

## Pendal MidCap Fund

ARSN: 130 466 581

## Factsheet

Equity Strategies

31 August 2022

### About the Fund

The Pendal MidCap Fund (**Fund**) is an actively managed portfolio of Australian mid cap shares.

### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Pendal MidCap Custom 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 portfolio of primarily 40-60 Australian mid cap shares and are prepared to accept higher variability of returns. Pendal defines the mid cap universe to include companies ranked between 51 and 150 of the S&P/ASX 200 Index. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange, 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).

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

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.

### Investment Team

Pendal's Equity team is headed up by Crispin Murray who has extensive experience and a strong record in equities research. The Fund is managed by Brenton Saunders.

A combination of the Australian equities large cap and small cap teams' research is used to construct the Pendal MidCap Fund.

### Investment Guidelines

Investable universe	ASX and NZX listed and soon to be listed companies; derivatives; cash
Investment ranges	Australian shares 80 - 100% New Zealand shares 0 - 10% Cash 0 - 20%
Ex-ante tracking error	3 – 8%
Number of stocks	Typically 40 – 60
Absolute stock position	15%
Maximum active stock position	+/- 5% <sup>1</sup>
Maximum active sector position relative to index	+/- 10% <sup>1</sup>

<sup>1</sup> compared to benchmark.

### Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.88	0.96	3.37
3 months	-5.13	-4.91	0.59
6 months	-2.71	-2.27	1.62
1 year (pa)	-6.39	-5.54	-4.47
3 years (pa)	8.51	9.50	9.79
5 years (pa)	9.11	10.24	10.02
7 years (pa)	11.10	12.22	11.83
10 years (pa)	12.52	13.91	11.86
Since Inception (pa)	9.71	11.57	6.75

### Sector Allocation (as at 31 August 2022)

Energy	8.0%
Materials	27.1%
Industrials	10.6%
Consumer Discretionary	9.7%
Consumer Staples	6.0%
Health Care	1.6%
Information Technology	5.4%
Telecommunication Services	10.3%
Utilities	0.0%
Financials ex Property Trusts	9.1%
Property Trusts	6.4%
Cash & other	5.8%

### Top 10 Holdings (as at 31 August 2022)

Metcash Trading Limited	5.4%
Nine Entertainment Co Ltd	5.0%
Idp Education Limited	3.6%
Downer EDI Limited	3.2%
Orica Limited	3.2%
Allkem Ltd	3.1%
Challenger Limited	2.9%
Santos Limited	2.8%
The Lottery Corp	2.8%
Charter Hall Retail REIT	2.8%

### Other Information

Fund size (as at 31 Aug 2022)	\$423 million
Date of inception	June 2008
Minimum investment	\$25,000
Buy-sell spread <sup>2</sup>	
For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>	
Distribution frequency	Quarterly
APIR code	BTA0313AU

<sup>2</sup> 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.

## 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 <sup>3</sup>	0.90% p.a.
Performance fee <sup>4</sup>	20% of the Fund's performance (before fees) in excess of the performance hurdle

<sup>3</sup> 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.

<sup>4</sup> 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 20% of the Fund's performance in excess of the performance hurdle. The performance hurdle is the performance of the Fund's benchmark (Pental MidCap Custom Index) plus the management fee of 0.90% 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.

## Fund manager commentary

The midcap sector made further gains in August despite the sharp shift in sentiment part way through the month, where Fed Chair Powell's Jackson Hole speech poured cold water on hopes of more dovish shift in policy.

The S&P/ASX 51-150 post a 3.4% gain. It outperformed the broader S&P/ASX 300, which was up 1.2%. Most overseas equity markets ended the month down, for example the S&P 500 shed -4.2%.

The Australian market was supported by a reasonably benign earnings season. FY 22 earnings largely met consensus expectations and while earnings growth is expected to slow down in FY23, downgrades were not as bad as many feared.

There was a strong contribution to midcap sector performance from large gains in the lithium sector and in some tech stocks.

The lithium sector continued to surge on the back of the structural theme of investment in electric vehicles and renewable energy. Three of the top five performing stocks in the index were lithium miners: Pilbara Minerals (PLS, +31.8%), Lontown Resources (LTR, +31.4%) and Alkerm (AKE, +23.3%).

In the tech space, both Wisetech (WTC, +17.3%) and Altium (ALU, +17.9%) delivered well-received results. This allowed them to buck the trend of broader weakness in growth stock in response to the shift in sentiment around bond yields.

The Pental Midcap Fund made absolute gains but lagged the index rally in August.

The portfolio has an underweight in the lithium sector versus the index and the degree of outperformance here dragged.

The lithium sector has grown very large in a very short space of time and is now ~7% of the index. The challenge is that some of the individual companies are still in the early stages of development, with high capital intensity, a higher degree of execution risk, and in some cases material binary risks. We recognise the structural tailwinds and have exposure here, however it tends to be in what we see as the higher quality but lower beta names which, while still doing very well, lagged some of the other names over the last couple of months.

Elsewhere, there was a divergence between the performance of the portfolio's tech names – NextDC (NXT) and Xero (XRO) – which underperformed Altium (ALU) and Wistech (WTC). We have a higher degree of conviction in XRO and NXT, however there is still some market caution about the next leg of growth here, which has been holding these stocks back.

Elsewhere, not owning Oz Minerals (OZL), which rose 36.6% on a takeover bid from BHP (BHP) was the single largest detractor.

Material positive contributions came from lithium exposures Mineral Resources (MIN) and Alkerm as well as Santos, which is benefiting from higher energy prices. Elsewhere Nine Entertainment (NEC), insurance brokers AUB (AUB) and fuel retailer and refiner Viva Energy (VEA) all delivered well received results.

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. 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.

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.

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](http://pendalgroup.com)

**PENDAL**

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.

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