

31 OCTOBER 2019
MONTHLY REPORT
REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 31 October 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	0.06	0.29	9.72	20.18	9.81	11.67	7.02
– Model Portfolio cash income	0.04	1.22	2.49	6.53	5.42	5.40	5.16
– Model Portfolio price return	0.02	-0.93	7.23	13.65	4.39	6.27	1.86
Benchmark return ²	-0.04	0.72	9.99	20.52	9.88	11.51	7.25
Active return ³	0.10	-0.43	-0.27	-0.34	-0.07	0.16	-0.23

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 October 2019 the gross return of the Model Portfolio was +0.06%. Over the same time period the total return of the Benchmark was -0.04%. As a consequence, the Model Portfolio outperformed the Benchmark by +0.10% (active return) for the month of October.

The gross return of the Model Portfolio (+0.06%) is comprised of two (2) major components: a cash income (dividend) return of +0.04% (i.e. from dividends paid by companies in the Model Portfolio during October); and a capital (price) return of +0.02%.

MARKET

The Australian equity market, as represented by the S&P/ASX 100 Industrials Index (Benchmark), had flat performance by posting a total return of -0.04% for the month of October. By contrast, the total return of the S&P/ASX 200 Index, which includes resources companies, was -0.35% for the month, reflecting the fact that industrials companies outperformed their resources counterparts over the month.

The best performing sectors for the month were Health Care (+7.7%), Industrials (+3.4%), Real Estate (+1.5%), Utilities (+1.4%), Consumer Discretionary (+1.4%) and Materials (+0.8%), which outperformed the broader market, while the worst performing sectors for the month were Information Technology (-6.4%), Financials (-3.0%), Consumer Staples (-1.6%) and Communication Services (-0.8%), which underperformed the broader market, as represented by the Benchmark.

ATTRIBUTION COMMENTARY

The active return for the month (+0.10%) can be decomposed into two (2) key components:

- Benchmark stocks held by the Model Portfolio, due to better sustainable quality metrics, contributed +0.16% to active return; and
- Benchmark stocks not held in the Model Portfolio, due to poorer sustainable quality metrics, detracted -0.06% from active return.

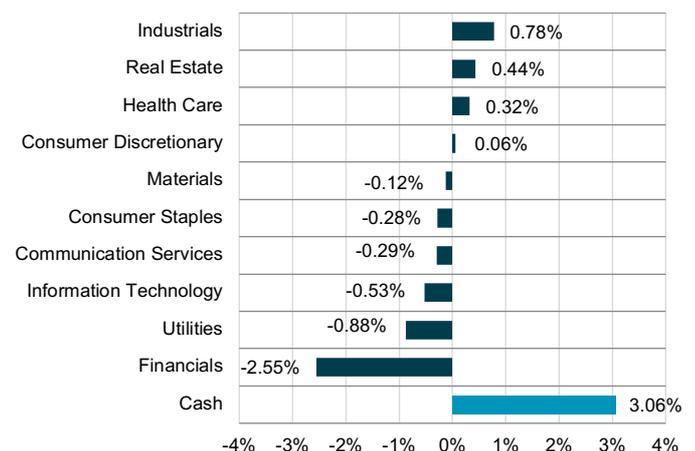
Furthermore, using a returns-based attribution, the active return of the Model Portfolio can be decomposed into two (2) alternative components:

- the sector positioning of the Model Portfolio contributed +0.15% to active return; and
- stock selection within the sectors detracted -0.05% from active return.

TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)
Commonwealth Bank of Australia	10.62	10.46
CSL Ltd	8.47	8.76
Westpac Banking Corporation	7.32	7.32
National Australia Bank Ltd	6.04	6.23
ANZ Banking Group Ltd	4.78	5.85
Woolworths Group Ltd	4.31	3.70
Telstra Corporation Ltd	3.90	3.14
Wesfarmers Ltd	3.77	3.41
Macquarie Group Ltd	3.59	3.20
Transurban Group	2.30	2.93

SECTOR ACTIVE WEIGHTS



MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size (\$)	161,551,034
Number of holdings	40
Inception date	30 April 2015

ATTRIBUTION COMMENTARY (CONT'D)

SECTORS

From a sector allocation perspective, overweight positions in the Health Care and Industrials sectors, which outperformed the broader market, and underweight positions in the Information Technology and Financials sectors, which underperformed the broader market, contributed +0.05%, +0.03%, +0.03% and +0.03% respectively to active return (collectively contributed +0.15%, to active return).

STOCK SELECTION

Stock selection was best in the Real Estate, Industrials, Utilities and Health Care sectors, which collectively contributed +0.29% to active return. Stock selection in the Real Estate and Industrials sectors had the largest impact, contributing +0.15% and +0.09% respectively to active return.

By contrast, stock selection was worst in the Consumer Discretionary, Information Technology, Financials and Materials sectors, which collectively detracted -0.36% from active return. Stock selection in the Consumer Discretionary and Information Technology sectors had the largest impact, detracting -0.16% and -0.12% respectively from active return.

ASSETS

On a relative basis, some of the best performing stocks for the month were overweight positions in ResMed Inc (Health Care), Stockland Corporation Ltd (Real Estate), Lend Lease Group (Real Estate), Brambles Industries Ltd (Industrials), Sydney Airport Holdings Ltd (Industrials) and Downer EDI Ltd (Industrials) and underweight positions in Afterpay Touch Group Ltd (Information Technology), Treasury Wine Estates Ltd (Consumer Staples), ANZ Banking Group Ltd (Financials) and Bendigo & Adelaide Bank Ltd (Financials), which collectively contributed +0.54% to active return.

ResMed Inc (ASX: RMD)

RMD had a total return of +7.2% for the month after the sleep treatment company posted a strong first quarter result. RMD revealed growth in adjusted net profit and growth in gross profit margin, which is the highest it's been for several years. The company attributed the margin growth to cost savings and a higher margin contribution from its software-as-a-service (SaaS) business MatrixCare Inc, which it acquired last year. The RMD share price is up around 36% over the past year and has tripled over the past five (5) years. An overweight position in this company contributed +0.11% to active return for the month. RMD continues to impress on our growth metrics, delivering strong return on assets (ROA) and return on invested capital (ROIC) with associated profit margin expansion. In addition, we are attracted by the company's strong sustainability characteristics especially across corporate governance and social impact management.

Afterpay Touch Group Ltd (ASX: APT)

Reversing its recent upward trend, APT experienced a total return of -19.5% for the month. Its shares have come under significant pressure in recent weeks following a bearish research note from stockbroker UBS Securities. Its analysts placed a sell rating and a price target of \$17.25 on APT's shares. The APT share price was \$28.86 at the end of October. An underweight position (i.e. not held by the Model Portfolio) in this stock contributed +0.09% to active return for the month. APT has long been unattractive on our growth and quality metrics. Our measures highlight that top line growth is not currently translating into profitability and cash flow in order to cover the ongoing growth in costs associated with the firm's growth.

Offsetting these positive stock contributions were overweight positions in WiseTech Global Ltd (Information Technology), Flight Centre Travel Group Ltd (Consumer Discretionary), Magellan Financial Group Ltd (Financials), Coca-Cola Amatil Ltd (Consumer Staples) and Commonwealth Bank of Australia (Financials) and underweight positions (i.e. not held in the Model Portfolio) in Xero Ltd (Information Technology), Ramsay Health Care Ltd (Health Care), CYBG Plc (Financials), Seek Ltd (Industrials) and JB Hi-Fi Ltd (Consumer Discretionary), which collectively detracted -0.52% from active return.

LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
ResMed Inc	1.71	0.59	0.11
Afterpay Touch Group Ltd	0.00	0.44	0.09
Treasury Wine Estates Ltd	0.00	0.98	0.05
Stockland Corporation Ltd	1.62	0.86	0.05
ANZ Banking Group Ltd	5.26	6.08	0.05
Lend Lease Group	1.46	0.78	0.04
Brambles Industries Ltd	1.96	1.40	0.04
Sydney Airport Holdings Ltd	1.87	1.43	0.04
Downer EDI Ltd	1.38	0.37	0.03
Bendigo & Adelaide Bank Ltd	0.00	0.41	0.03

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
WiseTech Global Ltd	0.81	0.35	-0.13
Flight Centre Travel Group Ltd	1.10	0.19	-0.11
Xero Ltd	0.00	0.53	-0.05
Ramsay Health Care Ltd	0.00	0.81	-0.04
Magellan Financial Group Ltd	1.01	0.55	-0.04
CYBG Plc	0.00	0.15	-0.03
Coca-Cola Amatil Ltd	1.04	0.40	-0.03
Seek Ltd	0.00	0.57	-0.03
Commonwealth Bank Australia	11.20	10.59	-0.03
JB Hi-Fi Ltd	0.00	0.30	-0.03

Note: Contributions shown in the above tables are to the active return of the Fund.
 Period: 30 September 2019 to 31 October 2019.

WiseTech Global Ltd (ASX: WTC)

Shares in a logistics software company, WTC, fell by -24.6% during the month of October. The fall was caused by the publication of an unfavourable report by J Capital Research. J Capital Research accused WTC of overstating its profits, its organic growth and the performance of its European business. In respect of its profits, J Capital Research asserted that the overstatement of its profits in the three (3) years since it listed may be as high as \$116 million, or an overstatement of 178%. Notwithstanding the company's comprehensive written denial, its share price still fell sharply. An overweight position in this stock detracted -0.13% from active return for the month.

The Information Technology (IT) sector of the S&P/ASX 100 Industrials Index (Benchmark) has been undergoing a great deal of change in recent months with a number of new additions:

- WiseTech Global Ltd (added in August 2019);
- Afterpay Touch Group Ltd (added in June 2019);
- Altium Ltd (added in May 2019); and
- Xero Ltd (added earlier in 2018).

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ASSETS (CONT'D)

The Model Portfolio has held a position in Computershare Ltd for many years and this has been the only holding in the IT sector until we added WTC to the Model Portfolio in September. Having no exposure to these fast-growing IT firms was a source of excessive risk relative to the Benchmark and WTC was selected as the stock to mitigate this risk for the Model Portfolio. WTC rates more strongly on our various stock selection metrics relative to Afterpay Touch Group Ltd and Xero Ltd. The difference between WTC and Altium Ltd is less pronounced. Our decision to own WTC also considered its relatively strong cash flow generation, which has supported the payment of dividends, and the fact that WTC is also approximately twice the size (in terms of market capitalisation) of Altium Ltd.

While such events can be unsettling, our approach is to remain unemotive, consider the facts, via our disciplined investment approach, and construct a diversified portfolio of approximately 40 companies. The Model Portfolio holds less than 1% of portfolio value in WTC and remains underweight the IT sector overall with a weight of 1.81% versus the Benchmark sector weight of 2.34% (i.e. underweight by -0.53%).

POSITION CHANGES

As at month end the Model Portfolio holds 40 of the 80 companies in the Benchmark universe. There were only two (2) position changes in the Model Portfolio during the month. The Model Portfolio reduced its position in Magellan Financial Group Ltd (about 0.50% of portfolio value) to fund additional shares in QBE Insurance Group Ltd. Despite these trades, the turnover for the Model Portfolio continues to be low.

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

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