PENDAL

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

Factsheet

Equity Strategies

31 August 2023

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.

The Fund applies exclusionary screens, 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	-0.82	-0.74	-0.76
3 months	2.57	2.81	3.88
6 months	4.58	5.08	2.87
1 year	8.12	9.15	8.96
2 years (p.a)	-1.26	-0.32	2.45
3 years (p.a)	7.61	8.63	10.51
5 years (p.a)	4.96	5.96	6.99
Since Inception (p.a)	7.91	8.96	7.99

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: May 2001.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 August 2023)

Energy	0.0%
Materials	18.4%
Industrials	7.5%
Consumer Discretionary	1.5%
Consumer Staples	3.4%
Health Care	11.0%
Information Technology	7.4%
Telecommunication Services	9.8%
Utilities	0.0%
Financials ex Property Trusts	28.2%
Property Trusts	5.5%
Cash & other	7.4%

Top 10 Holdings (as at 31 August 2023)

CSL Limited	9.6%
Commonwealth Bank of Australia	6.4%
Telstra Group Limited	6.2%
National Australia Bank Limited	6.1%
Xero Limited	4.9%
Westpac Banking Corporation	4.7%
Qantas Airways Limited	4.4%
QBE Insurance Group Limited	4.4%
Goodman Group	3.3%
Rio Tinto Limited	3.2%

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 31 August 2023)	$334 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
101.36	165.49	-64.13

Source: ISS, Pendal holdings as at 31 August 2023. Report run on 06/09/2023 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

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 underperformed the benchmark over the month of August.

Key contributors

Underweight BHP (BHP, -2.52%)

BHP's FY23 result was largely in ln with consensus. Like most other mining companies, it is flagging higher capex driven largely by inflation. This may leave net debt at the higher end of BHP's target range and serve to limit dividends over the next couple of years. BHP is excluded from the portfolio on the basis of its exposure to coal.

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.

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.

Overweight Costa Group (CGC, -13.90%)

Costa noted a decline in trading conditions late in FY23, with a deterioration in the quality of citrus late in the season and softer demand for tomatoes. This announcement coincides with private equity group Paine Schwartz Partners continuing its due diligence of the Costa assets following a prior $3.54 non-binding offer for the group. The stock has sold off given higher uncertainty as to whether a deal proceeds or gets repriced.

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.
- **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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