

Pendal Sustainable Australian Share Fund

ARSN: 097 661 857

About the Fund

The Pendal Sustainable Australian Share Fund (**Fund**) is an actively managed portfolio of Australian shares. Investments are selected based on a range of sustainable, ethical and financial criteria. The Fund seeks exposure to companies that are more sustainable while avoiding those that cause significant social and/or environmental harm.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 200 (TR) Index over the medium to long term, whilst maximising the portfolio's focus on sustainability. The recommended 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, diversification across a broad range of Australian companies and industries and are prepared to accept higher variability of returns.

The Fund uses an active stock selection process that combines sustainable and ethical criteria with Pendal's financial analysis. We actively seek out companies and industries that demonstrate leading ESG and ethical practices and exclude companies not meeting the investable criteria.

Pendal takes labour standards, environmental, social and ethical considerations into account when selecting, retaining or realising investments of the Fund.

The sustainability, ESG and ethical criteria employed includes factors such as:

- environmental issues,
- corporate governance, and
- social practices,
- ethical practices.

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/PendalSustainableAustralianShareFund-PDS.

Investment Team

The Fund is managed by Rajinder Singh in Pendal's Australian Equity team who has more than 22 years' industry experience.

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.

Factsheet

Equity Strategies

29 February 2024

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	1.26	1.32	0.79
3 months	10.50	10.74	9.39
6 months	8.14	8.60	7.42
1 year	11.21	12.16	10.64
2 years (p.a)	6.56	7.47	8.89
3 years (p.a)	7.68	8.60	9.32
5 years (p.a)	8.30	9.23	8.61
Since Inception (p.a)	7.93	8.86	8.70

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: October 2001.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 29 February 2024)

Energy	0.0%
Materials	23.2%
Industrials	5.9%
Consumer Discretionary	1.8%
Consumer Staples	1.2%
Health Care	13.2%
Information Technology	5.2%
Telecommunication Services	8.3%
Utilities	0.0%
Financials ex Property Trusts	32.2%
Property Trusts	4.7%
Cash & other	4.3%

Top 10 Holdings (as at 29 February 2024)

CSL Limited	9.7%
Commonwealth Bank of Australia	7.5%
National Australia Bank Limited	6.0%
Telstra Group Limited	5.6%
Rio Tinto Limited	5.5%
Westpac Banking Corporation	4.9%
QBE Insurance Group Limited	4.6%
Goodman Group	3.8%
Qantas Airways Limited	3.2%
Xero Limited	3.1%



CERTIFIED BY RIAA

The Pendal 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.responsibleinvestments.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)	\$413 million
Date of inception	October 2001
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	WFS0285AU

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.

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	0.85% 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.

Carbon performance

The estimated weighted average carbon intensity (WACI) of the portfolio, using greenhouse gas emissions (scope 1 and 2¹) 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 ASX 200 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 CO₂e / \$M revenue)

Pendal Sustainable Australian Share Fund	ASX 200	Relative to ASX 200
97.07	105.31	-8.24

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-tcf.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 (BHP, -7.07%), Rio Tinto (RIO, -6.88%) and Fortescue (FMG, -9.61%) despite all three delivering reasonable results.

Fund performance

The Fund outperformed 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 NextDC (NXT, +25.89%)

Data centre operator NXT 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.

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.

For more information please call 1300 346 821,
contact your key account manager or visit [pendalgroup.com](https://www.pendalgroup.com)

PENDAL

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Sustainable Australian Share Fund (Fund) ARSN: 097 661 857. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pendalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pendalgroup.com/ddo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

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.