PENDAL

Factsheet

Equity Strategies

31 January 2023

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

The future is worth investing in

About the Fund

The Pendal Horizon Sustainable Australian Share Fund is an actively managed portfolio of Australian shares.

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.

Description of Fund

The Fund is designed for investors who want the potential for long term capital growth from a high conviction, values-oriented, concentrated portfolio of typically 15-35 stocks which invests in businesses that in our view, in aggregate, provide a net benefit to Australia's future economy and society.

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 analysis. 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 analysis focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).

Pendal takes labour standards, environmental, social and ethical considerations into account when selecting, retaining or realising the investments of the Fund.

We adopt a principles-based approach in identifying the Fund's investments which aims to:

- Avoid companies whose industries, business models and products or services are not sustainable or cause significant harm, having regard to what we believe most investors would want to avoid in a values-based investment portfolio.
- Invest in companies that demonstrate, or offer or enable more sustainable practices, business models or products and services.
- Invest in companies that advance or participate in the transition of the Australian economy to one that is more sustainable.
- Engage with management of companies in which we invest to manage risk, effect change and realise potential value over the long term.

Exclusion may be applied differently across the Fund. For more information on how exclusions are applied, refer to section 5 How we invest your money of the Fund's Product Disclosure Statement at www.pendalgroup.com/PendalHorizonSustainableAustralianShareFund-PDS

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	6.69	6.78	6.29
3 months	6.28	6.54	9.46
FYTD	13.64	14.27	16.51
6 months	6.39	6.90	9.97
1 year (pa)	2.72	3.70	11.61
2 years (pa)	5.72	6.73	10.60
3 years (pa)	2.80	3.78	5.98
5 years (pa)	5.64	6.65	8.50

Sector Allocation (as at 31 January 2023)

Materials	16.7%
Industrials	9.4%
Consumer Discretionary	1.7%
Consumer Staples	2.5%
Health Care	12.3%
Information Technology	5.4%
Telecommunication Services	11.9%
Utilities	0.0%
Financials ex Property Trusts	29.6%
Property Trusts	4.1%
Cash & other	6.4%

Top 10 Holdings (as at 31 January 2023)

CSL Limited	10.2%
Telstra Group Limited	7.5%
Commonwealth Bank of Australia	6.8%
National Australia Bank Limited	6.1%
Qantas Airways Limited	5.5%
Westpac Banking Corporation	5.2%
QBE Insurance Group Limited	4.6%
Xero Limited	3.9%
Lynas Rare Earths Limited	3.5%
Fortescue Metals Group Ltd	3.5%

Other Information

Fund size (as at 31 Jan 2023)	$333 million
Date of inception	May 2001
Minimum investment	$25,000
Buy-sell spread[1]	0.50 (0.25%/0.25%)
Distribution frequency	Quarterly
APIR code	RFA0025AU

[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.

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.

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[2]	0.95% pa

[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.

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.

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
89.81	175.00	-85.19

Source: ISS, Pendal holdings as at 31 January 2023. Report run on 07/02/2023 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 got off to a roaring start in January 2023. Markets were bullish on indication that US inflation is slowing faster than expected, providing scope for an end to the hiking cycle.

There are two key issues. First is sustained strength in the labour market, which will help determine how long the Fed needs to maintain rates at their peak. Second is the degree to which the lagged effect of monetary policy slows the economy and affects earnings, which will be key for the market's outlook.

Australia bucked the trend of moderating inflation, with Q4 2022's CPI print coming in hotter than expected. Inflation rose 7.8% year-on-year, its highest rate since 1990 and ahead of 7.6% expectations.

China grappled with a covid wave following Beijing's U-turn on Covid zero. While there is material near term disruption, it has opened the door to greater medium-term clarity and China-beneficiaries have done well. Iron ore rose 9.7% for the month. Copper was up 10.2%.

The S&P/ASX 300 gained 6.29%. All sectors made gains except utilities.

Consumer discretionary (+10.06%) rose the most with strength in retail-related names such as Wesfarmers (WES,+8.15%), JB Hi-Fi (JBH, +15.33%) and Premier Investment (PMV, +15.20%). Aristocrat Leisure (ALL, +11.27%) and IDP Education (IEL, +14.79%) also did well.

Materials (+8.91%) also outperformed as sentiment towards Chinese demand continued to improve. BHP (BHP) gained 8.22%, Rio Tinto (RIO) +8.79% and Fortescue Metals (FMG) was up 8.43%. The lithium names staged a strong rebound after a muted final quarter to 2022. Mineral Resources (MIN) was up 15.21% and Pilbara Minerals (PLS) +26.67%.

Utilities (-2.98%) lagged as sentiment turned more positive. Doubt also began to creep in around the takeover offer for Origin Energy (ORG, -3.24%).

Energy (+1.48%) prices came off sharply as the northern hemisphere winter remains relatively mild. Brent Crude was down only -1.7%, but natural gas fell -24.4% and thermal coal -37.7%. Woodside (WDS) was up 2.31% and Santos (STO, -0.42%) traded sideways while Whitehaven Coal (WHC) fell -10.83%.

Fund performance

The Fund outperformed the benchmark over the month of January.

Key contributors

Lynas Rare Earths (LYC, +19.3%)

Lynas weakened over the second half 2022 in response to softer rare earth prices and water supply issues for operations in Malaysia. However it staged a strong rebound in January. Its quarterly update at the end of month showed sales revenue up 42% quarter-on-quarter and 15% year-on year. Production also recovered as water supply issues were resolved. Rare earth prices have recovered in anticipation of a rebound in Chinese economic activity.

Allkem (AKE, +15.5%)

An improvement in sentiment towards Chinese demand on the back of relaxed covid-zero policies saw lithium miners such as Allkem rebound in January, after a soft end to 2022. AKE's lithium carbonate production from its Olaroz asset in Argentina came in well ahead of market expectations for Q2 FY 2022. Management expect EV sales growth to remain robust in 2023 given strong order books and pent up demand.

Key detractors

Overweight Telstra (TLS, +2.26%)

Telstra gained but underperformed as sentiment shifted away from defensives. It remains among our preferred domestic defensives, which should display some resilience if we do see an economic downturn as a result of monetary tightening. A stable industry structure in mobile supports ongoing profitability, while cost out helps earnings.

Underweight BHP (BHP, +8.22%)

Sentiment continued to improve towards China's economic outlook for 2023, lifting commodity prices and iron ore miners such as BHP. BHP is excluded from the portfolio given its exposure to coking coal.

Market outlook

The market seems increasingly convinced that inflation is last year's problem and is falling faster than expected. The focus has now shifted to the size of the economic downturn and the impact on earnings.

One complicating factor for the rate and inflation outlook is that even as employment costs and average hourly earnings are trending in the right direction in the US, actual payroll data and the unemployment rate remain inconsistent with the Fed's targets for a slower economy.

The question is whether inflation plateaus in the high 3% range and holds or continues to fall into the Fed's targeted 2% range.

In his most recent comments, Fed Chair Powell noted that if the economy performed in keeping with their expectations, then it would not be appropriate to cut rates in 2023. However he also said if inflation slows faster than expected, then that would be incorporated into their thinking.

On balance, the market took this nod to data-dependency as dovish, particularly as Powell down-played the improvement in total financial conditions.

The market continues to price Fed rate cuts in late 2023. This expectation may have to shift if labour markets remain strong.

The market is also implying rate cuts in Australia by the end of the year, but from a high point of ~3.6%, versus ~5.0% in the US.

On the economic front, a Goldman Sachs survey of economists indicated a median forecast 65% chance of recession in the US within the next twelve months.

Manufacturing surveys, weak housing, softer retail sales, low savings rates and inverted yield curves all support the recession call in the US.

Those expecting no recession, or a shallow downturn, are quoting some combination of the reasons below.

1. Job momentum remains supportive. This is evident in lagging indicators like solid payrolls and coincident indicators such as jobless claims which have not deteriorated. Forward-looking measures such as layoffs are not yet back to pre-pandemic levels, let alone those consistent with a recession. It is likely companies are more cautious on firing in certain sectors, given recent shortages of labour.
2. Consumer real incomes are set to rise - potentially up to 3.5% - as inflation falls and wages catch up. This can support consumption.
3. There are no major structural imbalances in terms of excess credit growth, overcapacity in industries or too much leverage in households. All these exacerbated the downturn in the GFC.
4. Financial conditions have been stable for six months, so the effect of tighter monetary policy is fading.
5. Lower bond yields are supportive for housing, possibly alleviating the risk of larger downturn.
6. Economic momentum is still quite good. Q4 GDP is likely to come in at 2% so, while moving below trend, we have not yet seen a tipping point in the economy.

We remain of the view that markets remain in a range for the moment. The upside remains capped by earnings risk and Fed actions to contain financial easing. However the downside scenarios are looking more benign for now.

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**