PENDAL

Factsheet

Equity Strategies

29 February 2024

Pendal MidCap Fund

ARSN: 130 466 581

About the Fund

The Pendal MidCap Fund (**Fund**) is an actively managed portfolio of Australian mid cap shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Pendal MidCap Custom 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 portfolio of primarily 40-60 Australian mid cap shares and are prepared to accept higher variability of returns. Pendal defines the mid cap universe to include companies ranked between 51 and 150 of the S&P/ASX 200 Index. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange, 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).

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

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.

Investment Team

Pendal's Equity team is headed up by Crispin Murray who has extensive experience and a strong record in equities research. The Fund is managed by Brenton Saunders.

A combination of the Australian equities large cap and small cap teams' research is used to construct the Pendal MidCap Fund.

Investment Guidelines

Investable universe	ASX and NZX listed and soon to be listed companies; derivatives; cash
Investment ranges	Australian shares 80 - 100% New Zealand shares 0 - 10% Cash 0 - 20%
Ex-ante tracking error	3 – 8%
Number of stocks	Typically 40 – 60
Absolute stock position	15%
Maximum active stock position	+/- 5%[1]
Maximum active sector position relative to index	+/- 10%[1]

[1] compared to benchmark.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	4.09	4.17	3.77
3 months	10.41	10.66	10.49
6 months	4.16	4.63	4.38
1 year	7.61	8.58	8.06
2 years (p.a)	3.98	4.92	5.57
3 years (p.a)	6.75	7.72	7.17
5 years (p.a)	8.69	9.68	8.79
Since Inception (p.a)	9.47	11.25	6.71

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: June 2008.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 29 February 2024)

Energy	9.7%
Materials	18.4%
Industrials	10.4%
Consumer Discretionary	12.1%
Consumer Staples	7.7%
Health Care	4.7%
Information Technology	13.1%
Telecommunication Services	7.1%
Utilities	0.9%
Financials ex Property Trusts	7.6%
Property Trusts	6.0%
Cash & other	2.4%

Top 10 Holdings (as at 29 February 2024)

Nextdc Limited	5.4%
CAR Group Limited	4.3%
Metcash Limited	3.9%
a2 Milk Company Limited	3.7%
Viva Energy Group Ltd.	3.6%
Wisetech Global Ltd.	3.5%
Technology One Limited	3.2%
Orora Ltd.	3.0%
REA Group Ltd	2.7%
Whitehaven Coal Limited	2.6%

Other Information

Fund size (as at 29 February 2024)	$383 million
Date of inception	June 2008
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0313AU

[2] 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.

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[3]	0.90% p.a.
Performance fee[4]	20% of the Fund's performance (before fees) in excess of the performance hurdle

[3] 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.

[4] 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 20% of the Fund's performance in excess of the performance return hurdle. The performance hurdle is the performance of the Fund's benchmark (Pendal MidCap Custom Index) plus the management fee of 0.90% 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.

Fund manager commentary

Australian equities bounced around in February before ultimately rallying into the month's end. The S&P/ASX 51-150 posted a 3.77% gain, outperforming the broader 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 (+23.91%) was the stand-out sector, helped by good results from NextDC (NXT, +25.89%) and Wisetech (WTC, +29.44%) and a takeover bid for Altium (ALU, +30.41%).

Industrials (+6.63%) also outperformed, driven primarily by strength in the contractors such as Seven Group (SVW, +6.65$), Worley (WOR, +12.89%) and Downer (DOW, +18.29%). Plumbing supply companies Reece (REH, +17.95%) and Reliance Worldwide (RWC, +29.25%) also did well.

Energy (-3.12%) underperformed, dragged down by coal miners Whitehaven (WHC, -17.09%) and New Hope (NHC, -12.96%). Fuel refiners and distributors Ampol (ALD, +8.33%) and Viva energy (VEA, +4.56%) held up well.

Real Estate (-2.59%) was also generally weaker. Lendlease (LLC, -12.43%) fell furthest, although most property names ended the month in negative territory.

The Fund returned 4.09% (after fees) in February, outperforming the index.

The overweight in NextDC (NXT, +25.89%) made the largest positive contribution. It delivered a result that included less of a step-up in costs and capex than had been feared, resulting in earnings that beat expectations. There was no change to full year revenue and earnings guidance, which still looks on the conservative side, in our view. NXT's strong development pipeline drew attention, with strong demand from enterprise, hyperscale cloud and Generative AI. We remain positive on the long-term outlook for NXT with a strong competitive position and inventory available at an important point in the cycle.

Elsewhere overweights in A2 Milk (A2M, +19.88%), Light & Wonder (LNW, +19.54%) and Ventia Services (VNT, +18.06%) also made materials contributions.

The overweight in travel company Kelsian Group (KLS, -15.88%) detracted. It reported operating results in line with expectations, but took a one-off higher depreciation charge for FY2024 which lowered NPAT.We see this as transitory impact and retain our positive view on outlook for the business

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.

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**