PENDAL

Factsheet

Equity Strategies

30 April 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.

In managing the Fund, we will not invest in companies which are involved in the following activities:

- Fossil fuels
- Uranium
- Logging
- Gambling
- Pornography
- Weapons
- Alcohol
- Predatory lending practices
- Animal testing
- Tobacco (including e-cigarettes and inhalers)
- Have a history of breaches or misconduct

For more information on how these 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	2.84	2.92	1.85
3 months	0.41	0.64	-0.98
6 months	6.72	7.22	8.38
1 year	-2.41	-1.48	2.13
2 years (p.a)	1.20	2.16	6.07
3 years (p.a)	10.13	11.18	13.97
5 years (p.a)	5.45	6.46	8.23
Since Inception (p.a)	7.92	8.97	8.06

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: May 2001.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 30 April 2023)

Energy	0.0%
Materials	18.6%
Industrials	9.0%
Consumer Discretionary	1.8%
Consumer Staples	2.7%
Health Care	11.0%
Information Technology	5.6%
Telecommunication Services	11.5%
Utilities	0.0%
Financials ex Property Trusts	29.4%
Property Trusts	5.1%
Cash & other	5.3%

Top 10 Holdings (as at 30 April 2023)

CSL Limited	10.1%
Telstra Group Limited	7.4%
Commonwealth Bank of Australia	6.8%
National Australia Bank Limited	6.7%
Qantas Airways Limited	5.4%
QBE Insurance Group Limited	4.9%
Westpac Banking Corporation	4.6%
Xero Limited	3.8%
Fortescue Metals Group Ltd	3.5%
Macquarie Group, Ltd.	3.4%

Signatory of: PRI Principles for Responsible Investment

CERTIFIED RESPONSIBLE INVESTMENT
CERTIFIED BY RIAA

The Pendal Horizon Sustainable Australian Share Fund has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au 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.

Other Information

Fund size (as at 30 April 2023)	$326 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.

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
95.53	172.12	-76.59

Source: ISS, Pendal holdings as at 30 April 2023. Report run on 04/05/2023 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 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

Underweight BHP (BHP, -5.99%)

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

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.

Key detractors

Overweight Fortescue Metals (FMG, -6.89%)

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 Fortescue Metals.

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 ANZ due to pressure on margins as mortgage competition and deposit costs rise.

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.
- **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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