

30 JUNE 2021

QUARTERLY REPORT REDPOINT INDUSTRIALS SMA



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 Australian Industrials market (S&P/ASX 100 Industrials Accumulation Index) returned +8.9% over the quarter to June 30th, its 3rd consecutive quarterly gain. Industrials outperformed the S&P/ASX 100 Resources Accumulation Index (+7.1%) and the broader market (S&P/ASX 200 Accumulation Index) which returned +8.3% over the quarter to June 30th.

Monthly returns for the quarter were a consistent +3.0% for April, +3.0% for May and +2.6% for June. With the 2021 Financial Year (FY21) now closed, the equity market was up 27.3%, its best financial year this century.

Global markets also performed well over the quarter, in line with the Australian market on an AUD return basis. The broad index (MSCI All Countries World Index Accumulation) was up 8.6% with developed markets (MSCI World Index) +9.0% outperforming emerging markets (MSCI Emerging Markets Index) +6.1%. The Australian Dollar weakened against all major currencies over the quarter, falling 1.3% vs the US Dollar.

Across different market sectors the best performers were Information Technology (+12.1%), Consumer Discretionary (+11.1%) and Communications (+10.6%) boosted by the continued effects of low interest rates, covid related stimulus and ongoing economic recovery.

The Utilities sector (-5.8%) was the worst and only negative sector performer. As the energy transition to cleaner fuels gathers pace, the market appears to be questioning the business models of some of the sector incumbents. During the quarter the ASX100 reclassified Origin Energy from the Energy sector to the Utilities sector providing the potential to diversify the Model Portfolio away from its current holding in AGL Energy.

The June quarter was very much a reflection of the overall FY21 sector moves. The best performers, Information Technology (+38.9%) and Consumer Discretionary (+42.8%) had their best financial year since before the Global financial Crisis (GFC). Utilities was the worst performing sector in FY21 down 22.9%, its poorest performance since the GFC.

The top five performers from the S&P/ASX 100 Industrials Index for the quarter were Altium Ltd (Software, +38.6%), Reece (Plumbing Fixtures +37.7%), ALS (Testing Laboratories, +34.7%), Boral Ltd (Building Materials, +33.9%) and Resmed (Medical Appliances, +29.7%).

The bottom five performers were A2 Milk (Dairy Production, -23.4%), Incitec Pivot (Fertiliser, -18.2%), Challenger Ltd (Life Insurance, -15.5%), AGL Energy (Electric Utilities, -15.0%) and Lendlease (Building Construction, -11.3%).

Position Changes

At the end of FY21, the Model Portfolio held 42 companies from the benchmark universe. Over the quarter, the Model Portfolio opened a new position in Afterpay and Bank of Queensland. In addition, the Model Portfolio participated in two compulsory corporate events; Endeavour Group (stock spin-off from Woolworths) and Coca-Cola Amatil (take-over from Coca Cola European Partners). Exposures in National Australia Bank and Westpac were increased whilst ANZ, Macquarie, Woolworths, Orora and Downer EDI were reduced.

Dividends

The expected cash dividend yield of the Model Portfolio is forecasted to be 3.35% over the next 12 months versus 3.28% for the benchmark. The Model Portfolio is also expected to earn additional franking credits of approximately 1% over the next year thus delivering a gross dividend yield of 4.35%.

Top 10 Holdings

Company	Model Portfolio %
Commonwealth Bank of Australia	12.29
CSL Ltd	8.95
National Australia Bank Ltd	6.80
Westpac Banking Corp	6.57
Australia & New Zealand Banking	5.77
Wesfarmers Ltd	5.66
Telstra Corp Ltd	3.73
Macquarie Group Ltd	3.62
Woolworths Group Ltd	3.28
Aristocrat Leisure Ltd	2.31

Sector Allocation

Sector	Model Portfolio %
Consumer Discretionary	9.10
Information Technology	4.47
Industrials	9.41
Communication Services	4.87
Financials	39.79
Materials	4.21
Consumer Staples	6.09
Health Care	13.40
Real Estate	7.56
Energy	0.00
Utilities	1.10

Model Portfolio Facts

Model Portfolio Code	RISMA
Benchmark	S&P/ASX 100 Industrials Accumulation Index
Inception Date	30 April 2015
Number of Holdings	42
Aggregate FUA (\$)	229,665,656

Available Platforms

MLC Wrap / MLC Navigator

Email: services@mlc.com.au

Phone: 13 25 52

Macquarie Wrap

Email: mppmproduct@macquarie.com

Phone: 1800 501 180

HUB24

Email: admin@hub24.com.au

Phone: 1300 854 994

Investment Manager

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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 ¹	2.28	8.04	13.84	25.80	6.38	8.00	7.97	8.99	6.61
Income Return	0.12	0.78	1.88	3.72	3.49	4.33	4.46	4.62	4.68
Price Return	2.17	7.26	11.96	22.08	2.89	3.67	3.50	4.37	1.94
Benchmark Total Return	2.62	8.87	14.16	27.32	8.37	9.25	8.68	9.54	7.31
Relative Return	-0.34	-0.83	-0.32	-1.52	-1.99	-1.25	-0.72	-0.55	-0.70
Estimated Franking Credits	0.00	0.26	0.58	1.12	0.96	1.19	1.30	1.39	1.44
Estimated Gross Income Return ²	0.12	1.04	2.46	4.83	4.45	5.52	5.76	6.01	6.12

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

Top 5 Contributors

Company	Model Portfolio %	Index %	Contribution %
APA Group	0.00	0.80	0.15
ResMed Inc	1.32	0.64	0.14
a2 Milk Co Ltd/The	0.00	0.34	0.14
Ramsay Health Care Ltd	0.00	0.85	0.13
Lendlease Corp Ltd	0.00	0.60	0.13

Top 5 Detractors

Company	Model Portfolio %	Index %	Contribution %
Incitec Pivot Ltd	1.19	0.35	-0.27
Afterpay Ltd	0.61	1.76	-0.23
AGL Energy Ltd	1.24	0.39	-0.23
Qantas Airways Ltd	1.27	0.64	-0.12
Cochlear Ltd	0.00	1.04	-0.11

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	0.67	0.63	0.69
Environmental	0.69	0.65	0.68
Social	0.56	0.54	0.65
Governance	0.57	0.54	0.56
Carbon Intensity	154.73	194.71	289.28

Carbon Intensity is measured as Tonnes of CO2 emissions divided by revenue

Portfolio Manager Commentary

From an investment style factor perspective, sentiment based measures such as Momentum and Analyst Drivers were the best performers over the past twelve months as markets rebounded from the initial hard-stop of COVID in early 2020. Quality, as an investment discipline performed worst after delivering strong outperformance as markets fell early in 2020. This is to be expected in a high risk appetite environment supported by massive global fiscal and monetary initiatives. A further indicator of speculation in the markets was evident through the second half of calendar 2020 as low volatility strategies, generally viewed as defensive equity exposures, materially underperformed. Over the course of the past twelve months other quality related factors such as high profitability and low leverage have also underperformed.

Our metrics point to a resurgence in dividend payments over the next year. Improving economic growth may also allow a higher degree of capital management by companies with stronger financial positions who find that their conservatism over payout ratios in the past year can be relaxed. We expect continued improvement in dividend payments with a skew towards the mining sector (especially iron ore) where commodity prices are supporting a super-cycle of free cash flow generation. The 2022 fiscal year should see a return to pre-COVID dividend levels in aggregate but our forecasts indicate that the Banking sector will need a further year to return to 2019 dividend levels.

Inflation concerns have re-emerged since March this year as the northern hemisphere continued to see reducing COVID infection levels and vaccine rollouts picking up speed. This has caused investors to re-focus on the impact of tapering of economic stimuli and whether the current policy settings would lead to over heating of the global economy. This type of uncertainty is expected to bring improved relative performance for our more conservative and diversified approach. We expect that interest rates will be maintained at low levels well into calendar 2022 placing a very low return ceiling on term deposit rates and other cash investments. Expectations are that interest rates will be maintained even in the face of rising inflation to ensure that the post COVID economic recovery remains on track. Under this scenario we would expect that better quality, profitable firms can provide an attractive income alternative for investors over the longer term.

In terms of sustainability, Redpoint has become a member of the Investor Group on Climate Change (IGCC) in 2021. This is a direct follow on from the launch of our Responsible Investment Policy in mid 2020. We have also enhanced our reporting to highlight the low carbon footprint of our Model Portfolio versus benchmark and the broader ASX200 index.

Lastly, we are delighted to have been a contributor to [State of our Innovation Nation: 2021 and beyond](#). Our article, featured on [page 267](#), highlights the role that Australia's retirement savings industry is playing to both promote sustainability as well as innovating to show how responsible investment solutions can meet long term investment needs.

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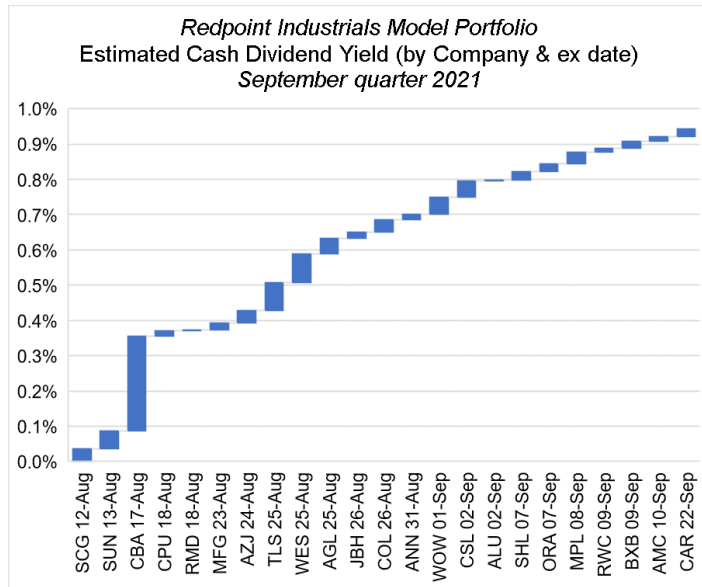
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Dividend Expectations & Valuation

The SMA Model Portfolio expects to receive dividends from 23 companies in the September quarter for a total cash yield of 0.94% (plus estimated tax credits of 0.31%). The ASX100 Industrials is expected to have a cash yield of 0.87% from 54 different companies.



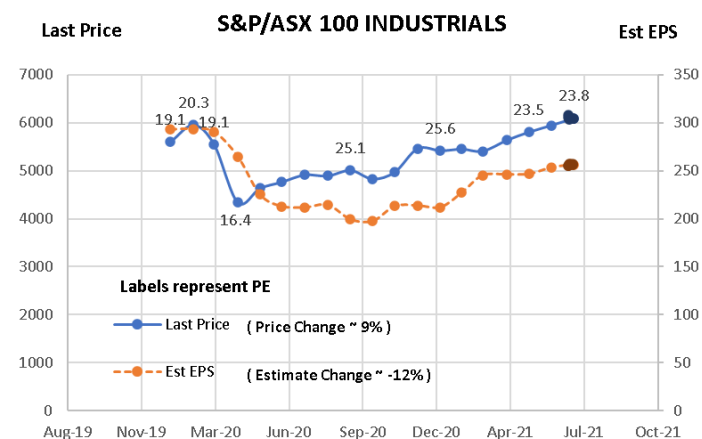
Source: Redpoint, IHSMarkit

the underperforming names over this period (Avoiding A2 Milk and AMP and exiting ASX Ltd) these have been insufficient to overcome the impact of the detractors in total.

As noted above, we retain our conviction in our longer term approach focused on utilising our perspectives on sustainability, quality to deliver an attractive income and growth outcomes with low turnover for investors over the long term.

Our approach has been specifically constructed to capture the tax transparency benefits of SMA Implementation. This structure enables investors to maintain their own beneficial ownership and tax position while being able to receive dividend income directly from their holdings as soon as companies pay their them. Capturing these benefits of the SMA structure comes with a requirement to have a degree of concentration in the holdings of our Model Portfolio relative to the Index: we are constrained to hold less than half of the members of the index. Using our longer horizon investment perspectives within a risk and benchmark aware portfolio construction process is our preferred methodology for capturing the characteristics of the ASX100 Industrials Index within the SMA structure.

On forward earnings estimates the ASX100 Industrials Index currently trades on a Price to Earnings multiple of 23.8. The chart below highlights how price levels (blue) have reverted to being higher than they were at the start of 2020 while earnings expectations (orange) are still ~12% below pre-COVID levels.



Source: Redpoint, Bloomberg

We note that the price reversal since March 2020 has been concentrated in poorer quality and less profitable firms. This may now present an opportunity for more conservative and defensive firms to catch up in terms of overall return (both dividends and price performance).

Over this 15 month period over 75% of the retrun of the index has been contributed by 20% of the companies in the index (19 companies out of 92) which account for <50% of the aggregate index weight. This provides some insight into the concentration of returns over this period. While the Model Portfolio has benefited from overweight positions in some of these companies (such as ANZ Bank, Macquarie Bank, Aristocrat Leisure and Stockland Group), relative performance has been impacted more by underweights in strong performers such as AfterPay, James Hardie and Boral. While our approach has been more successful at avoiding some of