PENDAL

Factsheet

Pendal MidCap Fund

ARSN: 130 466 581

Equity Strategies

31 March 2024

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	2.97	3.05	4.31
3 months	6.76	6.99	7.50
6 months	11.82	12.32	13.61
1 year	12.88	13.90	14.46
2 years (p.a)	2.10	3.02	4.22
3 years (p.a)	6.57	7.53	7.84
5 years (p.a)	9.31	10.30	9.71
Since Inception (p.a)	9.62	11.39	6.96

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: June 2008.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 March 2024)

Energy	9.4%
Materials	17.9%
Industrials	10.3%
Consumer Discretionary	12.1%
Consumer Staples	8.1%
Health Care	5.4%
Information Technology	13.1%
Telecommunication Services	7.5%
Utilities	0.9%
Financials ex Property Trusts	7.7%
Property Trusts	6.3%
Cash & other	1.4%

Top 10 Holdings (as at 31 March 2024)

Nextdc Limited	5.0%
CAR Group Limited	4.2%
Metcash Limited	4.1%
a2 Milk Company Limited	4.0%
Wisetech Global Ltd.	3.4%
Technology One Limited	3.2%
Premier Investments Limited	3.1%
Orora Ltd.	3.0%
Viva Energy Group Ltd.	2.9%
Charter Hall Group	2.7%

Other Information

Fund size (as at 31 March 2024)	$390 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 extended recent gains in March, with the S&P/ASX 300 finishing the month up 3.26% and the S&P/ASX 51-150 up 4.31%.

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.

Within the midcap sector Financials (+6.77%) performed best in aggregate. Most stocks in the sector finished in positive territory, however Virgin Money UK (VUK, +35.20%) was well ahead of the pack following a takeover offer.

Real Estate (+6.68%) continued recent gains as the market's outlook on rates has remained relatively sanguine. Gains were broad-based but led among the larger stocks by retail REIT Vicinity Centres (VCX, +9.79%) and property fund manager Charter Hall (CHC, +9.82%).

Communication Services (-2.02%) lost ground, due largely to weakness in the online classifieds CAR Group (CAR, -0.87%) and REA Group (REA, -4.01%) although the telco names Chorus (CNU, -3.70%) and TPG (TPG, -1.94%) also lost ground.

Utilities (-1.88%) also underperformed as AGL Energy (AGL, -1.88%) lagged a more risk-on environment.

The Fund returned 2.97% (after fees) in March, underperforming the index.

The largest single detraction came from not owning Virgin Money UK, which came under takeover offer from Nationwide Building Society at a 38% premium. While still subject to due diligence, the deal appears reasonably advanced, with approval from both the Board and largest shareholder, Virgin Group.

Positions in lithium miners Arcadium Lithium (LTM, -12.63%) and Patriot Battery Metals (PMT, -7.22%) also detracted. 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.

On the positive side, retailer Premier Investments (PMV, +8.68%) saw upgrades on the back of a well-received half-yearly result which saw it beat market expectations for revenue and margin. Management have signalled that momentum in sales has improved in the first eight weeks of 2H.

Elsewhere positions in Bellevue Gold (BGL, +23.20%), Beach Energy (BPT, +14.69%) and A2 Milk (A2M, +7.94%) also made positive contributions.

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.

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**

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