PENDAL

Factsheet

Equity Strategies

31 October 2022

Pendal Focus Australian Share Fund

ARSN: 113 232 812

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 Oct 2022)	$1,541 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	6.25	6.32	5.96
3 months	1.87	2.07	0.46
FYTD	6.14	6.41	6.44
6 months	-5.49	-5.13	-5.77
1 year (pa)	-3.66	-2.95	-2.61
2 years (pa)	12.05	12.99	11.90
3 years (pa)	6.39	7.40	4.86
5 years (pa)	7.95	8.94	7.23

Sector Allocation (as at 31 October 2022)

Energy	9.1%
Materials	18.3%
Industrials	7.3%
Consumer Discretionary	2.3%
Consumer Staples	2.8%
Health Care	9.0%
Information Technology	5.7%
Telecommunication Services	9.0%
Financials ex Property Trusts	27.4%
Property Trusts	4.2%
Cash & other	4.9%

Top 10 Holdings (as at 31 October 2022)

BHP Group Ltd	9.9%
CSL Limited	8.3%
Commonwealth Bank of Australia	7.3%
Santos Limited	7.2%
Westpac Banking Corporation	6.5%
Telstra Group Limited	6.4%
National Australia Bank Limited	6.4%
Qantas Airways Limited	5.2%
QBE Insurance Group Limited	3.8%
Xero Limited	3.6%

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

Australian equities rebounded in October with the S&P/ASX 300 up 6.0%.

There was some see-sawing during the month as the market grappled to interpret successive data prints from the US.

However ultimately equity markets were driven by the expectation that the Fed would respond to slowing growth and some signs of financial market strain with a "pivot" away from its hawkish path. The extremely bearish positioning on investors post the recent sell-off also played a role.

China's National People's Congress saw President Xi installed for a third term – and the degree to which he has quelled potential factional opposition caught most by surprise. The initial inference is that policies such as Covid zero and less appetite to use traditional stimulus to support the economy remain in place.

Gains were largely broad-based, with only Consumer Staples (-0.16%) and Materials (-0.18%) losing ground – and only marginally so.

Financials (+12.1%) was the best performing sector, driven by the banks, which are demonstrating the benefits of higher rates for net interest margins in their most recent updates. Insurers are also beneficiaries and also did well in October.

Real Estate (+9.3%) enjoyed relief after a torrid run, on the hope that a milder pace of rates hikes might see a headwind recede. Index heavyweight Goodman Group (GMG) was up 7.7%. The retail malls also continued to do relatively well, with Scentre Group (SCG) up 14.2% and Vicinity (VCX) up 12.1%. However the market continued to express more doubt around the outlook for office with Dexus (DXS) only gaining 0.5%.

The miners weighed on Materials as the outlook for Chinese growth – and for the property sector in particular, remains muted. BHP (BHP) fell -3.0%, Rio Tinto (RIO) -5.6% and Fortescue Metals (FMG) -12.6%. The lithium sector surged apace, with Pilbara Minerals (PLS) up 11.6%,

Consumer Staples underperformed as investors were less defensive. Woolworths (WOW) fell -2.7% and Coles (COL) -0.6%. Metcash (MTS, +5.9%) bucked the trend.

Fund performance

The Fund outperformed the benchmark over the month of October.

Contributors

Overweight Qantas (QAN, +16.3%)

QAN flagged that it expected underlying profit before tax in H1 FY23 between $1.2-$1.3bn, versus consensus expectations of ~$500m. It continues to rebound faster than the market expected. Business travel revenue is over 100% of pre-Covid levels and leisure revenue is ~130%. Group international capacity is expected to grow form 61% of pre-Covid in 1H23 to 77% in 2H23, assisted by new planes coming online.

Underweight Fortescue Metals (FMG, -12.6%)

The outlook for growth in the Chinese property sector – and the economy ore broadly – remains muted with nothing from the National People's Congress to suggest a change in path. Iron ore prices have continued to weaken as a result. This weighed on Fortescue, the largest pure-play iron ore miner in the index.

Detractors

Underweight Woodside Energy (WDS, +13.6%)

Brent crude rose 7.8% for the month on the back of production cuts from the OPEC+ group, which sent a clear signal that they intend to support the oil price despite the US desire for lower prices to ease inflation. Woodside outperformed and the underweight dragged, although there was some offset from the position in Santos (STO).

Underweight ANZ (ANZ, +12.1%)

The bank sector is enjoying tailwinds from higher interest rates, which is feeding through to higher net interest margins, a trend confirmed by recent updates from the sector. ANZ confirmed these trends at its update, although it is an earlier beneficiary given its larger exposure to New Zealand than peers. It also disappointed on its cost outlook, flagging further investment.

Market outlook

The market continues to oscillate between two potential scenarios.

At the benign end is the view that inflation continues to trend down, allowing the Fed to achieve its target rate and then start cutting rates towards the end of 2023. This results in a mild economic downturn and limited effect on earnings. In this scenario, further equity market downside is also limited.

The more bearish scenario is one where inflation remains stubbornly higher than the Fed wants, meaning that rates remain higher for longer. This, in turn, means a deeper recession and a significant earnings drop. In this scenario, the earnings effect takes markets a leg lower.

At the moment, the market seems to be bouncing between these poles, depending on the latest data prints or interpretation of statements from central banks. As a result, we see markets operating in a trading range for the time being.

The medium term market outlook remains dependent on the degree of economic downturn and the impact that has on earnings.

There is some debate about the degree of leverage earnings will have to the downturn. Historically, recessions have led to a 20% fall in earnings, on average. However this is often in a low inflation environment, when nominal GDP (a proxy for corporate revenue) is low.

In this instance, the bulls argue that there are three factors which may mitigate earnings decline;

1. Companies will benefit from higher nominal growth supporting revenue, helping cover fixed costs.

2. Materials and energy companies will see continued strong earnings, given lack of supply.

3. The potential re-opening of China may offset weakness in Europe and the US.

This degree of earnings leverage remains to be seen. However it is fair to say we are in a different type of cycle than those investors have grown used to.

The portfolio's performance is not predicated on which of these two scenarios wins out. If inflation remains high, prompting fear of higher-for-longer rates, it has exposure to domestic defensives and to companies with strong pricing power. If, on the other hand, the earnings outcome is milder than many fear, then the exposure to high quality cyclicals is expected to do well.

We continue to look for companies which combine the desired thematic exposures with a fundamental company-specific story that can provide an additional level of valuation support. Strong cash flow generation and the return of capital to shareholders remains attractive attributes in this environment.

We also remain mindful that the Australian equity market is relatively defensive in a global context. The combination of less inflationary pressure – particularly in wages, higher household savings, a more dovish central banks, strong terms of trade and the index construction have also seen the ASX hold up better than global peers.

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**

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