PENDAL

Pendal Monthly Commentary

Pendal Sustainable Future Australian Shares Portfolio

March 2024

Market commentary

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.

Portfolio overview

Sustainable Future Australian Shares Portfolio	
Investment strategy	Pendal's investment process for Australian shares is based on its 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 its assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Pendal's fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk)
Investment objectives	To deliver outperformance relative to the benchmark before fees over a rolling five year period by investing in companies which Pendal has identified as having leading financial, ethical and sustainability characteristics.
Benchmark	S&P/ASX 300 (TR) Index
Number of stocks	15 - 40 (30 as at 31 March 2024)
Sector limits	Australian Shares, 65 - 98%, Australian Property 0 - 30%, Cash 2 - 5%
Dividend Yield	3.35%#

Top 10 holdings

Code	Name	Weight
CSL	CSL Limited	9.74%
CBA	Commonwealth Bank of Australia	6.75%
RIO	Rio Tinto Limited	6.33%
TLS	Telstra Group Limited	6.29%
NAB	National Australia Bank Limited	5.53%
QBE	QBE Insurance Group Limited	5.24%
GMG	Goodman Group	4.56%
QAN	Qantas Airways Limited	4.31%
WBC	Westpac Banking Corporation	4.15%
MQG	Macquarie Group, Ltd.	3.82%

Source: Pendal as at 31 March 2024

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
RIO	Rio Tinto Limited	4.46%
TLS	Telstra Group Limited	4.45%
QBE	QBE Insurance Group Limited	4.12%
CSL	CSL Limited	3.98%
QAN	Qantas Airways Limited	3.92%

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
BHP	BHP Group Ltd (not held)	-9.29%
WES	Wesfarmers Limited (not held)	-3.21%
WDS	Woodside Energy Group Ltd (not held)	-2.40%
TCL	Transurban Group Ltd. (not held)	-1.70%
WOW	Woolworths Group Ltd (not held)	-1.68%

Source: Pendal as at 31 March 2024

#The Portfolio's dividend yield represents the weighted average 12-month forward-looking dividend yield of the portfolio holdings (excluding cash), as at the date of the Factsheet. Each individual security's dividend yield is calculated using market consensus Dividend Per Share (DPS) before tax and franking credits, collated by Pendal and divided by the closing market price of the security as at the date of the Factsheet. The portfolio dividend yield therefore is only an estimate, and does not reflect the actual returns of the Fund, which will be affected by market movements in the price of individual securities, the returns on other assets such as cash holdings and variances of individual security's actual dividends from the forecasted DPS.

Performance

	1 month	3 month	6 month	1 year	3 year (p.a.)	5 year (p.a.)	Since inception (p.a.)*
Pendal Sustainable Future Australian Shares Portfolio	3.03%	6.88%	17.26%	17.02%	9.36%	11.00%	10.08%
S&P/ASX 300 (TR) Index	3.26%	5.43%	14.24%	14.40%	9.43%	9.15%	8.76%
Active return	**-0.23%**	**1.46%**	**3.01%**	**2.62%**	**-0.07%**	**1.85%**	**1.32%**

Source: Pendal as at 31 March 2024
*Since Inception - 16 June 2018
Performance returns are pre-fee. Investors should contact their platform provider for applicable fee rates.
Past performance is not a reliable indicator of future performance.

Top 5 contributors - monthly

Code	Name	Value Added
GMG	Goodman Group	0.21%
QBE	QBE Insurance Group Limited	0.18%
ALQ	ALS Ltd.	0.16%
NST	Northern Star Resources Ltd	0.15%
ALL	*Aristocrat Leisure Limited (not held)*	*0.14%*

Top 5 detractors - monthly

Code	Name	Value Added
LTM	Arcadium Lithium	-0.20%
PLS	Pilbara Minerals Limited	-0.14%
TLS	Telstra Group Limited	-0.10%
NEM	*Newmont Corporation (not held)*	*-0.09%*
REA	REA Group Ltd	-0.09%

Top 5 contributors - 1 year

Code	Name	Value Added
BHP	*BHP Group Ltd (not held)*	*1.72%*
GMG	Goodman Group	1.22%
JHX	James Hardie Industries PLC	0.83%
NXT	Nextdc Limited	0.80%
XRO	Xero Limited	0.70%

Top 5 detractors - 1 year

Code	Name	Value Added
LTM	Arcadium Lithium	-1.42%
QAN	Qantas Airways Limited	-1.37%
TLS	Telstra Group Limited	-0.91%
ORA	Orora Ltd.	-0.89%
WES	*Wesfarmers Limited (not held)*	*-0.70%*

Source: Pendal as at 31 March 2024.
Underweight positions are in italics.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

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.

Overweight QBE Insurance (QBE, +7.84%)

QBE Insurance continued the strong gains made since December. The company is benefiting from twin tailwinds. At an industry level, inflation in the cost of insurance claims is rising at a lower rate than insurance premium increases. At the same time, the company is benefiting from self-help as non-core and unprofitable parts of the business are divested or run down, resulting in a higher quality company.

Overweight ALS (ALQ, +10.06%)

The view that we may be seeing an improvement in exploration activity for miners off the back of higher gold prices is supportive for ALQ, which undertakes mineral testing as part of its diverse portfolio of testing services. Later in the month it announced that it was acquiring the remaining 51% of Nuvisan Pharma that it doesn't own, at nil cost. ALQ plans to strip out costs to return the struggling business to profitability.

Three largest detractors

Overweight Arcadium Lithium (LTM, -12.63%) and Pilbara Minerals (PLS, -8.81%)

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.

Overweight Telstra (TLS, +1.05%)

Telstra made gains in late March and finished the month in positive territory, but lagged the broader market. We continue to like Telstra for its defensive qualities, underpinned by strength in its mobile phone franchise where it is winning subscribers and where pricing is linked to inflation. It continues to exercise discipline on costs and has largely returned to its role as a solid defensive yield stock, in our view.

Market outlook

Multiple data points suggest the global economy is holding up and some recent inflation indicators have come in a touch above consensus which, in combination, have seen expectations for the number and timing of rate cuts tempered markedly.

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.

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 an environment of slowing inflation and economic resilience remains broadly supportive of equity markets, 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. We are mindful of these potential risks in the portfolio's construction.

New stocks added and/or stocks sold to zero during the month

No new stocks added or sold to zero during the month.

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 Sustainable Future Australian Share Portfolio	ASX 300	Relative to ASX300
105.81	105.34	0.47

Source: ISS, Pendal holdings as at 31 March 2024. Report run on 08/11/2023 using latest ISS data. Currency AUD

[1] Scope 1 emissions result from sources directly owned or controlled by the company. Scope 2 accounts for 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/

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