Pendal Focus Australian Share Fund

ARSN: 113 232 812

Factsheet

Equity Strategies

28 February 2023

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 28 Feb 2023)	$1,593 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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-2.13	-2.07	-2.55
3 months	0.27	0.46	0.17
FYTD	11.63	12.19	13.54
6 months	5.04	5.43	5.92
1 year (pa)	4.31	5.08	6.54
2 years (pa)	6.85	7.63	8.38
3 years (pa)	8.60	9.63	7.94
5 years (pa)	7.77	8.66	7.87
Since Inception (pa)	9.05	10.12	7.63

Source: Pendal as at 28 February 2023

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: April 2005.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 28 February 2023)

Energy	8.3%
Materials	20.8%
Industrials	6.5%
Consumer Discretionary	2.4%
Consumer Staples	2.7%
Health Care	10.3%
Information Technology	5.8%
Telecommunication Services	8.8%
Financials ex Property Trusts	24.9%
Property Trusts	4.2%
Cash & other	5.3%

Top 10 Holdings (as at 28 February 2023)

BHP Group Ltd	11.7%
CSL Limited	9.3%
Telstra Group Limited	6.7%
Commonwealth Bank of Australia	6.5%
Santos Limited	6.2%
National Australia Bank Limited	5.7%
Qantas Airways Limited	5.6%
Westpac Banking Corporation	5.0%
QBE Insurance Group Limited	4.2%
Xero Limited	4.0%

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

Further evidence of ongoing strength in the US economy and tight labour markets saw hopes of a dovish tilt from central banks recede.

Central bank rhetoric remains hawkish and the risk is that tighter-for-longer monetary policy pushes economies into a severe downturn, driving earnings lower.

The S&P/ASX 300 fell -2.55 as a result.

The broad theme of Australian reporting season was stronger revenue offset by weaker margins as costs rose.

Revenue for 1H FY23 has risen ~12% at an index level, with 38% of companies beating expectations and only 18% missing.

However this has not translated into operating leverage, as costs have risen ~15% at the index level. This meant a margin squeeze that saw 49% of companies miss EPS expectations, versus a historical average of 30%.

Companies have signalled that costs are decelerating – although they will need to, given that revenue will not be able to continue at this pace.

The net effect is that the misses have not flowed through to a spike in negative forward-year earnings revisions. The mix of upgrades and downgrades to forward-year EPS was in-line with historical trends.

Materials (-6.68%) fell furthest as the boost in sentiment from an end to zero-Covid waned and results told a consistent story of higher costs.

Financials (-3.31) also underperformed as the market expressed concerns that the margin tailwind from higher rates may have peaked and now come under pressure due to intensifying competition.

Utilities (+3.39%) did best, driven primarily by a revised bid for Origin Energy (IRG, +.44%) from the Brookfield-led consortium, which was better than expectations.

Information Technology (+2.80%) also did well with Computershare (CPU, +5.74%) and Wisetech (WTC, +4.06%) delivering well-received results.

Fund performance

The Fund outperformed the benchmark over the month of February.

Key contributors

Overweight QBE Insurance (QBE, +9.75%)

The market had been worried about inflation and reinsurance in the short term and franchise strength in the long term. But QBE delivered on CY22 expectations and issued confident guidance for CY23. The CEO believes volatility has been taken out of the business, which was further supported by a transaction removing 1.9bn of problematic US reserves. The message was therefore reduced risk plus expanding earnings, an attractive combination that should help the multiple recover.

Overweight Santos (STO, +1.67%)

Santos's underlying net profit after tax was weaker than expected on the back of higher-than-expected restoration costs. However good cash flow generation saw the dividend beat expectations by 15%. At the same time, management gave an encouraging update on a couple of development projects where the market had been concerned. The company maintained production guidance for 2023.

Key detractors

Overweight Evolution Mining (EVN, -14.37%)

More hawkish rate expectations and a stronger US dollar weighed on the gold price and on gold miner EVN. Beyond this, the company's' reported financials were slightly weaker than expected. However it surprised positively with a 2cps interim dividend, flagging confidence in its balance sheet and reiterating an equity raise is not needed. Net debt should peak this quarter, with deleveraging the focus from here. Commentary on the Red Lake development was positive.

Overweight Downer (DOW, -16.18%)

DOW delivered a second downgrade in 3 months, which triggered a major management shake-out. The CEO was already leaving, but in addition the CFO will leave and the Chair stepping down with immediate effect. The new CEO outlined high level plan to cut $100m costs out of the business and drive cultural change to extract more appropriate margins out of what should be a quality contract book. FY23 should get a bounce back assuming weather improves notably in the road maintenance business. The company will also likely be in the focus of PE.

Outlook

Recent strong economic data from the US has puts paid to theories that the strong reading in January data was an aberration. It reinforces the issue that the US economy remains too strong to enable inflation to slow sufficiently at the current rate setting.

The rally earlier in 2023 was driven by signs inflation and wages are easing, without any signs this is associated with a sharp slowdown in the economy.

The "soft landing"/"narrow path"/"immaculate disinflation" scenario is the most bullish of the three broad outcomes possible from the current position. The market likes the idea of a limited earnings downturn combined with falling rates.

There are two other, more bearish, scenarios.

– One is structural inflation where some combination of limited commodity supply, structural constraints on labour, re-arming of nations, re-shoring of supply chains and de-carbonising power and energy infrastructure all contribute to inflation remaining higher for longer.

– The other is where policy is already too tight and the lagged effect – currently hidden – will see a recession in the second half of 2023.

We are in a better place than we were three months ago, but material risks remain. We need to regularly gauge the scale and direction of economic data to get a better read on which scenario is playing out.

The Chinese National People's Congress, which officially starts Xi's third term and sees a slew of news faces at top posts, announced a target of 5% GDP growth for this year. This is down on last year's 5.5% target – although up from the 3% growth that was actually achieved.

There had been hope of a higher target – somewhere near 6% - to reflect the re-opening of China's economy. The 5% target, in an environment in which "revenge spending" by the Chinese consumer is likely to be strong, suggests that Beijing will not be making material change in policy to stimulate growth, particularly in housing and infrastructure. This may be prompted by fears around inflation. This is consistent with local government bond quotas, which are traditionally used to fund investment and are lower than last year. As a result, some of the optimism around the outlook for commodity pricing has faded.

For the moment, equities appear range bound, having absorbed a material rise in bond yields without breaking down through technical support levels.

The recent decline in equity markets has helped tighten the Total Financial Conditions index and possibly allows the Fed to be more balanced in their comments. This suggests the market should be reasonably well supported for now, as long as growth and inflation don't continue to surprise to the upside.

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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