PENDAL

Factsheet

Equity Strategies

31 March 2024

Pendal Australian Long/Short Fund

ARSN: 121 948 810

About the Fund

The Pendal Australian Long/Short Fund (**Fund**) is an actively managed portfolio of Australian shares investing in both long and short positions. The Fund utilises Pendal's existing Australian equity research capabilities to capture additional sources of value-add by using both buy and sell ideas.

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 by taking both long and short positions in Australian shares. The suggested investment timeframe is five years or more.

How the Fund is managed

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 aims to generate investment returns by taking advantage of Pendal's buy and sell ideas using a strategy that combines a long and a short portfolio known as a long/short strategy. To take advantage of the buy ideas, a long portfolio is created consisting of securities that are bought and held, consistent with our view that these securities will outperform the market. These securities are referred to as long positions.

To take advantage of our sell ideas, a short portfolio is constructed with short positions. Short positions are created by selling securities in a process called short selling, where we believe these securities will underperform the market. To implement the Fund's short strategy, the Fund does not borrow money. However, it does borrow securities from a securities lender with the intention of buying back the securities from the market and returning them to the lender at a price lower than the sale price.

Short selling is used by us when we expect that the price of a security will fall. If the price of the security falls in value, the Fund will make a profit because it buys the security back from the market for less than it was sold. This can be contrasted with the Fund's long positions, where the Fund makes a profit from an increase in the price of a security.

The Fund may have long positions of up to 135% and short positions of up to 35% of the Fund's net asset value. This means that at any given time, the Fund's gross exposure to securities held both long and short may range from 95% to 170% while generally maintaining a net market exposure of around 100%.

The Fund may use derivatives to reduce risk and to 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 nineteen member Equity team is one of the largest in the Australian fund's management industry. The portfolio manager for the Fund is Jim Taylor.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	3.32	3.36	3.27
3 months	5.77	5.90	5.33
6 months	14.42	14.71	14.17
1 year	14.91	15.50	14.45
2 years (p.a)	7.13	7.74	7.03
3 years (p.a)	9.81	10.44	9.61
5 years (p.a)	9.99	10.75	9.15
Since Inception (p.a)	7.07	8.24	5.60

Source: Pendal as at 31 March 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: November 2007.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 March 2024)

Energy	6.4%
Materials	21.0%
Industrials	2.1%
Consumer Discretionary	5.0%
Consumer Staples	2.4%
Health Care	8.2%
Information Technology	5.8%
Telecommunication Services	7.1%
Utilities	-0.3%
Financials ex Property Trusts	28.8%
Property Trusts	5.7%
Cash & other	7.7%

Top 10 Holdings (as at 31 March 2024)

BHP Group Ltd	10.8%
CSL Limited	7.9%
Commonwealth Bank of Australia	6.5%
National Australia Bank Limited	5.0%
Telstra Group Limited	4.3%
ANZ Group Holdings Limited	4.2%
Westpac Banking Corporation	4.1%
Xero Limited	4.0%
Santos Limited	3.9%
Macquarie Group, Ltd.	2.9%

Investment Guidelines

Risk Limits:	Relative to S&P/ASX 200 (TR) Index	
Investable universe	ASX and NZX listed stocks, large cap and small cap, (or those to be listed within 12 months), cash, derivatives	
Investment Allocation	**Australian equities** Long: 95 - 135% Short: 0 - 35% Net long exposure max 100% **Cash**: 0 - 5%	
Stock Numbers	Long Portfolio 30-70 Short Portfolio up to 40	
Ex-ante tracking error	2.0% – 6.0%	
Min/max active sector position	+/- 10%	
Min/Max active long stock position	+/- 6%	
Max active short stock position	- 6%	
BARRA risk factors	+/- 0.8 std. dev.	

Other Information

Fund size (as at 31 March 2024)	$501 million
Date of inception	November 2007
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	RFA0064AU

[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.

Changes to key service providers of the Fund

The Fund will change its custodian and administrator to the Northern Trust Company on 3 October 2022.

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]	0.50% 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 200 (TR) Index) plus the management fee of 0.50% 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.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk** - The risk associated with an individual asset.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk** - Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Interest rate risk** - The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.
- **Small company risk –** Shares in smaller companies may trade less frequently and in smaller volumes and may experience greater price volatility than shares in larger companies.
- **Valuation risk** – The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Derivative risk –** The risk arising from use of derivatives to manage exposures to investment markets.
- **Short selling risk –** Short selling involves a higher level of risk than buying a security.
- **Regulatory risk –** The risk that a change in laws and regulations governing an investment or financial markets could have an adverse impact on an investment.
- **Key person risk** - The risk that the Fund's investment performance or ability to remain open to investors is adversely impacted due to the loss of key individuals who are integral to the Fund's operation.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

Australian equities extended recent gains in March, with the S&P/ASX 300 finishing the month up 3.26%.

The RBA held rates at 4.35%, as expected. However its commentary took a more dovish turn, removing explicit reference to the possibility of further rate hikes and helping drive equity market gains.

The US Federal Reserve also left rates unchanged but, importantly, the "dot plots" of expected future rates continued to indicate three cuts before the year's end. This is well down from the seven cuts the market was pricing at the start of the year and reflects some stronger-than-expected data on inflation and the view that the "last mile" of disinflation may be tougher to achieve.

US data continues to suggest that the economy is holding up. Likewise, Australian data painted a picture of an economy which is slowing, but still growing, albeit with some softer pockets. Australia's GDP increased 0.24% in Q4 2023 and 1.55% for the year.

Real Estate (+9.21%) was the best performing sector in March. A more dovish view on Australian interest rates likely helped, given it is among the more highly-geared sectors, which drove broad-based strength. Goodman Group (GMG, +13.08%), the largest stock in the sector, continued to surge in the wake of a well-received result. It is also seen as a beneficiary of the AI-thematic given a pipeline of data centre developments.

Energy (+5.57%) rose on the back of a further 4.6% increase in the price of Brent crude, which was up 13.6% for the quarter. Woodside Energy (WDS) was up 3.54% and Santos (STO) gained 9.46%.

Communication Services (-0.78%) was the only sector to lose ground, driven largely by weakness in the online classifieds such as Car Group (CAR, -0.87%), REA Group (REA, -4.01%) and Seek (SEK, -3.79%). Telstra (TLS, +1.05%) bucked the trend.

Consumer Discretionary (+0.82%) also underperformed. Wesfarmers (+2.64%) lagged the market's gain, while Aristocrat Leisure (ALL, -7.78%) fell after management sounded a note of caution about demand in their key US market.

Fund performance

The Fund outperformed the benchmark index in March.

Key contributors

Overweight Santos (STO, +9.46%)

Santos recouped much of ground lost in February when it announced that the possibility of a potential merger with Woodside was off the table. The oil price rose 4.6% (Brent crude) in March and is up 13.6% for the year as concerns over supply disruption in the Middle East have intensified, at the same time that the US economy continues to hold up well.

Overweight Northern Star (NST, +13.37%)

Northern Star owns and operates gold mines in Western Australia and Alaska. Continued gains in the gold price drove it higher in March. Late in the month it announced the proposed extension of its existing expansion project for the Kalgoorlie Superpit which would effectively add seven years to the asset's mine life, keeping it operational to 2034.

Key detractors

Overweight Aristocrat Leisure (ALL, -7.78%)

Aristocrat fell after a management update which, while not making any changes to guidance and highlighting expectations for continued market share growth, also conveyed a relatively downbeat assessment of slot machine demand in their key US market.

Underweight Newmont Corporation (NEM, +17.71%)

Newmont is a US gold miner recently listed on the ASX following its acquisition of Newcrest Mining. It outperformed off the back of a 9.1% gain in the gold price, which was in turn helped by the prospect of lower US interest rates. The detraction from not owning NEM was offset by the position in Evolution (EVN), our preferred gold mining exposure.

Market outlook

Multiple data points suggest the global economy is holding up just fine and inflationary pressures continue to ease, which is a benign background for equity markets.

ISM manufacturing purchasing managers indices (PMIs) are inflecting higher globally. This is supportive for global growth and strength in commodities, particularly when combined with a tighter supply environment.

The Atlanta GDPnow index is estimating that US GDP growth is tracking towards 2.5% for 1Q24 (as at 4th April 2024).

Meanwhile the Evercore ISI Trucking survey has improved to the highest level since October 2022 and is showing signs of stabilisation, although still at depressed levels by historical standard. There is usually good correlation between trucking survey and US real GDP growth.

On the inflation front, the US core personal consumption expenditures (PCE) index – the Fed's preferred measure of inflation – rose 0.26% in February and is tracking at +2.8% year-on-year.

Importantly, February's Prices Paid subindex of the ISM Services index dropped to a 4-yr low of 53.4 (from 58.6) suggesting that upward pressure on prices from labour costs is easing further. This has also been a good lead indicator for underlying core personal consumption expenditures (PCE) services ex. housing index, suggesting further downward pressure on inflation.

In the US average hourly earnings are continuing to trend downwards, but at 4.1% annual growth in March remain ahead of the 3.5% annual rate that is considered consistent with the Fed's 2% inflation target.

All in all, it suggests progress on inflation should keep the Fed on track to cut rates this year, but good economic data may limit the pace of the cutting cycle. As of early April the market has now moved to price 53% probability of a cut in June 24 and the total of implied expected cuts for 2024 has fallen to 67bps.

In Australia, inflation data for February came in below expectations, moderating to 3.4% (consensus at 3.5%) and unchanged from January which is the equal slowest since November 2021.

Stronger unemployment data offset the RBA's shift to a more neutral stance, with a full cut now not priced in until November (versus September previously). The RBA will also need to monitor the effect of tax cuts which begin to kick in from July.

While the current environment of slowing inflation and economic resilience remains supportive, there are two risk scenarios to consider. The first is that we start to see a material deceleration in the economy as the lagged effects of monetary tightening take hold. This could potentially force central banks to cut rates, but would also come with material risk to earnings.

The second scenario is a rebound in inflation, which could see central banks delay rate cuts and comes with economic risk. At this point we don't see these two scenarios as a high probability, but are mindful of them in portfolio construction.

For more information please call **1300 346 821**,
contact your key account manager or visit **pendalgroup.com**

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