

2020 will long be remembered for the impact of the COVID pandemic but the fall and spectacular reversal of equity markets is also due an honourable mention.

Equity markets around the world have ended 2020 at or above where they started the year: an amazing result in the face of the largest contraction in global economic activity on record. Equity markets, as forward-looking pricing systems, have been buoyed by unprecedented fiscal and monetary support and more recently by the roll out of effective COVID-19 vaccines. These events have provided confidence for investors to see through almost any form of uncertainty taking comfort in the expectations (and realisation) that governments and central banks will provide downside protection to equity prices coupled with a strong belief that 2021 will see a return to more normal activity. Recent vaccine approvals and roll outs across the globe have so far been able to maintain positive sentiment in the face of a resurgent second wave of infections and lock down through the USA and Europe.

We enter 2021 with equity markets having already priced in a full recovery of earnings to pre-COVID levels by 2022 plus further expansion thanks to expectations that policy settings will remain accommodative in the medium term. The supportive policy settings of the post GFC era continue to numb investor sensitivity to uncertainty allowing discount rates to fall and prices to rise. Changes to policy settings are unlikely in the near term (2021) meaning that the investment environment remains conducive maintaining the current market price in aggregate.

The chart below shows the ASX100 Industrials Price Index over the course of 2020 (blue line – LHS) and the estimated earnings per share for the index (orange line – RHS). The forward PE of the index is shown as numbers above the blue line. This chart highlights how the price of the Index has risen back to close to pre-COVID levels but that earnings expectations remain 19% lower than at the start of 2020.

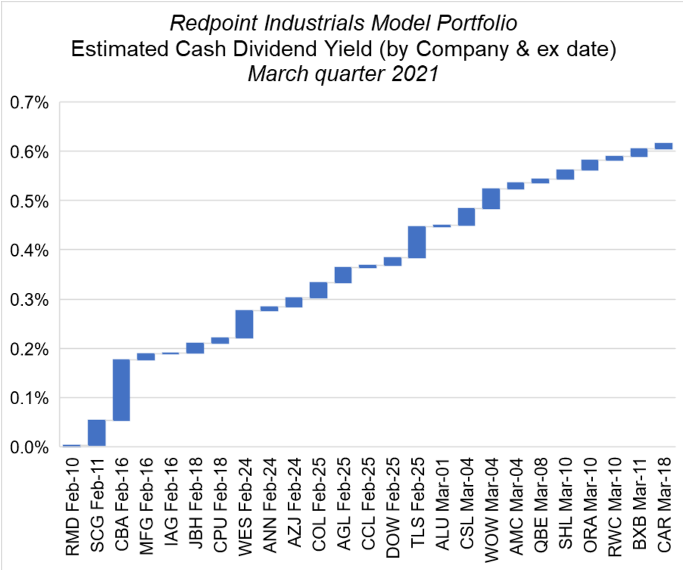


Much of the rise in the forward Price to Earnings multiple of the Index has been driven by the strong price performance of IT stocks such as AfterPay (APT). APT is expected to earn its maiden profit in 2021 (forecast of $0.10 per share growing to $0.44 per share in 2022). The company's share price of $120 at the end of December (and almost $150 at time of writing this report) implies a forward PE of between 270x and 1200x. This shows an absolute confidence by investors in the firm's ability to execute its business strategy over the next decade unfettered by competitors or other impediments to their global growth. We have to look back to the "Tech Boom" of the last 1990's to see similar price action in similar stocks and our experience tells us that the risk is increasingly to the down-side for companies with such lofty expectations in their share price. The decision to not own APT in 2020 was the largest individual detractor from relative price performance for the Model Portfolio.

Our preference in the domestic IT sector has been to hold Altium and accounting software firm Xero. Altium, based in Sydney, develops and sells software used in the design of printed circuit boards within electronics products. Its software is used across the globe and across a broad range of industries from consumer electronics, automotive to telecommunications. The company has been consistently profitable since 2012, has grown revenue by a factor of 4 over the past decade while also growing dividend per share from $0.08 in 2012/13 to $0.39 per share in calendar 2020. While growth expectations are not as lofty as those for Afterpay, the company is forecast to deliver earnings per share (eps) of $0.39 and $0.44 in 2021 and 2022 respectively (similar eps to APT). The company's share price is currently close to $30 (vs $150 for APT) providing a far more attractive investment potential according to our disciplined approach at this time.

Dividend Outlook

The forecast cash yield for the March quarter is 0.62% (0.78% including tax credits). This compares to a cash yield of 0.55% forecast for ASX100 Industrials Index.



Ultra-low interest rates will ensure that the equity market remains attractive to income seeking investors. This thematic will especially be supportive towards companies with cashflow strength and attractive valuations who can reinstate dividend payments in 2021. Over the course of 2020 the Model Portfolio is estimated to have delivered a cash yield of 2.73% versus the benchmark of 2.37%.

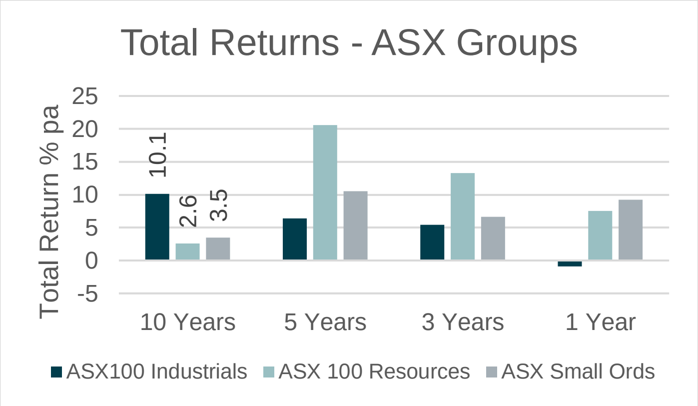
Australian Banks have been a staple of the income investor's diet for a long time. This income was compromised in the 2008/09 GFC period but quickly bounced back. We have also seen major cuts to bank dividends over 2020 and expectations are that they are unlikely to return to 2019 levels at least until 2023. This leaves scope for positive surprise for bank profits and thus dividends over the course of 2021 and 2022. We have noted that Australia's major retail banks have lagged on sustainability metrics of customer and shareholder loyalty and product innovation in recent years. The findings of the Hayne Royal Commission and emergence of competition from neo-banks have contributed to this demise. Australian bank divestment of their wealth businesses presents an opportunity to address these issues and construct a more profitable and focused entity for the decade ahead.

Investment discipline over the long term

The longer-term potential of investing in a diversified portfolio of larger Australian industrial firms is clear. This cohort of companies offers a diversity of exposures across a wide range of industries and access to growth and income opportunities both in Australia and across the globe.

This diversity has delivered higher and more consistent income (and associated tax credits) relative to mining and commodity-based stocks on the ASX. The total return of Industrial and Resources companies are comparable over the very long term though mining stocks do exhibit higher volatility overall with periods of very strong returns followed by years of weaker outcomes. The long term, capital intensive nature of mining coupled with limited control over commodity prices ultimately results in poor risk adjusted returns over the long term: hence our sole focus on the ASX100 Industrials Index and building a diversified portfolio specifically tailored to capture the benefits of income and tax transparency offered by a Separately Managed Account (SMA) structure.

The longer-term historical data also supports the focus of the Industrials SMA Model Portfolio. The tables below show the total return for the ASX100 Industrials, ASX100 Resources and Small Ordinaries Indexes over various periods in the past decade. The cyclicality in the mining sector is shown by the strong five year returns but the miners have ultimately delivered only a fraction of the overall ten-year return of the AXS100 Industrials (2.6% vs 10.1%) due to poor performance in the 2010 to 2015 period.



Source: Bloomberg

The history of dividend income also favours Industrials. Again, the past five years have been strong for miners: especially those with exposure to iron ore. However, over the longer term the diversity of industrials has delivered solid dividend income notwithstanding the recent impacts of the COVID-19 pandemic.

Source: Bloomberg

This analysis does not include tax credits which are higher for Industrials over the long term, which would add an additional 0.2% for Industrials relative to resources over the long term.

The nature of the ASX100 Industrials has also evolved over time. Australia's major retail banks dominated the index in 2010 but this dominance is now diminishing. A decade ago healthcare giant CSL barely made the top 10 and was a third of the index weight of the smallest major bank. Today the stock carries the second largest index weight at over 9% and is second only to Commonwealth Bank in size. While the stock has not delivered as high a dividend yield relative to the Banks it has more than compensated investors through capital growth. CSL currently trades on a dividend yield of 1% (current price ~$280). The Model Portfolio opened its position in CSL at inception in April 2015 at $90.87 and has held it through the entire period. For the long-term investor, CSL currently delivers a yield of 3% on their capital invested in 2015: a dividend rate which has grown from $1.70 per share in 2015 to be now forecast to pay ~$2.90 in dividends in 2021. Companies such as CSL also point to the opportunities of having a broader perspective beyond simply seeking to build a portfolio of high yielding stocks. Stocks delivering high dividend yields may also suffer from low growth prospects and may deliver poor price appreciation in future.

Over recent years the Index has seen the rise in the IT and online sectors. The portfolio has benefited from holding stocks such as Xero and CarSales.com which were not even part of the index in 2010. This evolution provides exposure to new growth and investment opportunities for investors. By contrast the constituents of the mining sector remain dominated by the likes of BHP and Rio Tinto. The overall mix of activities across metals and energy remains largely unchanged with the exception of growth in metals such as lithium which is used in batteries and supports growth in renewable energy and other electronics.

Another risk facing all savers and investors is that of sequencing risk. This is related to volatility in asset prices which can result in prices being low at the time that the investment was expected to be realised and used for consumption. Having lower volatility is a further reason for favouring a diversified Industrials exposure relative to resources over the long term.

Lastly, we thank all investors and their advisers for their support over the course of a challenging year. While income (as dividends) reduced, the market price bounce back was a vicious reminder of the need to look through short term downward price movements and stay invested for the long term. Staying invested has ensured that investors have ended an unprecedented year with their equity capital based largely unchanged notwithstanding the income shock which we expect to revert to higher levels over the next two years.

As we look ahead, we remain cognizant of the risk of the current high market valuation, but we retain conviction in our long-term disciplined approach to capture the key income and growth characteristics of better quality larger Australian Industrial companies delivered via the tax effective and transparent SMA structure. Please accept the best wishes from all of us here at Redpoint for every success and good health in 2021.