PENDAL

Factsheet

Equity Strategies

31 March 2024

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

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	2.62	2.70	3.26
3 months	4.62	4.87	5.43
6 months	13.74	14.28	14.24
1 year	14.57	15.67	14.40
2 years (p.a)	4.36	5.35	6.65
3 years (p.a)	5.70	6.71	9.43
5 years (p.a)	6.99	8.01	9.15
Since Inception (p.a)	8.10	9.14	8.27

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: May 2001.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 March 2024)

Energy	0.0%
Materials	21.1%
Industrials	6.9%
Consumer Discretionary	1.4%
Consumer Staples	3.3%
Health Care	10.5%
Information Technology	8.4%
Telecommunication Services	9.2%
Utilities	0.0%
Financials ex Property Trusts	28.4%
Property Trusts	6.0%
Cash & other	4.9%

Top 10 Holdings (as at 31 March 2024)

CSL Limited	9.6%
Commonwealth Bank of Australia	7.0%
National Australia Bank Limited	6.1%
Rio Tinto Limited	6.1%
Telstra Group Limited	6.1%
Westpac Banking Corporation	5.0%
Xero Limited	4.7%
Fortescue Ltd	4.5%
Qantas Airways Limited	4.3%
QBE Insurance Group Limited	3.8%

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 31 March 2024)	$310 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
98.50	105.34	-6.84

Source: ISS, Pendal holdings as at 31 March 2024. Report run on 09/04/2024 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 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 underperformed the benchmark over the month of March.

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 Goodman Group (GMG, +13.08%)

Goodman Group develops, owns and operates industrial property globally and is benefiting from structural tailwinds of increased demand. More recently it has benefited from the prospect of lower interest rates and from the AI thematic via its data centre developments, given the intensity of data use underpinning the development of AI models. Data centres now accounts for 37% of GMG's work in progress.

Key detractors

Overweight Arcadium Lithium (LTM, -12.63%)

The lithium sector remains under pressure given continued uncertainty around how long Chinese battery makers will continue de-stocking inputs and around end demand for electric vehicles. There have been some green shoots with prices in the lithium complex showing some signs of stabilisation following large falls in 2023. However the combination of many moving parts and lack of visibility into key elements of the Chinese supply chain continue to see elevated uncertainty weighing on the sector. The company has adjusted its growth profile, both in response to more challenging market conditions and as it seeks to optimise its enlarged project suite following the Albermarle/ Allkem merger. While we view this as a logical and pragmatic step, it has seen growth expectations reduced.

Overweight Fortescue (FMG, -0.89%)

The China's National People's Congress disappointed those looking for a large pick-up in near-term stimulus to support the economy and weighed on the iron ore price, dragging down Fortescue. The prior month, FMG had reported half-yearly net profit after tax (NPAT) results which were in line with market expectations and a dividend which was slightly ahead of consensus. It maintained its full year guidance range, despite the impact of a derailment for December 2023.

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.
- **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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