

### Pendal Focus Australian Share Fund

ARSN: 113 232 812

Equity Strategies

31 March 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 31 March 2024)	\$1,772 million
Date of inception	April 2005
Minimum investment	\$25,000
Buy-sell spread <sup>1</sup>	
For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>	
Distribution frequency	Half-yearly
APIR code	RFA0059AU

<sup>1</sup> 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	3.65	3.72	3.26
3 months	5.26	5.45	5.43
6 months	13.14	13.57	14.24
1 year	14.34	15.20	14.40
2 years (p.a)	6.66	7.46	6.65
3 years (p.a)	8.40	9.14	9.43
5 years (p.a)	10.00	10.95	9.15
Since Inception (p.a)	9.30	10.37	7.92

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: April 2005.

Past performance is not a reliable indicator of future performance.

#### Sector Allocation (as at 31 March 2024)

Energy	7.0%
Materials	23.3%
Industrials	5.9%
Consumer Discretionary	2.4%
Consumer Staples	2.7%
Health Care	10.8%
Information Technology	6.6%
Telecommunication Services	8.0%
Utilities	0.0%
Financials ex Property Trusts	25.6%
Property Trusts	5.3%
Cash & other	2.5%

#### Top 10 Holdings (as at 31 March 2024)

BHP Group Ltd	11.8%
CSL Limited	8.8%
Commonwealth Bank of Australia	6.4%
National Australia Bank Limited	5.6%
Telstra Group Limited	5.5%
Westpac Banking Corporation	5.1%
Santos Limited	5.1%
Qantas Airways Limited	4.9%
Xero Limited	4.4%
Goodman Group	3.8%

## 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 <sup>2</sup>	0.75% pa
Performance fee <sup>3</sup>	15% of the Fund's performance (before fees) in excess of the performance hurdle.

<sup>2</sup> 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.

<sup>3</sup> 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 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-g 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. Continued momentum in Goodman Group (GMG) and QBE Insurance (QBE) was helpful, while Qantas (QAN) and Santos (STO) rebounded from weakness in February. Underweights in Transurban (TCL) and Fortescue (FMG) were also helpful.

## Key contributors

### Overweight Evolution Mining (EVN, +21.36%)

A 9.1% gain in the gold price, helped by the prospect of lower US interest rates, underpinned strength in Evolution Mining, which operates gold and copper mines across Australia and Canada. At its half-year result in February management indicated that there were signs of improvement at its Red Lake mine in Canada and maintained FY24 group guidance despite fears of a downgrade. EVN saw a sell-side upgrade in March on the view that risks were adequately priced in.

### 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.

## 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.

## 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](http://pendalgroup.com)

**PENDAL**

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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.