31 DECEMBER 2019

QUARTERLY REPORT

REDPOINT INDUSTRIALS FUND

Fund performance as at 31 December 2019	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (% pa) [5]	Since Inception [4] (% pa) [5]
Fund return (net) [1]	-3.12	-0.21	2.99	22.45	8.31	7.87
– Fund cash income	0.23	0.97	2.15	4.61	4.73	4.75
– Fund price return (net)	-3.35	-1.18	0.84	17.84	3.58	3.12
Benchmark return [2]	-3.11	-0.41	3.75	23.04	8.68	8.63
Active return [3]	-0.01	0.20	-0.76	-0.59	-0.37	-0.76

Source: Redpoint Investment Management

Past performance is not necessarily indicative of future performance.

1. Redpoint Industrials Fund (Fund) – net performance is before taxes, but after management fees and transaction costs (net return).
2. S&P/ASX 100 Industrials Accumulation Index (Benchmark).
3. Active return is the difference between Fund net return and Benchmark return.
4. The Fund was established on 18 December 2017.
5. Returns are annualised for periods of 12 months or more.

INVESTMENT OBJECTIVE

The Fund 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 Fund seeks to deliver the key income and growth characteristics of the Benchmark while holding less than half the companies in the Benchmark. The Fund 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 poorly rated companies. The Fund 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

FUND

For the three-month period ending 31 December 2019 the net return of the Fund was -0.21%. The net return of the Fund is comprised of two (2) key components: a capital (price) return of +1.18%; and an income (dividend) return of +0.97% (i.e. from dividends paid by companies in the Fund during the quarter). Over the same time period, the total return of the Benchmark was -0.41%. Consequently, the Fund outperformed the Benchmark by +0.20% (active return) for the December quarter.

The December quarter delivered a cash yield of 0.97% for the Fund versus 0.92% for the Benchmark (on an ex-dividend basis). This was more or less in line with our forecasts made in the September 2019 investment performance report (0.95% for the Fund and 0.96% for the Benchmark respectively).

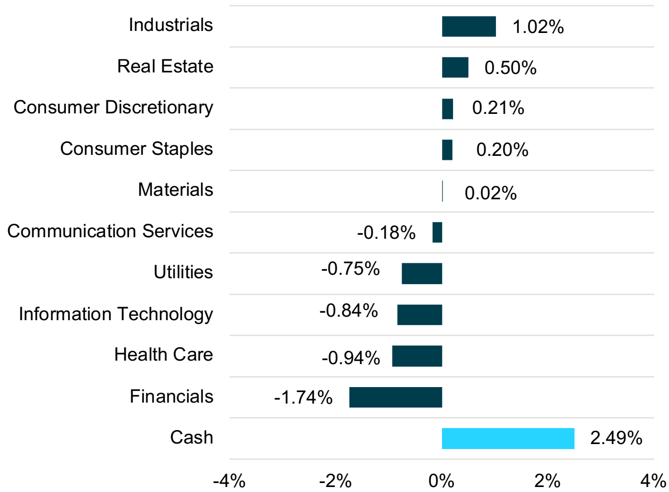
FUND FACTS

APIR	ETL7683AU
Fund size ($)	2,540,826
Number of holdings	40
Inception date	18 December 2017
Buy/sell spread	+/- 0.15%
Income distribution	Semi-annually

UNIT PRICES AND DISTRIBUTION

Transaction type	Unit price ($)
Net asset value (cum distribution)	1.1029
Application	1.1045
Redemption	1.1013
Income distribution (31 December 2019)	0.0084

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Fund (%)	Benchmark (%)	Active (%)
Commonwealth Bank of Australia	11.14	10.76	0.38
CSL Ltd	8.58	9.55	-0.97
Westpac Banking Corporation	6.52	6.37	0.15
National Australia Bank Ltd	5.35	5.43	-0.08
ANZ Banking Group Ltd	4.65	5.45	-0.80
Woolworths Group Ltd	4.23	3.63	0.60
Wesfarmers Ltd	4.18	3.59	0.59
Telstra Corporation Ltd	4.11	3.22	0.89
Macquarie Group Ltd	3.49	3.34	0.15
Aristocrat Leisure Ltd	2.43	1.64	0.79

SECTOR ATTRIBUTION

Sector	Fund Average Active Weight (%)	Sector Allocation (%)	Stock Selection (%)
Industrials	1.19	0.05	0.25
Real Estate	0.76	0.00	0.16
Utilities	-0.72	-0.01	0.10
Financials	-0.63	0.04	0.04
Communication Services	-0.07	0.00	0.03
Consumer Discretionary	0.25	0.01	0.01
Health Care	-0.24	-0.01	0.03
Consumer Staples	0.09	-0.02	0.00
Materials	0.00	0.00	-0.10
Information Technology	-0.62	0.00	-0.21
Total	**0.00**	**0.05**	**0.30**

Note: Contributions shown here are to the active return of the Fund.
Period: 30 September 2019 to 31 December 2019.

PERFORMANCE COMMENTARY (CONT'D)

MARKET

The Australian equity market, as represented by the S&P/ASX 100 Industrials Index (Benchmark), had a see-saw performance over the December quarter posting a total return of -0.41%, comprising total returns of -0.04%, +2.83% and -3.11% for the months October, November and December respectively. By comparison, the total return of the S&P/ASX 200 Index, which includes resources companies, was +0.68% for the quarter, reflecting the fact that resources companies outperformed their industrials counterparts over the quarter.

The best performing sectors for the quarter were Health Care (+14.8%), Materials (+5.1%), Industrials (+4.5%), Consumer Discretionary (+4.5%) and Utilities (+1.6%), which outperformed the boarder market, while the worst performing sectors for the quarter were Financials (-6.7%), Consumer Staples (-2.1%), Information Technology (-1.2%) and Real Estate (-1.0%), which underperformed the boarder market, as represented by the Benchmark.

ATTRIBUTION COMMENTARY

The active return for the September quarter (+0.20%) can be decomposed into three (3) elements:

- Benchmark stocks held by the Fund contributed +0.54% to active return;
- Benchmark stocks not held in the Fund detracted -0.19% from active return; and
- management fees and other costs detracted -0.15% from active return.

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

- sector allocations, which contributed +0.05% to active return; and
- stock selection within the sectors, which contributed +0.30% to active return.

SECTOR ALLOCATION

From a sector allocation perspective, an overweight position in the Industrials sector and an underweight position in the Financials sector contributed +0.05% and +0.04% respectively to active return.

This positive outcome was partly offset by an overweight position in the Consumer Staples sector and underweight positions in the Utilities and Health Care sectors, which collectively detracted -0.04% from active return.

LARGEST CONTRIBUTORS

Company	Fund Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Qantas Airways Ltd	1.93	0.79	0.14
Treasury Wine Estates Ltd	0.00	0.97	0.12
ResMed Inc	1.73	0.63	0.12
Aurizon Holdings Ltd	0.00	0.86	0.10
Aristocrat Leisure Ltd	2.40	1.57	0.10
Afterpay Touch Group Ltd	0.00	0.41	0.09
ANZ Banking Group Ltd	5.01	5.68	0.08
Bank of Queensland Ltd	0.00	0.26	0.07
Bendigo & Adelaide Bank Ltd	0.00	0.38	0.06
GPT Group	0.00	0.88	0.06

LARGEST DETRACTORS

Company	Fund Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
WiseTech Global Ltd	0.68	0.31	-0.15
Xero Ltd	0.00	0.59	-0.15
The A2 Milk Company Ltd	0.00	0.72	-0.12
James Hardie Industries Plc	0.00	0.90	-0.11
Ramsay Health Care Ltd	0.00	0.85	-0.10
Virgin Money UK Plc	0.00	0.18	-0.09
Flight Centre Travel Group Ltd	0.98	0.19	-0.07
Westpac Banking Corporation	7.31	6.90	-0.07
ALS Ltd	0.00	0.32	-0.05
CSL Ltd	8.58	9.00	-0.05

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

STOCK SELECTION

Stock selection was best in the Industrials, Real Estate, Utilities, Financials, Communication Services and Health Care sectors, which collectively contributed +0.60% to active return. Stock selection in the Industrials, Real Estate and Utilities sectors had the largest impact, contributing +0.25%, +0.16% and +0.10% respectively to active return.

This positive result was partly offset by stock selection in the Information Technology and Materials sectors, which detracted -0.20% and -0.10% respectively from active return.

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ATTRIBUTION COMMENTARY (CONT'D)

ASSETS

CONTRIBUTORS

Some of the best performing stocks for the quarter were overweight positions in Qantas Airways Ltd (Industrials), ResMed Inc (Health Care) and Aristocrat Leisure Ltd (Consumer Discretionary) and underweight positions in Treasury Wine Estates Ltd (Consumer Staples, not held), Aurizon Holdings Ltd (Industrials, not held), Afterpay Touch Group Ltd (Information Technology, not held), ANZ Banking Group Ltd (Financials), Bank of Queensland Ltd (Financials, not held), Bendigo & Adelaide Bank Ltd (Financials, not held) and GPT Group (Real Estate, not held), which collectively contributed +0.93% to active return.

Qantas Airways Ltd (ASX: QAN)

Qantas Airways Ltd (ASX: QAN) posted a total return of +13.04% for the quarter on the back of a series of positive events during November. Firstly, QAN successfully completed its off-market buy-back of 79.7 million shares at $5.56 per share (equivalent to about 5.1% of its issued capital). The Fund did not participate in this buy-back. Secondly, the company announced a plan to become net carbon neutral by 2050. QAN is looking to slash emissions by way of a $50 million investment over the next 10 years. Thirdly, the Australian Competition and Consumer Commission (ACCC) announced that it is planning to grant authorisation to QAN to further extend its frequent flyer program. The ACCC will allow QAN, BP Australia, and independent BP petrol stations, to collectively participate in the BP Rewards, Qantas Frequent Flyer and Qantas Business Rewards programs. An overweight position in this stock contributed +0.14% to active return for the quarter.

Treasury Wine Estates Ltd (ASX: TWE)

Wine maker and exporter Treasury Wine Estates Ltd (ASX: TWE) had a total return of -12.55% for the quarter following the announcement in October that its Chief Executive Officer, Michael Clarke, will retire in the first quarter of FY 2021 and after the release of a bearish research note from stockbroker Goldman Sachs in late November. An underweight position (i.e. not held by the Fund) in this stock contributed +0.12% to active return for the quarter.

ResMed Inc (ASX: RMD)

ResMed Inc (ASX: RMD) had a total return of +10.74% for the quarter after the sleep treatment company posted a strong first quarter result for FY 2020. 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 38% for the calendar year and has tripled over the past five (5) years. An overweight position in this company contributed +0.12% to active return for the quarter. 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.

DETRACTORS

Some of the worst performing stocks for the quarter were overweight positions in WiseTech Global Ltd (Information Technology), Flight Centre Travel Group Ltd (Consumer Discretionary) and Westpac Banking Corporation (Financials) and underweight positions in Xero Ltd (Information Technology, not held), The A2 Milk Company Ltd (Consumer Staples, not held), James Hardie Industries Plc (Materials, not held), Ramsay Health Care Ltd (Health Care, not held), Virgin Money UK Plc (Financials, not held), ALS Ltd (Industrials, not held) and CSL Ltd (Health Care), which collectively detracted -0.95% from active return.

WiseTech Global Ltd (ASX: WTC)

Shares in a logistics software company, WiseTech Global Ltd (ASX: WTC), fell by -32.71% during the quarter. This fall was primarily caused by the publication of an unfavourable report by J Capital Research in October. 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 has continued to fall sharply. An overweight position in this stock detracted -0.15% from active return for the quarter.

Xero Ltd (ASX: XRO)

The cloud-based business and accounting software platform Xero Ltd (ASX: XRO) experienced a total return of +28.43% for the quarter following the release of a strong FY 2019 result and an equally impressive half year result for FY 2020. The FY 2020 half year result saw a 32% increase in operating revenue and a 30% increase in its subscriber base. These results cap off an incredible 12 months for XRO as its share price has risen about 90% over the calendar year. An underweight position (i.e. not held by the Fund) in this stock detracted -0.15% from active return for the quarter.

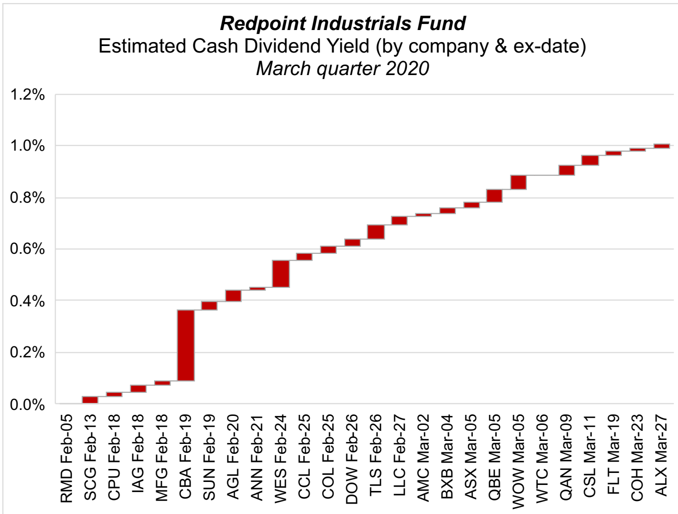
The A2 Milk Company Ltd (ASX: A2M)

The A2 Milk Company Ltd (ASX: A2M) bounced back strongly from its relatively poor performance over the September quarter to post a total return of +17.60% for the December quarter. This came after its annual general meeting (AGM), which provided a positive half year 2020 business update, highlighting improving margins with strong sales growth for infant nutrition and fresh milk across all key jurisdictions (Australia, New Zealand, China and the United States). An underweight position (i.e. not held by the Fund) in this stock detracted -0.12% from active return for the quarter.

DIVIDEND INCOME

A key characteristic of the Fund 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 diversifed set of companies that we wish to hold for the longer term.

Cash dividend income expectations for the March 2020 quarter are currently estimated at 1.01% for the Fund versus 1.02% for the Benchmark. The Fund is forecast to receive dividends from 26 companies; the Benchmark is expected to have dividends declared by 54 companies. The following chart shows the dividends expected to be earned by the Fund over the course of the March 2020 quarter.



Source: Redpoint, Bloomberg

For the 2020 calendar year the forecast cash dividend yield for the Fund is 4.12% vs 4.07% for the Benchmark.

redpoint
Investment Management

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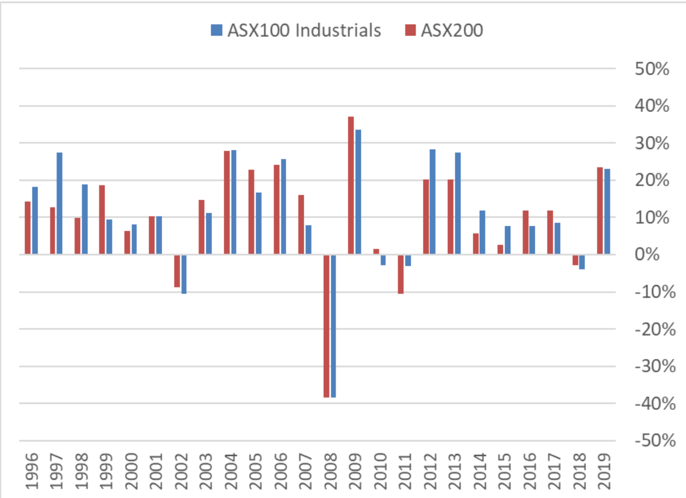
REDPOINT INDUSTRIALS FUND

GENERAL COMMENTARY

The S&P/ASX 200 Index kept “the best ‘til last” ending the “20-teens” with its strongest calendar year return. The Index rose 23.4% in 2019 beating the 20.26% and 20.20% delivered in 2012 and 2013. US and continental European markets were also strong in 2019 (generally better than the Index) with the US Nasdaq posting a massive 35.23% rise for the year. Asian markets rebounded in December on announcement of a US-China trade deal, but Hong Kong, Korea and Singapore all ended the year with modest single digit gains. Similar price movements ensued for the UK equity market in 2019 as it also ended the year near its calendar year high following Boris Johnson’s emphatic election victory, which now paves the way for a “Brexit” event in 2020.

Calendar Year ASX100 Industrials & ASX200 Total Return Returns



Source: Redpoint/Bloomberg

Sector performance in Australia was dominated by strong returns from Health Care and Information Technology. Consumer Discretionary stocks also starred as interest rate reductions, a housing market rebound, and tax incentives spurred investor sentiment towards retailers. Financials stocks have been the laggards for the ASX due to each of the four (4) major Australian banks underperforming the broader market over the course of 2019. A contributing factor has been the cuts made by Westpac Banking Corporation and National Australia Bank Ltd to their final dividend. ANZ Banking Group Ltd has held its dividend steady and expectations are for Commonwealth Bank of Australia to also hold its interim dividend steady when it reports in February 2020. A 0.75% cut in interest rates in 2019 by the Reserve Bank of Australia is expected to continue to drive investor interest in capturing the higher dividend yields on offer from equities versus lower term deposit rates. Australia’s four (4) major banks look attractive on this basis, assuming their dividends can be maintained (or are only cut modestly) in 2020.

INVESTMENT ENVIRONMENT AND STRATEGY PERFORMANCE

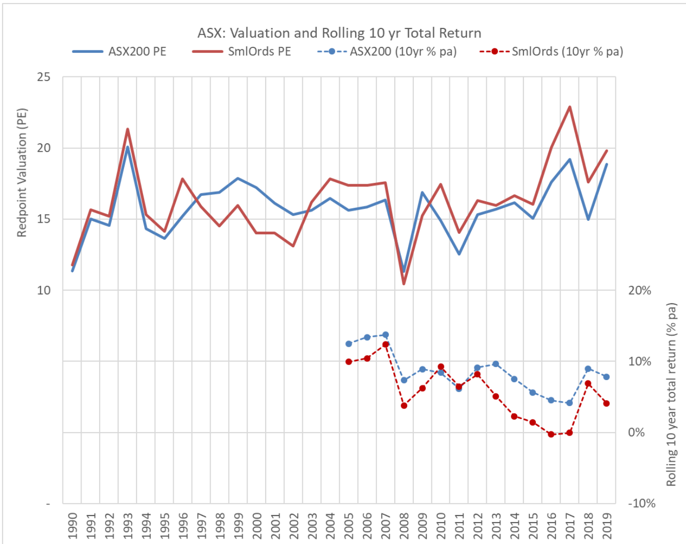
The 2019 calendar year also saw a renewed monetary stimulus as a hawkish US Federal Reserve in 2018 turned dovish in the face of equity market falls, which preceded the start of this calendar year. Investor uncertainty as we entered 2019 made for a more conducive stock selection environment and our strategies generally delivered positive stock selection through to August. Since August our Short-Term Indicators and Price Action (i.e. momentum) disciplines have underperformed the most with only Sustainable Quality delivering a positive contribution for the entire year. This reversal can be attributed in part to a return of “animal spirits”, which coincided (interestingly) with a fall in gold prices from late August and the recommencement of intervention (providing liquidity) in the US short term money market by the US Federal Reserve from September. Compounding these events, a range of stock specific events also impacted portfolio performance in the last quarter and ultimately turned outperformance at mid-year into calendar year underperformance. Notwithstanding the past few months we are pleased with the transition to our new signal weighting scheme and retain conviction that our approach will deliver improved outcomes going forward.

A range of economic growth forecasts now point to modest growth across the globe in 2020 coupled with ongoing strength in employment, which has not yet flowed into prices (inflation). This has been termed by some as being a “Goldilocks” situation with very low probability of recession across major and most other economies. However, a range of macro risks remain: US foreign policy (China, North Korea and Iran), US federal election, UK “Brexit”, Hong Kong student unrest, climate concerns and the path to a low carbon economy, just to name a few. The surprising aspect to events in recent years is the way in which financial markets have taken uncertainty in its stride. Such confidence always tends to sow the seeds of its own undoing: timing this event is the challenge and the sensible solution is to simply remain patient.

MARKET VALUATION

As we enter the 2020s it seems fit to review valuation metrics and long-term equity returns in Australia. The following charts show Redpoint’s valuation for the S&P/ASX 200 Index and the S&P/ASX Small Ordinaries Index as well as rolling 10-year returns for each. The S&P/ASX 200 Index universe dominates the long-term returns from smaller companies in Australia. The only period when the two (2) cohorts deliver similar returns is the period following the early 2000s, when smaller companies traded at a distinct discount to the broader market. Current valuations support large capitalisation stocks over small capitalisation stocks, but we note that both cohorts are trading at high multiples. [Valuation metrics in 1993 standout due to losses from Westpac Banking Corporation and ANZ Banking Group Ltd along with subdued corporate earnings as Australia emerged from recession].

Valuation and Rolling 10-Year Returns



Source: Redpoint

Over this 30-year period, we have seen Australian interest rates fall from 17.5% in 1990 to 4.75% in 1993, be range bound from 4.75% to 7% through to the GFC in 2008 and have now steadily fallen over the past decade to currently sit at 0.75%. The path back towards a more “normal” interest environment remains uncertain along with the potential that we are in fact in a new long-term “normal” environment.

Our expectation is that low interest rates available on cash investments will drive investors to seek better income opportunities in equity markets. This will likely support current share price valuations, notwithstanding that price earnings multiples are currently above long term averages. A focus on better quality firms: those with stronger fundamentals and operating margins has historically delivered better returns during periods of slowing economic growth and increasing market uncertainty.

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POSITION CHANGES

As at 31 December 2019, the Fund holds 40 of the 80 companies in the Benchmark universe.

Over the quarter, the Fund did not establish any new positions, nor did it sell completely out of any companies. There was some minor trading (primarily purchases) due to net positive investor inflows of $1,247,329 for the quarter. Despite these position changes, the turnover for the Fund continues to be low.

The S&P/ASX will review index memberships in March 2020 and any additions/deletions to the Benchmark may prompt a rebalance of the Fund at that time.

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