Pendal Focus Australian Share Fund

ARSN: 113 232 812

Factsheet

Equity Strategies

31 August 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 32 years' industry experience. Crispin is also Head of Equity.

Other Information

Fund size (as at 31 August 2023)	$1,692 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	-0.68	-0.61	-0.76
3 months	3.90	4.09	3.88
6 months	4.55	4.94	2.87
1 year	9.82	10.64	8.96
2 years (p.a)	2.60	3.37	2.45
3 years (p.a)	11.07	12.02	10.51
5 years (p.a)	7.61	8.55	6.99
Since Inception (p.a)	9.05	10.12	7.57

Source: Pendal as at 31 August 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 31 August 2023)

Energy	8.5%
Materials	20.3%
Industrials	5.2%
Consumer Discretionary	2.6%
Consumer Staples	2.5%
Health Care	10.7%
Information Technology	7.4%
Telecommunication Services	8.1%
Utilities	0.0%
Financials ex Property Trusts	25.3%
Property Trusts	4.7%
Cash & other	4.8%

Top 10 Holdings (as at 31 August 2023)

BHP Group Ltd	12.1%
CSL Limited	9.3%
Santos Limited	6.4%
National Australia Bank Limited	6.2%
Commonwealth Bank of Australia	5.9%
Telstra Group Limited	5.5%
Westpac Banking Corporation	4.8%
Xero Limited	4.7%
Qantas Airways Limited	4.4%
QBE Insurance Group Limited	4.1%

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

The S&P/ASX 300 gave up much of its July rally over the first half of August.

However a softer-than-expected CPI inflation print in Australia, coupled with several US indicators that eased some concerns about excessive economic growth, saw some of the concern around further rate hikes recede.

Equities rebounded into the month's end as a result. The S&P/ASX 300 ended down -0.76% for August.

A recent softer-than-expected US employment report is seen as supporting the view that the Fed does not need to hike rates again.

The market is now pricing in a 94% chance that Fed holds rates steady in September and 65% chance of a hold in November too.

The consensus view is firmly that of a soft landing, goldilocks scenario playing out in the US.

Australian earnings season was largely in-line with expectations with earnings revisions no larger than normal. It painted a picture of an economy that remains in good shape with very little evidence of slowdown.

Broadly speaking, cyclicals generally performed better than defensives. In some instances, the former's earnings declined but held up better than the market feared.

There was larger dispersion within sectors than across them. This indicates a market where stock specifics are exerting a great influence on performance than was the case twelve months ago.

Consumer Discretionary (+5.80%) did best, partly reflecting the theme of cyclicals holding up better than the market feared. Wesfarmers (WES, +10.60%), Aristocrat (ALL, +3.99%), JB Hi-Fi (JBH, +2.61%) and Domino's Pizza (DMP, +10.99%) outperformed in this regard.

Real Estate (1.53%) also outperformed the index, largely as the result of a well-received result from index heavyweight Goodman Group (GMG, +13.73%), where the market likes the data-centre development opportunity.

The small Utilities (-3.85%) sector was the largest underperformer, dragged down by APA Group (APA, -10.10%), where lower dividend guidance and an equity issuance to fund an acquisition weighed on the result. AGL Energy (AGL) fell -7.13%.

Consumer Staples (-3.14%) also underperformed. Woolworths (WOW, +0.23%) held the line but Coles (COL, -10.56%) disappointed as theft proved a large drag in the half.

Fund performance

The Fund outperformed the benchmark over the month of August. There were positive contributions from the growth exposures in Xero (XRO), Goodman Group (GMG), NextDC (NXT) and Pro Medicus (PME) as well as from defensive Metcash (MTS) and cyclical James Hardie (JHX). However this was offset by the drag from Qantas (QAN), Judo (JDO) and South32 (S32) as well as not owning Wesfarmers (WES).

Key contributors

Overweight Goodman Group (GMG, +13.73%)

GMG's FY23 result broadly beat management guidance but was in line with consensus expectations. Increased earnings from investment and new developments partially offset lower management fees. Management flagged a $30bn-plus development opportunity in data centres, which effectively doubles their five-year logistics development pipeline. This, along with confirmation that their core rent growth is increasing, saw the stock re-rate.

Underweight ResMed (RMD, -24.03%)

ResMed delivered a decent set of numbers with strong revenue growth, although margins came in softer than expected. There is a view that the stock has come under pressure in response to the rise in use of semaglutide medications to treat obesity, a condition often associated with the sleep apnea that RMD products seek to treat. There are signs that RMD stock is being sold short in response to this thematic effect.

Key detractors

Overweight Qantas (QAN, -9.49%)

QAN delivered profit before tax in-line with guidance and ~$1bn higher than any twelve-month period prior to Covid. Net debt is almost half pre-Covid levels. Despite this, the company came under intense media scrutiny for a number of issues including unused flight credits and legal action from the ACCC. The challenges of ramping up capacity have resulted in poor customer service and QAN failing to get the balance right. It has announced the early departure of the CEO and steps to address the issues with customer service. The current valuation implies that cost out, improved industry structure, strong loyalty business and shift in consumer spending trends will largely unwind. We believe this will not be the case.

Underweight Wesfarmers (WES, +10.60%)

WES delivered solid results, in line with consensus, with underlying EBIT growth of 13% in FY23. The retail businesses continue to hold up well at elevated levels. Kmart had a strong 2H unlike key competitor Big W. There was limited detail on the outlook, although sales trends into FY24 remain reasonable. The chemicals business is expected to have a material reversal in EBIT next year driven by falling commodity prices and high gas input costs. We see the stock as fully-valued given muted earnings-per-share (EPS) growth and uncertainties around the outlook for retail sales.

Outlook

The global disinflation story continues. This is supportive for markets as we currently appear to be close to the end of the tightening cycle and economic growth in the US and Australia remains largely intact.

The consensus view is firmly that of a soft landing, goldilocks scenario in the US.

Extrapolating current data, it looks like the US is on track to deliver a very solid quarter of GDP growth, with the Atlanta Fed's GDPNow measure at 5.6% growth. The market takes a more nuanced view, believing that strength in the consumer cannot be sustained with a wave of headwinds due to bite.

Whilst real personal spending growth has continued to run hotter than expected, upcoming headwinds associated with a lower savings rate, resumption of student loan repayments and run down of pandemic excess savings would suggest that such strong personal consumption growth should not be sustained into 4Q.

But this does raise the concern that a stronger than expected economy may override the improving trends in inflation and wages, leading to further uncertainty in rates and at the Fed.

This would be counter to the soft landing scenario which is now being priced into the market and which recent data has supported.

In China, we are seeing a drip feeding of policies and support for markets, with concerns around housing, leverage, shadow banking and capital flight still in focus.

Beijing has delivered a number of easing measures to support the property sector, consumption and currency. It is a positive step in the right direction but more is needed.

In Australia, the underlying theme is the economy seems fine and earnings are largely holding up for industrials.

While there are pockets of weakness in certain retail categories, these are outweighed by positive signals in travel, commercial demand and building materials.

One emerging theme was the sharp increase in interest costs in response to higher rates. This remains a key area to watch for the higher-geared companies – particularly where slowing revenue growth may lead to operating de-leverage.

However there are no signs of recession and, with rates on hold, it is hard to see what would trigger one.

The only issue is at some point inflation trends may force RBA to re-evaluate, but that remains a little way off.

In sum, the combination of slowing inflation and economic resilience is a good one – but it remains too soon to declare victory, in our view. Uncertainties remain about the lagged effect of monetary policy as various other supportive factors recede. Also inflation, while falling, may settle at a higher rate than central banks are comfortable with, prompting further rate hikes.

As a result we retain the balance in our portfolio construction, with a mix of defensives, cyclicals, growth stocks, capital returners and stocks that retain good pricing power.

We observe that 12-month sector dispersion over 12-month stock dispersion has fallen sharply over 2023, after rising for much of 2022. This suggests the re-emergence of stock-specific factors as a key driver of performance, which we believe plays to the strengths of our approach.

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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