31 JULY 2020

MONTHLY REPORT

REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 31 July 2020	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (% pa) [5]	3 years (% pa) [5]	5 years (% pa) [5]	Since Inception [4] (% pa) [5]
Model Portfolio return (gross)	-0.41	5.02	-18.12	-13.18	-1.11	2.72	3.04	3.12
– Model Portfolio cash	*0.00*	*0.52*	*1.25*	*3.13*	*4.48*	*4.65*	*4.76*	*4.73*
– Model Portfolio price	*-0.41*	*4.50*	*-19.38*	*-16.31*	*-5.59*	*-1.93*	*-1.72*	*-1.62*
Benchmark return [2]	-0.43	5.90	-16.65	-11.18	0.05	3.29	3.59	3.67
Active return [3]	0.02	-0.88	-1.47	-2.00	-1.16	-0.57	-0.55	-0.55

Source: Navigator Australia Limited

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 (calculated by Navigator Australia Limited).
2. S&P/ASX 100 Industrials Accumulation Index – dividends reinvested (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 with a nominal portfolio value of $100,000.
5. Returns for periods of 12 months or more are annualised.

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 holding less than half the companies in the Benchmark. The Model Portfolio combines long horizon sustainable quality metrics and risk management expertise to exclude or underweight poorer rated companies. The Model Portfolio will usually hold 30-40 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 month ending 31 July 2020 the gross return of the Model Portfolio was -0.41%. Over the same time period the total return of the S&P/ASX 100 Industrials Index (Benchmark) was -0.43%. As a result, the Model Portfolio outperformed the Benchmark by +0.02% (active return) for the month.

The gross return of the Model Portfolio (i.e. -0.41%) is comprised of two (2) major components: a cash income (dividend) return of 0.00% (no dividends were paid during July); and a capital (price) return of -0.41%.

MARKET

The Australian equity market started off strong in the first three days of July, posting returns of +0.56%, +1.90% and +0.65% however the remaining parts of the month saw swings in the daily movement. Concerns regarding COVID-19 re-emerged with increased cases in Victoria and in many US states.

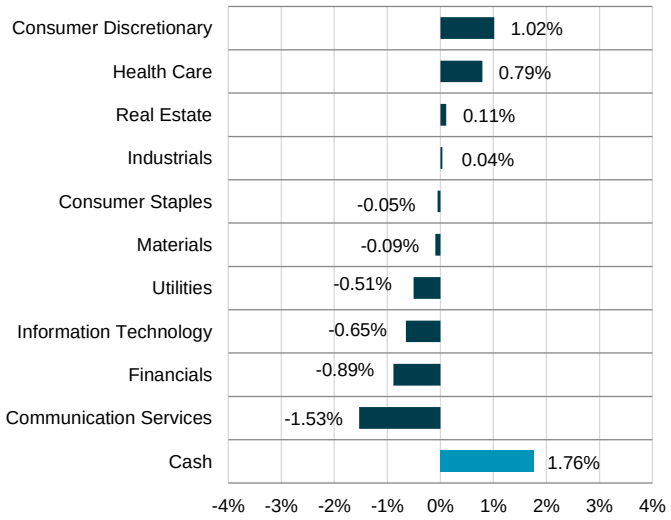
The best performing sectors for the month were Information Technology (+6.05%), Communication Services (+4.66%), Consumer Staples (+3.66%), Consumer Discretionary (+3.12%), Materials (+0.71%) and Real Estate (+0.02%) which outperformed the broader market. The worst performing sectors for the month were Utilities (-0.18%), Financials (-1.20%), Industrials (-3.75%) and Health Care (-3.88%).

The US Equity Market (both S&P500 and NASDAQ) traded higher in July seemingly immune to the ongoing COVID-19 pandemic, growing unease between USA and China on trade issues but buoyed by better than expected outcomes as US reporting season commenced towards month-end. Commodities rallied, in general, led by precious metals. Oil ended the month at $US40.27 per barrel up 2.55% in July and more than double where it traded at the end of April.

TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)
Commonwealth Bank of Australia	11.50	10.79
CSL	10.56	10.50
Wesfarmers	5.55	4.52
ANZ	5.36	4.36
Woolworths	4.89	4.18
Westpac	4.31	5.28
Macquarie Group	4.19	3.48
National Australia Bank	4.09	4.83
Telstra	3.80	3.41
Transurban	2.77	3.23

SECTOR ACTIVE WEIGHTS



MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size ($)	160,196,616
Number of holdings	41
Inception date	30 April 2015

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LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
AMP	0.00	0.51	0.11
QBE Insurance Group	1.92	1.19	0.09
Ramsay Health Care	0.00	0.97	0.07
Ansell	1.65	0.41	0.06
JB Hi-Fi	1.21	0.42	0.05
Wesfarmers	5.44	4.40	0.05
GPT Group	0.00	0.69	0.05
Westpac Banking Corporation	4.49	5.46	0.04
Macquarie Group	4.30	3.43	0.04
Coles Group	2.50	1.79	0.04

Note: Contributions shown in the above tables are to the active return of the Model Portfolio.

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Qantas Airways	1.16	0.56	-0.08
ALS	0.00	0.30	-0.08
NEXTDC	0.00	0.43	-0.06
Orora	0.81	0.20	-0.06
James Hardie Industries	0.00	1.04	-0.06
Dexus Property Group	1.52	0.84	-0.05
The A2 Milk Company	0.00	1.21	-0.04
Suncorp Group	1.56	0.96	-0.04
Lend Lease Group	1.10	0.66	-0.04
Charter Hall Group	0.00	0.39	-0.03

Note: Contributions shown in the above tables are to the active return of the Model Portfolio.

RETURNS ATTRIBUTION COMMENTARY

The active return for the month (+0.02%) can be decomposed into two (2) key components:

- Benchmark stocks held by the Model Portfolio, due to better sustainable quality metrics and dividend income streams, detracted -0.02% from active return; and
- Benchmark stocks not held in the Model Portfolio, due to poorer sustainable quality metrics and dividend income streams, contributed +0.04% to active return.

Furthermore, using a returns-based attribution, the active return of the Model Portfolio can be decomposed into two (2) alternative components:

- the sector positioning of the Model Portfolio detracted -0.11% from active return; and
- stock selection within the sectors contributed +0.13% to active return.

SECTORS

From a sector allocation perspective, overweight positions in the Consumer Discretionary, Consumer Staples, Real Estate, Materials, and underweight position in the Financials sector, collectively contributed +0.06% to active return.

This positive outcome was offset by underweight positions in Information Technology, Communication Services, Utilities, and overweight position in Health Care, which collectively detracted -0.17% from active return. The underweight positions in Information Technology and Communication Services had the largest impact, detracting -0.09% and -0.04% respectively from active return.

STOCK SELECTION

Stock selection was best in the Financials, Health Care, Communication Services and Consumer Discretionary sectors, which collectively contributed +0.68% to active return. Stock selection in the Financials and Health Care sector had the largest impact, contributing +0.36% and +0.20% respectively to active return.

By contrast, stock selection was worst in the Industrials, Information Technology, Real Estate, Materials, Utilities and Consumer Staples sectors, which collectively detracted -0.55% from active return. Stock selection in the Industrials and Information Technology sectors had the largest impact, detracting -0.15% and -0.14% respectively from active return.

ASSETS

CONTRIBUTORS

On a relative basis, some of the best performing stock positions for the month were AMP (Financials), QBE Insurance Group (Financials), Ramsay Health Care (Health Care), Ansell (Health Care), JB Hi-Fi (Consumer Discretionary), Wesfarmers (Consumer Discretionary), GPT Group (Real Estate), Westpac Banking Corporation (Financials), Macquarie Group (Financials) and Coles Group (Consumer Staples), which collectively contributed +0.59% to active return.

AMP (ASX: AMP)

The Model Portfolio benefited from not holding a position in AMP where it was the worst performer on the ASX, posting a total return of -21.04% due to a weak first half update which missed conseneus expectations across all key divisions. The only positive was the ongoing commitment to undertake some form of capital mangement event post the sale of AMP Life.

DETRACTORS

On a relative basis, the worst performing stocks for the month were Qantas Airways (Industrials), ALS (Industrials), NEXTDC (Information Technology), Orora (Materials), James Hardie Industries (Materials), Dexus Property Group (Real Estate), The A2 Milk Company (Consumer Staples), Suncorp Group (Financials), Lend Lease Group (Real Estate) and Charter Hall Group (Real Estate), which collectively detracted -0.55% from active return.

Qantas (ASX: QAN)

During the month of July, Qantas was the second largest detractor for the month, posting a total return of -14.55%. The Model Portfolio on average held an active overweight position of 0.60% and as a result performed poorly for this stock. The airline's initial plans to get 40% of pre-COVID domestic capacity in July was delayed by the outbreak in Melbourne which resulted in many states closing borders to Victoria. The last four days in July saw the Qantas share price collectively drop by -12.83% as the Melbourne COVID-19 cases worsened and a message from the QLD Premier of potential closure of borders between NSW and QLD after a QLD resident who travelled to NSW for a holiday tested positive.

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POSITION CHANGES

At month end the Model Portfolio holds 41 of the 80 companies in the Benchmark universe. During the month, the model portfolio opened a new position in Altium (ASX: ALU), added additional holdings into CSL (ASX: CSL) and Downer EDI (ASX: DOW) and sold out of Flight Centre (ASX: FLT).

The month of August is the 30 June reporting season and we expect to see a vast amount of new information being released by companies. Notwithstanding the release of historical data, investors should be prepared for minimal guidance to be provided by companies as the business environment continues to be highly uncertain.

DIVIDEND INCOME

In the June quarter report, we estimated a dividend yield of 1.00% for the model portfolio for the September quarter. This is based on receiving dividends from ResMed, Magellan, Commonwealth Bank of Australia, Computershare, AGL Energy, Coca-Cola Amatil, Telstra, Wesfarmers, Suncorp, Lend Lease, Coles Group, Aurizon, Downer EDI, Ansell, Woolworths, Brambles, Sonic Health Care, Amcor, Orora and CSL.

For the month of July, the Model Portfolio did not receive any dividends. It is expected that the Model Portfolio will receive dividends from 14 companies during August, which is estimated at 0.80% of the 1.00% forecast. These 14 companies include ResMed, Magellan, Commonwealth Bank of Australia, Computershare, AGL Energy, Coca-Cola Amatil, Telstra, Wesfarmers, Suncorp, Lend Lease, Coles Group, Aurizon, Downer EDI and Ansell.

The Model Portfolio is still forecast to deliver a cash yield of over 3.5% over the next 12 months notwithstanding the current dividend cuts and omissions. Investors need to consider that the total return from the Model Portfolio 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.

KEY CONTACTS

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