Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

Factsheet
Equity Strategies
29 February 2024

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	0.78	0.86	0.98
3 months	9.14	9.39	9.46
6 months	5.92	6.42	7.44
1 year	10.77	11.82	10.53
2 years (p.a)	5.44	6.44	8.52
3 years (p.a)	6.10	7.11	9.09
5 years (p.a)	6.61	7.63	8.61
Since Inception (p.a)	8.00	9.05	8.15

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: May 2001.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 29 February 2024)

Energy	0.0%
Materials	20.5%
Industrials	7.5%
Consumer Discretionary	1.4%
Consumer Staples	2.7%
Health Care	10.7%
Information Technology	7.6%
Telecommunication Services	9.3%
Utilities	0.0%
Financials ex Property Trusts	28.6%
Property Trusts	6.2%
Cash & other	5.4%

Top 10 Holdings (as at 29 February 2024)

CSL Limited	9.8%
Commonwealth Bank of Australia	7.0%
National Australia Bank Limited	6.3%
Rio Tinto Limited	6.2%
Telstra Group Limited	6.1%
Westpac Banking Corporation	5.3%
Xero Limited	4.7%
Fortescue Ltd	4.6%
Qantas Airways Limited	4.2%
Goodman Group	4.0%

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 29 February 2024)	$294 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
96.47	105.25	-8.78

Source: ISS, Pendal holdings as at 29 February 2024. Report run on 12/03/2024 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 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

Underweight BHP (BHP, -7.07%)

The iron ore price fell -11.7% in February as the market remains cautious on the economic outlook for China. This weighed on the major miners. BHP's H1 FY24 result was largely in-line with expectations with most divisions performing well. The interim dividend was slightly ahead of expectations, but the payout ratio continues to decline as the requirement for capex builds. Earlier in the month the company wrote down its Australian nickel operations and idled the smelter while it reviews the operations.

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.

Key detractors

Overweight Rio Tinto (RIO, -6.88%)

The iron ore price fell -11.7% in February as the market remains cautious on the economic outlook for China. This weighed on the major miners and dragged on the position in RIO, although there was some offset from the underweight in BHP (BHP). RIO beat expectations for its interim dividend by 5%, with the rest of its result largely in-line with expectations. The business is tracking well, growing earnings at 2-3% p.a., paying out the top end of the dividend policy and with a solid balance sheet.

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.
- **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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