

29 FEBRUARY 2020
MONTHLY REPORT
 REDPOINT INDUSTRIALS FUND



Fund performance as at 29 February 2020	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (% pa) ⁵	Since Inception ⁴ (% pa) ⁵
Fund return (net) ¹	-5.88	-3.35	0.67	13.03	8.09	7.13
– Fund cash income	0.69	0.93	2.01	4.37	4.60	4.71
– Fund price return (net)	-6.57	-4.28	-1.34	8.66	3.49	2.42
Benchmark return ²	-6.19	-3.48	0.69	13.41	8.48	7.76
Active return ³	0.31	0.13	-0.02	-0.38	-0.39	-0.63

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 17 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 combines long horizon sustainable quality metrics and risk management expertise to exclude or underweight poorer rated companies. The Fund 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

FUND

For the one-month period ending 29 February 2020 the net return of the Fund was -5.88%. Over the same time period the total return of the Benchmark was -6.19%. As a consequence, the Fund outperformed the Benchmark by +0.31% (active return) for the month of February.

The net return of the Fund (i.e. -5.88%) is comprised of two (2) major components: a cash income (dividend) return of +0.69% (i.e. due to dividends paid by companies in the Fund during February); and a capital (price) return of -6.57%.

MARKET

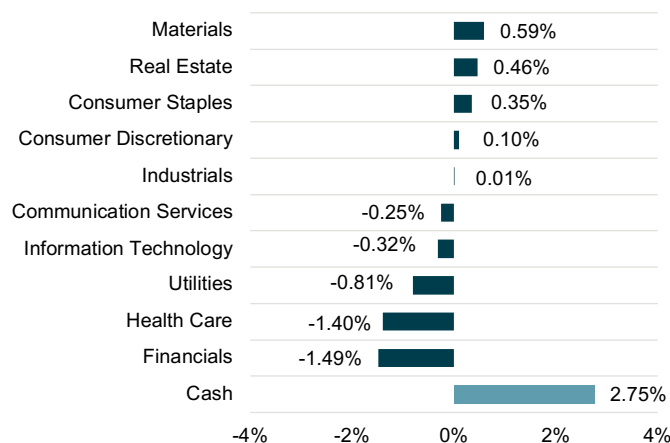
The Australian equity market, as represented by the S&P/ASX 100 Industrials Index (Benchmark), plunged drastically in February (i.e. posting a total return of -6.19%) as the likelihood of a global economic slowdown arising from the coronavirus outbreak appears inevitable. By contrast, the total return of the S&P/ASX 200 Index, which includes resources companies, was -7.69%, reflecting the fact that resources companies (in particular stocks in the Energy and Materials sectors) underperformed their industrials counterparts over the month.

All sectors of the market experienced negative total returns for the month, with the best performing of these being Health Care (-3.4%), Utilities (-3.6%), Financials (-4.7%) and Real Estate (-5.1%), which outperformed the broader market, while the worst performing sectors for the month were Information Technology (-19.2%), Materials (-11.5%), Consumer Discretionary (-9.3%) and Communication Services (-8.9%), which underperformed the broader market, as defined by the Benchmark.

FUND FACTS

APIR Code	ETL7683AU
Fund size (\$)	3,142,706
Number of holdings	40
Inception date	17 December 2017
Buy/sell spread	+/- 0.15%
Income distribution	Semi-annually

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Fund (%)	Benchmark (%)	Active (%)
Commonwealth Bank of Australia	11.45	11.12	0.33
CSL Ltd	9.41	10.82	-1.41
National Australia Bank Ltd	5.97	5.59	0.37
Westpac Banking Corporation	5.82	6.27	-0.45
ANZ Banking Group Ltd	5.36	5.55	-0.19
Woolworths Group Ltd	4.52	3.94	0.58
Wesfarmers Ltd	4.07	3.56	0.51
Telstra Corporation Ltd	3.95	3.15	0.80
Macquarie Group Ltd	3.33	3.30	0.04
Aristocrat Leisure Ltd	2.38	1.63	0.75

UNIT PRICES AND DISTRIBUTION

Transaction type	Unit price (\$)
Net asset value	1.0918
Application	1.0934
Redemption	1.0902
Distribution	Nil

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ATTRIBUTION COMMENTARY

The active return for the month (+0.31%) can be decomposed into three (3) components:

- Benchmark stocks held by the Fund detracted -0.28% from active return;
- Benchmark stocks not held in the Fund contributed +0.64% to active return; and
- management fees and other costs detracted -0.05% from active return.

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

- the sector allocations of the Fund, which detracted -0.07% from active return; and
- stock selection within the sectors, which contributed +0.43% to active return.

SECTORS

From a sector allocation perspective, an underweight position in the Information Technology sector, which underperformed the broader market, and an overweight position in the Real Estate sector, which outperformed the broader market, contributed +0.05% and +0.01% respectively to active return (i.e. collectively contributed +0.06% to active return).

This positive outcome was more than offset by overweight positions in the Materials, Consumer Discretionary and Consumer Staples sectors, which underperformed the broader market, and underweight positions in the Health Care, Utilities and Financials sectors, which outperformed the broader market, and which collectively detracted -0.13% from active return. The overweight position in the Materials sector and the underweight positions in the Health Care and Utilities sectors had the largest impact, detracting -0.05%, -0.03% and -0.02% respectively from active return.

STOCK SELECTION

Stock selection was best in the Financials, Health Care, Information Technology, Real Estate, Utilities and Communication Services sectors, which collectively contributed +0.58% to active return. Stock selection in the Financials, Health Care and Information Technology sectors had the largest impact, contributing +0.19%, +0.14% and +0.13% respectively to active return.

On the other hand, stock selection was worst in the Industrials, Materials and Consumer Staples sectors, which detracted -0.07%, -0.05% and -0.03% respectively from active return (i.e. collectively detracted -0.15% from active return).

ASSETS

CONTRIBUTORS

On a relative basis, some of the best performing stocks for the month were an overweight position in ResMed Inc (Health Care) and underweight positions (i.e. not held by the Fund) in WiseTech Global Ltd (Information Technology), Tabcorp Holdings Ltd (Consumer Discretionary), Ramsay Health Care Ltd (Health Care), Link Administration Holdings Ltd (Information Technology), Treasury Wine Estates Ltd (Consumer Staples), Altium Ltd (Information Technology), Vicinity Centres (Real Estate), James Hardie Industries Plc (Materials) and Reliance Worldwide Corporation Ltd (Industrials), which collectively contributed +0.62% to active return.

WiseTech Global Ltd (ASX: WTC)

The worst performing stock in the Index in February was logistics solutions company WiseTech Global Ltd (ASX: WTC), which posted a total return of -39.7% for the month. The catalyst for this was the release of its half year results (ending 31 December 2019). Although WTC delivered solid profit growth, it was forced to downgrade its guidance due to the impact of the coronavirus outbreak. The company was previously guiding to a full year EBITDA growth of 34% to 42%. But the coronavirus outbreak means it now expects growth of just 5% to 22% for the full year (ending 30 June 2020). An underweight position (i.e. not held by the Fund) in this stock contributed +0.09% to active return for the month.

LARGEST CONTRIBUTORS

Company	Fund Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
WiseTech Global Ltd	0.00	0.26	0.09
Tabcorp Holdings Ltd	0.00	0.64	0.07
Ramsay Health Care Ltd	0.00	0.90	0.07
Link Administration Holdings Ltd	0.00	0.24	0.06
Treasury Wine Estates Ltd	0.00	0.61	0.06
Altium Ltd	0.00	0.32	0.05
ResMed Inc	1.99	0.72	0.05
Vicinity Centres	0.00	0.56	0.05
James Hardie Industries Plc	0.00	0.98	0.05
Reliance Worldwide Corporation	0.00	0.25	0.05

LARGEST DETRACTORS

Company	Fund Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Downer EDI Ltd	1.16	0.30	-0.14
The A2 Milk Company Ltd	0.00	0.78	-0.10
Qantas Airways Ltd	1.72	0.68	-0.08
Flight Centre Travel Group Ltd	0.75	0.16	-0.07
Incitec Pivot Ltd	0.89	0.37	-0.06
Cleanaway Waste Management	0.00	0.30	-0.05
Orora Ltd	0.90	0.26	-0.05
Coles Group Ltd	2.01	1.33	-0.04
Orica Ltd	1.17	0.59	-0.04
Computershare Ltd	1.14	0.62	-0.04

Note: Contributions shown in the above tables are to the active return of the Fund. Period: 31 January 2020 to 28 February 2020.

Tabcorp Holdings Ltd (ASX: TAH)

Tabcorp Holdings Limited (ASX: TAH) had a total return of -17.0% for the month following the release of its half year results (ending 31 December 2019). For the six (6) months, TAH posted a 4.4% increase in total revenue, which was comprised of a 12.4% increase in lotteries and keno revenue, a 3.7% decline in wager and media revenue and a 4.4% decline in gaming services revenue. Despite this mildly positive result, particularly in an environment of soft discretionary spending, investors were disappointed with the company's update on the Tabcorp-Tatts integration. Although the integration remains on track to deliver between \$130 million and \$145 million of EBITDA synergies and business improvements in FY2021, its implementation costs have increased materially. An underweight position (i.e. not held by the Fund) in this stock contributed +0.07% to active return for the month.

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ASSETS (CONT'D)

CONTRIBUTORS

Ramsay Health Care Ltd (ASX: RHC)

Despite reporting a positive half-year result (ending 31 December 2019) Ramsay Health Care Limited (ASX: RHC) had a total return of -14.1% for the month amid concerns that it could be negatively impacted by the coronavirus outbreak, which continues to spread across the world with the number of infections in developed markets growing rapidly. The private hospital operator could be impacted by increasing non-essential procedure deferrals and supply-chain disruption. The extent of any impact will depend on the rate and severity of the coronavirus outbreak, which remains, at this point, an unknown. An underweight position (i.e. not held by the Fund) in this stock contributed +0.07% to active return for the month.

DETRACTORS

Offsetting these positive stock contributions were overweight positions in Downer EDI Ltd (Industrials), Qantas Airways Ltd (Industrials), Flight Centre Travel Group Ltd (Consumer Discretionary), Incitec Pivot Ltd (Materials), Orora Ltd (Materials), Coles Group Ltd (Consumer Staples), Orica Ltd (Materials) and Computershare Ltd (Information Technology) and underweight positions (i.e. not held by the Fund) in The A2 Milk Company Ltd (Consumer Staples) and Cleanaway Waste Management Ltd (Industrials), which collectively detracted -0.66% from active return.

Downer EDI Ltd (ASX: DOW)

Downer EDI Ltd (ASX: DOW) experienced a total return of -21.3% for the month following the release of its first half results (ending 31 December 2019), which was anticipated by a surprise profit warning in late January. Management reported a 35.7% decline in net profit to \$86.3 million, while revenue increased slightly by 2.9% to \$6.5 billion for the six (6) months. At the same time, management maintained its downgraded net profit after tax and amortisation (NPATA) guidance of around \$300 million for the full year (ending 30 June 2020). DOW's reassurance that it will look to further reduce exposure to risky construction projects did not reassure investors. The cost blowouts associated with these projects was the primary reason behind January's profit downgrade. An overweight position in this stock detracted -0.14% from active return for the month.

The A2 Milk Company Ltd (ASX: A2M)

Resisting the market trend, The A2 Milk Company Ltd (ASX: A2M) posted a total return of +6.3% for the month following the release of its half year results (ending 31 December 2019). It reported a 31.6% increase in total revenue to NZD 806.7 million. The company managed to increase earnings before interest, tax, depreciation and amortisation (EBITDA) by 20.5% to NZD 263.2 million, with an EBITDA margin of 32.6% being much better than expected. Net profit after tax (NPAT) grew by 21.1% to NZD 184.9 million. The EBITDA margin for the full year is expected to be in the range of 29% to 30% with a long-term goal of 30%. Nevertheless, the coronavirus outbreak will likely be a cause uncertainty for A2M in the near future. An underweight position (i.e. not held by the Fund) in this stock detracted -0.10% from active return for the month.

Qantas Airways Ltd (ASX: QAN)

Qantas Airways Ltd (ASX: QAN) suffered a total return of -13.7% for the month as investors continue to assess the impact to its business from the coronavirus outbreak. During the month, Qantas announced temporary reductions to flights across Asia in response to a significant decline in demand. The company has cut 16% of Asia capacity until at least May, impacting flights from Australia to mainland China, Hong Kong and Singapore. Reductions of 5% are being made to Qantas and Jetstar flights between Australia and New Zealand, with cancellations of flights to Auckland and Christchurch. Jetstar will cut its capacity to Asia by 14% until at least the end of May, impacting flights to Japan and Thailand (and to intra-Asia flights). QAN has estimated that the net impact of the coronavirus outbreak on earnings before interest and tax (EBIT) will be between \$100 million and \$150 million in FY2020. This will be softened to some extent by weaker fuel prices. An overweight position in this stock detracted -0.08% from active return for the month.

POSITION CHANGES

At month end the Fund holds 40 of the 80 companies in the Benchmark universe. There were no significant position changes in the Fund during the month. There was some minor trading (primarily purchases) due to net positive investor inflows of \$362,623 for the month. 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 to or deletions from the Benchmark may prompt a rebalance of the Fund at that time.

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