Pendal Focus Australian Share Fund

ARSN: 113 232 812

Factsheet

Equity Strategies

30 April 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 30 April 2023)	$1,628 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	1.57	1.63	1.85
3 months	-0.03	0.15	-0.98
6 months	7.42	7.82	8.38
1 year	1.53	2.29	2.13
2 years (p.a)	4.48	5.18	6.07
3 years (p.a)	13.69	14.64	13.97
5 years (p.a)	8.12	8.98	8.23
Since Inception (p.a)	9.08	10.16	7.64

Source: Pendal as at 30 April 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 30 April 2023)

Energy	7.8%
Materials	21.1%
Industrials	6.0%
Consumer Discretionary	2.6%
Consumer Staples	2.5%
Health Care	10.2%
Information Technology	5.9%
Telecommunication Services	8.6%
Utilities	0.0%
Financials ex Property Trusts	25.0%
Property Trusts	4.3%
Cash & other	6.1%

Top 10 Holdings (as at 30 April 2023)

BHP Group Ltd	11.2%
CSL Limited	9.2%
National Australia Bank Limited	6.6%
Telstra Group Limited	6.3%
Commonwealth Bank of Australia	6.3%
Santos Limited	6.1%
Qantas Airways Limited	5.0%
Westpac Banking Corporation	4.4%
QBE Insurance Group Limited	4.1%
Xero Limited	3.8%

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 responded well to the RBA pausing rate hikes, as expected, at its early April meeting.

The S&P/ASX 300 returned 1.85% for the month, led by sectors such as technology and real estate where higher rates have been a headwind.

In the US the market seemed inclined to a relatively benign outcome to stress in the banking system, implying that the issue was relatively contained and credit tightening would slow economic growth but not stall it.

Indicators of US inflation continues to ease, but labour market remained tight. Lead indicators of economic growth are slowing, but the economy remains robust, supported by consumer spending.

This has fed through to a US quarterly results season where the feared air-pocket in earnings did not eventuate. Aggregate earnings, while down in the quarter by low single-digits in terms of percentage growth, fell only half of the amount expected by consensus.

Real Estate (+5.01%) rose in response to the RBA's pause in hikes. Much of this was driven by strong gains in residential property stocks such as Stockland (SGP, +11.81%) and Mirvac (MGR, +15.87%), helped by some better data on prices and auction clearance in Sydney. Index heavyweights Goodman Group (GMG, +2.77%) and Scentre Group (SCG, +4.77%) also made gains.

Information Technology (+4.51%) also did well with Xero (XRO, +4.38%), Wisetech (WTC, +5.25%) and NextDC (+9.75%), the three largest technology stocks in the index, all outperforming. The latter was boosted by an update which confirmed it was contracting data-centre space at a faster pace than the market expected.

Materials (-2.57%) was the only sector to lose ground. Commodity prices continued to weaken on the expectation that the US economy would continue to slow into the second half of 2023, with material risk of recession. Steel production quotas in China are also expected to weigh on iron ore demand in the second half, with iron ore falling -17.2% over the month. Quarterly production reports were also generally soft, with all seeing rising costs. BHP (BHP, -5.99%), Rio Tinto (RIO, -6.57%) and Fortescue (FMG, -6.89%) all fell. The gold miners bucked the trend and posted good gains as the gold price held up well.

Utilities (+1.37%) also underperformed in an environment of improved sentiment.

Fund performance

The Fund underperformed the benchmark over the month of April.

Key contributors

Overweight Evolution Mining (EVN, +14.10%)

A stronger gold price, helped by the prospect of an end to the US rate hiking cycle, the risk of recession and potentially a softer US dollar, has seen upgrades to the gold mining sector. A six-week outage at the Ernest Henry mine in Queensland weighed on quarterly production. However management have noted that further exploration at this site is looking positive for material extensions to the currently-expected mine life.

Underweight Rio Tinto (RIO, -6.57%)

Concern over an expected slow-down in economic growth in the US in the second half of 2023 – and the risk of recession - generally weighed on commodities. Chinese steel production quotas are also expected to weigh on iron ore demand in the second half. Iron ore was down sharply in April, which dragged on Rio Tinto. RIO's quarterly production report revealed strong iron ore sales, offset by weakness in copper and aluminium.

Key detractors

Underweight ANZ (ANZ, +6.19%)

Australian banks generally rebounded, having sold off over March in sympathy with US banks and on concern that the failure of several US banks might morph into a GFC0style contagion event. We see this as low risk, given both the nature of the issue in the US and the much better capital and liquidity positions of banks as a result of the GFC. That said, we remain underweight the banks – and ANZ – due to pressure on margins as mortgage competition and deposit costs rise.

Overweight South32 (S32, -2.97%)

Broader weakness in the commodity space on concern over a slowing US economy in 2H 2023 weighed on South32. A series of one-off issues at several of S32's sites saw a disappointing quarterly update, however these headwinds are unlikely to endure. Cost guidance increased, as it did for most miner, and the company is on track to end the year in slight net debt as opposed to net cash, but this looks unlikely to affect the buyback programme. We also expect to see positive news on several of S32's projects in coming months.

Outlook

Inflationary pressures may be easing, but not quickly enough for the Fed to feel comfortable.

The Cleveland Fed's inflation "now-cast" has not budged for two months, with Core Personal Consumption Expenditure (PCE) at 4.65% and core Consumer Price Index (CPI) at 5.6% for April. The Fed is looking for these numbers to move into the 3-4% range.

Economic indicators continue to give conflicting views on how weak the economy is.

Lead indicators are still deteriorating and the Conference Board US Leading Index has now reached a point which has signalled previous recessions.

The Continuing Jobless Claims index also continues to climb higher. Its absolute level remains low by historical standards, but this does signal some loosening in labour markets.

That said, there is some evidence that surveys in March may have overstated economic deterioration, on the back of the fear of a banking crisis which has thus far not materialised.

Equity market resilience in the face of the US banking shock has been driven by the prospect of US rates peaking, inflation softening and the economy remaining resilient, all combined with previously bearish positioning.

In sum, the market valuation discount rate effect from the prospect for lower rates has outweighed the negative impact from the financial sector.

This has been bolstered by receding fears of a bank-induced credit shock, retail sales holding up better than expected, bank deposit outflows settling down and a better-than-expected US reporting season

There are two schools of thought for the economy and markets;

1. The successful soft landing - albeit potentially a mild recession.
2. A sharper economic downturn, driven by the shock to the banking system or the need for rates to be held high for longer as inflation remains sticky, leading to a more significant decline in corporate earnings.

The former scenario keeps the market at current levels with perhaps some upside to valuation rating. The latter sees the market returning towards lows.

In the near-term markets could well remain benign as we enjoy the phase where inflation continues to ease while the economy holds up. We also have the benefit of a reasonable liquidity environment. In this environment volatility stays muted and market focuses more on stock specifics.

Our view is that the risk increases as we approach the debt ceiling negotiations in July and August, which could coincide with emerging signs of the economy weakening more meaningfully.

Given this, we continue to balance the portfolio in terms of skew between cyclicals and defensives and focus on stocks with less exogenous risk and greater control over their outcomes.

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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