Pendal Focus Australian Share Fund

ARSN: 113 232 812

Factsheet

Equity Strategies

31 August 2022

About the Fund

The Pendal Focus Australian Share Fund (**Fund**) is an actively managed concentrated portfolio of Australian shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (TR) Index over the medium to long term. The suggested investment timeframe is five years or more.

Description of Fund

This Fund is designed for investors who want the potential for long term capital growth and tax effective income from a concentrated portfolio of primarily 15-30 Australian shares and are prepared to accept higher variability of returns. The Fund may also hold cash and may use derivatives.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

Investment Team

Pendal's nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Crispin Murray, who has more than 31 years' industry experience. Crispin is also Head of Equity.

Other Information

Fund size (as at 31 Aug 2022)	$1,553 million
Date of inception	April 2005
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Half-yearly
APIR code	RFA0059AU

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Investment Guidelines

Ex-ante tracking error	3.0% - 6.0%
Max absolute stock position	15%
Min/max sector position relative to index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	2.00	2.07	1.18
3 months	-3.92	-3.74	-2.41
FYTD	6.28	6.41	7.20
6 months	-0.70	-0.33	0.59
1 year (pa)	-4.14	-3.42	-3.67
2 years (pa)	11.70	12.72	11.30
3 years (pa)	7.05	8.07	5.64
5 years (pa)	8.90	9.90	8.24

Sector Allocation (as at 31 August 2022)

Energy	9.7%
Materials	19.7%
Industrials	7.7%
Consumer Discretionary	3.3%
Consumer Staples	2.8%
Health Care	9.6%
Information Technology	6.8%
Telecommunication Services	8.3%
Financials ex Property Trusts	24.5%
Property Trusts	2.9%
Cash & other	4.7%

Top 10 Holdings (as at 31 August 2022)

BHP Billiton Limited	10.7%
CSL Limited	8.7%
Santos Limited	7.5%
Commonwealth Bank of Australia Ltd	6.5%
Telstra Corporation Limited	6.3%
National Australia Bank Limited	5.4%
Westpac Banking Corporation	5.2%
Qantas Airways Limited	5.1%
Xero Limited	4.1%
Macquarie Group Limited	3.5%

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee[2]	0.75% pa
Performance fee[3]	15% of the Fund's performance (before fees) in excess of the performance hurdle.

[2] This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

[3] This is the fee we charge if the Fund's investment performance exceeds its performance hurdle, and any performance deficit has been recouped. The Fund's performance fee is 15% of the Fund's performance in excess of the performance return hurdle. The performance hurdle is the performance of the Fund's benchmark (S&P/ASX 300 (TR) Index) plus the management fee of 0.75% pa. If a performance fee is payable, it is charged in addition to the management fee. The performance fee is calculated in dollar terms each Business Day based on the investment performance and value of the Fund on that day. If we are entitled to a performance fee, it is paid to us as at 30 June each year.

Market review

Australia's reporting season took place against the backdrop of some sharp shifts in macro expectations and market sentiment.

The S&P/ASX 300 initially carried its upward momentum into August on the back of expectations of a more dovish cant to Fed monetary policy. Various Fed spokespeople continued to pour cold water on the notion of an imminent pivot to less hawkish policy. This was then confirmed by a short and direct speech by Chair Powell at Jackson Hole, where he reminded all of the singular focus on bring down inflation even at the cost of pain to households and business.

This saw a reversal in equity markets. The S&P/ASX 300 ended up 1.2%. However it was one of the few equity markets to remain in the black. The S&P500 was down -4.2% for the month.

A reasonably benign results season helped bolster the local market. FY22 results were broadly in line with historical averages in terms of revisions. FY22 delivered 23% EPS growth, driven by 38% EPS growth in resources. Bank EPS rose 15% as bad debt charges fell and Industrial EPS was up 7%.

Importantly, the feared plunge in earnings is not evident at this point. Looking forward, consensus now expects market EPS to grow 3% in FY23. This is essentially unchanged over the last month.

Resource EPS are expected to fall 3%. Industrials are expected to grow 9%. This is down from 11% a month ago, but still looks optimistic, in our view.

Energy (+7.8%) performed best in August. Brent crude came off -12.3% on some hope of a deal to return Iranian volumes to markets – although OPEC+ has subsequently indicated that they may reduce supply in response. However natural gas (+7.2%) and thermal coal (+4.2%) continued to strengthen. Woodside Energy (WDS_ gained 7.1% and Santos (STO) +9.7%.

Materials (+4.5%) also outperformed. BHP (BHP, +5.0%) and South32 (S32, +8.9%) were the stand-outs among the majors, while lithium plays such as Mineral Resources (MIN, +19.0%) and Pilbara Minerals (PLS, +31.8%) continued to surge on the EV thematic.

Real Estate (-3.3%) was the weakest sector on broad-based declines. Goodman Group (GMG), the largest stock in the sector, gave up -5.0%. Scentre Group (SCG, +4.0%), which owns and operates the Westfield malls in Australia and New Zealand was one of very few property stocks to buck the trend.

Consumer Staples (-1.7%) also fell. The market expressed concern that the relative safe haven of supermarkets such as Woolworths (WOW, -2.4%) and Coles (COL, -6.4%) may not be as defensive as expected as results showed the impact of higher costs.

Fund performance

The Fund outperformed the benchmark over the month of August.

Contributors

Overweight Qantas (QAN, +16.7%)

QAN's current run rate suggests returning to pre-Covid EBITDA in FY23, restoring profitability far faster than many expected. The cost impost from fuel is being managed via the combination of ticket prices and higher yields on flights. It is reducing domestic capacity by 10% in 1H FY23 in order to manage for fuel as well as improve operational reliability. Strong FY22 cash flow has seen the debt fall to below pre-Covid levels, allowing a surprise 400m buyback.

Overweight Santos (STO, +9.7%)

There was a mixed reaction to STO's result on the day. Operationally it was decent and showed continued strong cost control. However there was some disappointment with the degree of capital management given the cash flow. Management flagged the intention to go ahead with the Pikka oil project in Alaska and deferment of Dorado project in Australia. Nevertheless, STO continues to perform well, is developing an attractive portfolio of assets and benefits from strong energy prices.

Detractors

Overweight Xero (XRO, -5.6%)

XRO did not report – it has a March year-end. It sold off along with other growth stocks in response to the shift in bond yields expectations following fed Chair Powell's Jackson Hole speech. Management maintained FY23 guidance at the AGM in August. We continue to see a material growth opportunity in the UK's Making Tax Digital initiative and there are indications that the company is gaining headway in improving average revenue per user (ARPU) in its overseas markets.

Overweight Downer (DOW, -6.3%)

DOW has completed its transformation away from mining and construction towards urban services. Its FY22 result was good and ahead of expectations in a challenging environment. However its guidance for FY23 was slightly behind the consensus expectations. It also disappointed those looking for more return of capital to shareholders following the divestment phase.

Market outlook

The outlook for the market remains somewhat binary, with two very different paths forward.

The positive scenario is that the combined effect of diminishing supply chain pressures, slowing labour demand and rising labour participation allows the Fed to avoid raising rates too far. Recent US employment data is pointing in the right direction – the question is whether it shifts far enough to satisfy the Fed.

In this more benign environment, softer inflation requires only a moderate economic slowdown and we do not see a sharp drop in earnings. Equity risk premiums fall along with the outlook for interest rates.

In this scenario we may have seen close to the market lows already and can start to see a recovery.

In the second, more negative scenario, inflation remains embedded at too high a level, potentially due to stubborn wage growth or high energy prices. Combined with the European power crisis and ongoing lockdowns in China, it forces central banks to raise rates into a global economic slowdown.

Such an environment may induce some form of additional financial shock, further exacerbating the downturn and market pessimism. Earnings take a leg down and we see the market put in new lows.

It is too early to call the direction in which we head. All eyes will be on September's CPI print and the Fed meeting later in the month.

In the meantime, we expect the market to remain in something of a holding pattern.

We also continue to note the total financial conditions index feedback loop, where too big a rise in equities starts to work counter to the Fed's goals and leads to a hawkish shift in their messaging. This emphasises that the Fed will need to see inflation and the economy much softer before it is comfortable with a sustained rise in equities.

In this context, while not positioning the fund for a specific outcome, we are retaining a more defensive tilt and skew towards larger stocks and those delivering capital return to shareholders.

The latter was a key observation from reporting season; the market is rewarding companies that can demonstrate purchasing power and which are returning capital.

We continue to see the Australian market as relative defensive in this environment. It benefits from less inflationary pressure, a higher level of household saving to call upon, the ability to increase immigration to drive labour supply and housing demand, favourable terms of trade that underpin government revenue, and a relatively good fiscal position.

Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks.
- **Security specific risk**: The risks associated with an individual security.
- **Concentrated portfolio risk** - The Fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of Australian shares makes the Fund more volatile than a diversified Australian share fund.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

For more information please call **1300 346 821**,
contact your key account manager or visit **pendalgroup.com**

PENDAL

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