PENDAL

Factsheet

Equity Strategies

31 October 2022

The future is worth investing in

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

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	6.53	6.61	5.96
3 months	0.10	0.34	0.46
FYTD	6.92	7.26	6.44
6 months	-8.55	-8.11	-5.77
1 year (pa)	-10.24	-9.38	-2.61
2 years (pa)	7.01	8.03	11.90
3 years (pa)	2.88	3.86	4.86
5 years (pa)	5.18	6.18	7.23

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 Oct 2022)	$312 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 October 2022)

Materials	14.3%
Industrials	10.9%
Consumer Discretionary	1.4%
Consumer Staples	1.0%
Health Care	11.8%
Information Technology	6.0%
Telecommunication Services	12.4%
Utilities	0.0%
Financials ex Property Trusts	31.1%
Property Trusts	4.0%
Cash & other	7.1%

Top 10 Holdings (as at 31 October 2022)

CSL Limited	10.0%
Telstra Group Limited	7.7%
Commonwealth Bank of Australia	7.2%
National Australia Bank Limited	6.7%
Westpac Banking Corporation	6.4%
Qantas Airways Limited	5.4%
QBE Insurance Group Limited	4.6%
Xero Limited	3.6%
Macquarie Group, Ltd.	3.1%
Downer EDI Limited	3.0%

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
109.78	235.01	-125.23

Source: ISS, Pendal holdings as at 31 October 2022. Report run on 10/11/2022 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

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

Underweight BHP (BHP, -3.0%)

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 BHP, which is excluded from the portfolio due to its coking coal exposure.

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.

Detractors

Overweight CSL (CSL, -1.6%)

CSL gave back some of its recent strong gains, although it was recovering into the end of the month. The update on the recently acquired Vifor business at its strategy day was well received. We continue to see the recovery in plasma supply as a decent tailwind for CDL, while an upcoming new product cycle can provide further upside catalysts.

Overweight Oz Minerals (OZL, -6.3%)

Softer sentiment around China also weighed on the copper miners such as Oz Minerals. However there is still a strong expectation that BHP may return with an improved takeover offer, having made a bid of $25 per share in early August, which the OZL board rejected.

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.
- **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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