PENDAL

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

Factsheet

Equity Strategies

31 August 2022

The future is worth investing in

About the Fund

The Pendal Horizon Sustainable Australian Share Fund (**Fund**) is an actively managed, high-conviction, values-orientated, concentrated portfolio of Australian shares. It seeks to invest in companies that enable, lead and participate in the transition to a more sustainable Australian economy, while avoiding those which cause significant harm, undermine a more sustainable economy, or that do not meet our minimum environmental, social and governance (ESG) performance standards. The investment process combines the potential to achieve strong performance over the long term through a diversified set of investment opportunities while also investing in companies whose practices and impacts are in our view aligned with an investor's own social, environmental and ethical preferences.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 300 (TR) Index over rolling 5 year periods. The suggested investment timeframe is five years or more.

Investment Approach

We adopt a principles-based approach in defining our investment opportunity set. We have a set of exclusionary screens (see PDS for full details) and a framework to identify companies which are aligned with our Fund priorities of supporting a more sustainable, future-ready Australian economy.

We seek companies involved in…

- ✓ Innovation & technological advances (including climate solutions)
- ✓ More sustainable resource consumption
- ✓ Sustainable & resilient infrastructure
- ✓ Quality education
- ✓ Meeting basic needs
- ✓ Health & wellbeing
- ✓ Social inclusion & diversity
- ✓ Low carbon transportation

We avoid companies involved in…

- x Fossil Fuels
- x Tobacco
- x Weapons
- x Alcohol
- x Gambling
- x Animal testing
- x Pornography
- x Predatory lending
- x Logging
- x Uranium

Investment Process

The Fund uses the same investment process as Pendal's flagship Australian equities funds with the additional application of exclusionary screens and a sustainability-focused framework.

1. The negative screening process effectively determines the investment universe of the Pendal Horizon Sustainable Australian Share Fund.
2. Investment ideas are generated through our proprietary framework, identifying companies which contribute to a more sustainable economy.
3. We construct a portfolio with stocks which we believe will generate alpha and at a minimum 'do-no-harm'.

We also actively undertake targeted engagement with companies to support a more sustainable economy and to ensure ESG risks are being appropriately managed.

Investment Team

Pendal's nineteen member Australian Equities team is one of the largest in the industry. The portfolio manager is Head of Equities, Crispin Murray, assisted by Elise McKay, Oliver Renton and Patrick Teodorowski on the application of the Fund's investment framework.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.27	1.35	1.18
3 months	-4.20	-3.97	-2.41
FYTD	8.17	8.34	7.20
6 months	-2.93	-2.46	0.59
1 year (pa)	-9.82	-8.96	-3.67
2 years (pa)	7.35	8.38	11.30
3 years (pa)	3.92	4.92	5.64
5 years (pa)	6.32	7.33	8.24

Investment Guidelines

Ex-ante (forward looking) tracking error	3.0% - 8.0%
Min/max stock position	+/-10%
Min/max sector position	+/-10%

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[1]	0.95% pa

[1] 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.

Other Information

Fund size (as at 31 Aug 2022)	$316 million
Date of inception	May 2001
Minimum investment	$25,000
Buy-sell spread[3]	0.50 (0.25%/0.25%)
Distribution frequency	Quarterly
APIR code	RFA0025AU

[3] 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.

Signatory of:

PRI Principles for Responsible Investment

CERTIFIED RESPONSIBLE INVESTMENT ®

CERTIFIED BY RIAA

The Pendal Horizon Sustainable Australian Share Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Sector Allocation (as at 31 August 2022)

Materials	15.4%
Industrials	10.6%
Consumer Discretionary	1.1%
Consumer Staples	1.1%
Health Care	12.7%
Information Technology	7.2%
Telecommunication Services	12.7%
Utilities	0.0%
Financials ex Property Trusts	27.6%
Property Trusts	4.2%
Cash & other	7.4%

Top 10 Holdings (as at 31 August 2022)

CSL Limited	10.4%
Telstra Corporation Limited	7.7%
Commonwealth Bank of Australia Ltd	6.3%
National Australia Bank Limited	5.9%
Westpac Banking Corporation	5.1%
Qantas Airways Limited	5.1%
QBE Insurance Group Limited	4.2%
Xero Limited	4.2%
Macquarie Group Limited	3.9%
Downer EDI Limited	3.5%

Carbon performance

The estimated weighted average carbon intensity (WACI) of the portfolio, using greenhouse gas emissions (scope 1 and 2[1]) data supplied by ISS and weighted by the size of our holding in each company, is shown in the table below. In other words, this provides an indication of a portfolio's exposure to carbon intensive companies. We also compare this to the weighted average emissions for the companies in the aggregated ASX300 index.

We caution that there are limitations of using carbon metrics as an indicator of a portfolio's overall exposure to climate-related risks. For example, not all companies report their emissions data and hence some of the below analysis includes estimates. Also, it does not include scope 3 emissions. Further, portfolio carbon analysis does not capture exposure to physical climate-related risks, or the unique transition risks some companies within the portfolio face. Nevertheless, the WACI metric is recommended by the Task Force on Climate-related Financial Disclosures (TCFD)[2], noting it supports greater comparability of investor reporting.

Weighted Average Carbon Intensity (tonnes CO_2e / $M revenue)

Pendal Horizon Sustainable Australian Share Fund	ASX 300	Relative to ASX300
113.98	234.48	-120.50

Source: ISS, Pendal holdings as at 31 August 2022. Report run on 07/09/2022 using latest ISS data. Currency AUD.

[1] Scope 1 emissions result from sources directly owned or controlled by the company. Scope 2 accounts for GHG emissions from the generation of purchased electricity consumed by the company. Scope 3 emissions result from activities not directly owned or controlled by the company but are associated with its operation such as business travel, waste management, commuting, and the use of sold products and services. https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf

[2] *Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017* https://www.fsb-tcfd.org/recommendations/

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 Oz Minerals (OZL, +36.6%)

Copper miner OZL came under a non-binding indicative takeover proposal from BHP. The all-cash offer of $25 per share came at a 32.1% premium to the prior closing price. OZL's board have rejected the initial offer.

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.

Detractors

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.

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.

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.
- **Concentration 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 available on the Pendal's website.

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

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