

Pendal Focus Australian Share Fund

ARSN: 113 232 812

Equity Strategies

29 February 2024

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 29 February 2024)	\$1,719 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	0.25	0.31	0.98
3 months	8.32	8.52	9.46
6 months	6.11	6.51	7.44
1 year	10.93	11.77	10.53
2 years (p.a)	7.57	8.38	8.52
3 years (p.a)	8.19	8.99	9.09
5 years (p.a)	9.38	10.33	8.61
Since Inception (p.a)	9.14	10.20	7.77

Source: Pendal as at 29 February 2024

"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 29 February 2024)

Energy	6.9%
Materials	22.4%
Industrials	5.4%
Consumer Discretionary	2.9%
Consumer Staples	2.6%
Health Care	11.0%
Information Technology	6.6%
Telecommunication Services	8.2%
Utilities	0.0%
Financials ex Property Trusts	25.8%
Property Trusts	5.6%
Cash & other	2.5%

Top 10 Holdings (as at 29 February 2024)

BHP Group Ltd	12.0%
CSL Limited	9.0%
Commonwealth Bank of Australia	6.4%
National Australia Bank Limited	5.8%
Telstra Group Limited	5.7%
Westpac Banking Corporation	5.4%
Santos Limited	4.9%
Xero Limited	4.4%
Qantas Airways Limited	4.4%
Goodman Group	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

Australian equities bounced around in February before ultimately rallying into the month's end and posting a 0.98% gain for the month (S&P/ASX 300).

The broad underlying picture of disinflation opening the way to rate cuts in 2024 remains in place.

However some stronger than expected economic and inflation data in the US have tempered previous expectations around the timing and scale of rate cuts.

In Australia the RBA kept rates on hold. Governor Bullock noted that inflation remains too high, but that recent developments are encouraging. She also noted that the CPI will not necessarily need to be back within the 2-3% target range before the first cut.

The outlook from Australian earnings season was slightly better than average, with 28% of stocks seeing EPS upgrades for FY24 – versus a long-term average of 22%. 33% saw downgrades, just under the long-term average for 34%.

The consensus FY24 earnings-per-share outlook for the ASX 200 remains unchanged following reporting season, with slight upgrades for banks and industrials offsetting slight downgrades for resources.

Information technology (+19.70%) was the stand-out sector, helped by good results from NextDC (NXT, +25.89%) and Wisetech (WTC, +29.44%), a takeover bid for Altium (ALU, +30.41%) and a well-received investor day from Xero (XRO, +14.91%).

Consumer Discretionary (+9.74%) also outperformed as the revenue environment for retailers remains better than expected, while they are also generally maintaining good control of costs. Wesfarmers (WES, +16.22%) beat expectations on the back of Kmart, while JB Hi-Fi (JBH, +10.37%) benefited from stronger than expected margins at The Good Guys.

Energy (-5.94%) underperformed. Woodside Energy (WDS, -6.33%) and Santos (STO, -6.38%) announced that they would not pursue potentially merger talks any further, introducing an element of uncertainty into the outlook for both companies.

Materials (-4.80%) also lagged as continued caution over the outlook for the Chinese economy weighed on the price of iron ore (-11.7%). This weighed on BHP (CHP, -7.07%), Rio Tinto (RIO, -6.88%) and Fortescue (FMG, -9.61%) despite all three delivering reasonable results.

Fund performance

The Fund underperformed the benchmark over the month of February.

Key contributors

Overweight Xero (XRO, +14.91%)

XRO's inaugural investor day was well received. Management outlined a new strategy focused on three "super-core" products (accounting, payroll, payments) in their three largest markets (Australia, UK, USA). They also introduced the new executive management team, outlined an aspiration to double revenue and maintain the "Rule of 40" whilst also reiterating FY24 guidance. The market's reaction suggests greater confidence in XRO's ability to deliver on the 40% revenue growth plus profit margin target.

Overweight Goodman Group (GMG, +16.80%)

GMG beat consensus 1H FY24 earnings by 13%, driven by recognition of embedded profits across their land banks. The company is increasingly focussed on GMG's data centre developments, where the total pipeline of projects was increased and the timing of delivery brought forward. Data centres now accounts for 37% of GMG's work in progress. Meanwhile, operating metrics for industrial remains robust. Softer cap rates and negative revaluations are resetting operating businesses for future growth.

Key detractors

Underweight Wesfarmers (WES, +16.22%)

WES grew group EBIT by 1.4% and EPS 3% for 1H FY24, beating expectations mainly due to strength in Kmart. It will be difficult for Kmart to sustain recent margin strength in our view. Other retail businesses such as Bunnings and OfficeWorks were well managed in a period of high wage inflation and sub-2% revenue growth.

Overweight Qantas (QAN, -7.73%)

QAN delivered profit before tax (PBT) of \$1,245 for 1H FY24, a touch under consensus expectations at \$1,259. The result demonstrated that demand and market share are not deteriorating and fundamental conditions remain supportive of structurally higher levels of profitability post-Covid. Management flagged seasonal headwinds for 2H FY24, which drove ~8% downgrades. However we believe this does not fully account for some offsetting factors such as fuel and capacity growth. FY25 should see a marked improvement in margins versus FY24 in our view.

Outlook

The economic backdrop remains reasonably benign for markets, although we remain mindful of still material risks.

US inflation continues to trend in the right direction, which opens the door to rate cuts at some stage. February did see some inflation data points that were higher than expected. The message from the Fed is that the path to lower inflation is unlikely to be linear and that the overall trend remains in the right direction.

At the same time, the US economy is holding up relatively well. This is important as it means the Fed can afford to sit on its hands and wait for confirmation that inflation is indeed being brought under control.

If we start to see a material deceleration in the economy, it would risk an earnings recession which could drag on markets. It could force the Fed into cutting rates sooner than they otherwise would.

At the other end of the spectrum, there is also the risk that inflation remains stubborn high or even rebounds. This could also drag on markets, which continue to price in cuts for 2024, even if the number of expected cuts has been reduced in recent weeks.

For the moment, though, inflation is on the right path and the economy is holding up well.

Likewise in Australia, earnings season is telling us the economy is OK. There is the odd pocket of softness but generally trends are continuing as before.

Industrial and tech companies are doing better, while large consumer-facing companies are wary of delivering a message which is too positive, for fear of a media backlash.

Aggregate ASX 200 earnings are expected to fall -4.2% in total for FY24, with some strength in industrials offsetting weakness in resources and banks. However at this point the market seems content to look through near-term weakness, which has seen a market valuation re-rating drive recent equity gains.

This re-rating has come in anticipation of the economy avoiding recession and the eventuation of rate cuts. We note that conditions remain benign and that there is still plenty of cash to be deployed in markets. This suggests that markets can continue to grind higher. However we are mindful that some of the valuation buffer has been removed if we do start to see a downturn in fundamentals.

Looking forward to FY25, consensus currently expects 2.8% EPS growth, with continued strength in Industrials and an improved – albeit still negative – outcome for the banks and resources.

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

PENDAL

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.