

Pendal Horizon Sustainable Australian Share Fund

ARSN: 096 328 219

Factsheet

Equity Strategies

30 September 2023

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	-4.43	-4.36	-2.89
3 months	-2.92	-2.69	-0.84
6 months	0.74	1.22	0.14
1 year	11.36	12.42	12.92
2 years (p.a)	-2.61	-1.68	1.93
3 years (p.a)	7.14	8.16	10.78
5 years (p.a)	4.17	5.16	6.62
Since Inception (p.a)	7.66	8.71	7.82

Source: Pendal as at 30 September 2023

"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 30 September 2023)

Energy	0.0%
Materials	19.3%
Industrials	7.3%
Consumer Discretionary	1.5%
Consumer Staples	3.6%
Health Care	11.0%
Information Technology	7.1%
Telecommunication Services	9.8%
Utilities	0.0%
Financials ex Property Trusts	29.1%
Property Trusts	5.3%
Cash & other	6.1%

Top 10 Holdings (as at 30 September 2023)

CSL Limited	9.3%
Commonwealth Bank of Australia	6.6%
National Australia Bank Limited	6.5%
Telstra Group Limited	6.3%
Westpac Banking Corporation	4.8%
QBE Insurance Group Limited	4.6%
Xero Limited	4.6%
Qantas Airways Limited	4.4%
Rio Tinto Limited	3.9%
Fortescue Metals Group Ltd	3.5%

Signatory of:



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.responsibleinvestments.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 30 September 2023)	\$317 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
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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 2¹) 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 CO₂e / \$M revenue)

Pendal Horizon Sustainable Australian Share Fund	ASX 300	Relative to ASX300
101.71	166.66	-64.95

Source: ISS, Pendal holdings as at 30 September 2023. Report run on 06/10/2023 using latest ISS data. Currency AUD.

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

Continued resilience in the US economy has pushed out the timeline for expected rate cuts and saw expectations around the ultimate terminal rate creep up.

In combination with larger US bond supply, this pushed US ten-year bond yields up materially, weighing on equity markets in the US and around the world.

The dominant narrative of resilient global economic momentum and higher-for-longer rates continues.

The S&P 500 fell -4.9% for the month. The S&P/ASX 300 proved more resilient, helped by index composition with a greater exposure to financials and commodities, which held up relatively well. It ended down -2.89% for September.

The Energy sector (+2.23%) was the only one to rise. Higher oil prices helped Woodside Energy (WDS, -1.43%) and Santos (STO, +3.00%) outperform, while Whitehaven (WHC, +16.75%) and New Hope (NHC, +12.79%) benefited from increased coal prices.

Financials (-1.61%) generally benefit from higher rates and held up better than the broader market. National Australia Bank (NAB, +0.38%) and ANZ (ANZ, +1.30%) were the best of the large banks, while insurer QBE (QBE, +4.89%) also did well.

Real Estate (-8.54%) underperformed on broad-based weakness. The recent reporting season demonstrated the effect that higher rates was having on interest expense and earnings. Goodman Group (GMG) fell -8.18% and Scentre Group (SCG) -10.55%.

The prospect of higher-for-longer rates also weighed on Information Technology (-7.74%). Again, weakness was broad-based with the sector's largest stocks Xero (XRO, -10.13%), Wisetech (WTC, -6.29%) and NextDC (NXT, -8.49%) all down.

Fund performance

The Fund underperformed the benchmark over the month of September.

Key contributors

Overweight QBE Insurance (QBE, +4.87%)

There was little material stock-specific news for QBE Insurance, however it is likely to have benefited from a strengthened higher-rates-for-longer thematic in the market. We continue to like QBE due to a supportive pricing cycle, in which premium growth is more than offsetting claims inflation. At the same time the company continues to execute on a turnaround, divesting and running-off troubled businesses.

Overweight Pro Medicus (PME, +14.00%)

Medical imaging software company PME signed its largest ever deal, a ten-year agreement with US healthcare provider Baylor Scott & White Health (BSWH). This represents a material increase in PME's market share. The deal is fully cloud-based and includes all bundled services. It also includes an archive for cardiology which could be precursor to them winning more products in that space. The pricing appears robust and other terms in-line with other announced contracts.

Key detractors

Underweight BHP (BHP, +1.49%)

The iron ore prices continues to hold up well despite ongoing weakness in the Chinese property sector, helping support BHP. Steel production remains one of the few bright spots in the Chinese economy, with expected quota-driven curtailments not yet materialising. There is also the ongoing hope in some quarters of further stimulus to help put a floor under economic growth. BHP is excluded from the portfolio due to its coal exposure.

Overweight Qantas (QAN, -12.35%)

QAN endured a month of negative headlines and CEO Alan Joyce brought forward his retirement by two months. The company has committed to restoring its damaged brand, announcing a further \$80m investment to support customer experience in FY24, on top of the \$150m already budgeted for this area at the FY23 result. The board have also made changes to management remuneration with an increased weighting to customer metrics and greater scope for discretion around long-term incentives. While there is a lot of work for QAN to do to restore their reputation, the key issue is whether profits will be structurally impacted via flight slots being reallocated, demand affected or costs rising. The stock is trading at 25-30% below pre-pandemic value, with profits 60% higher. In our view, we see this as a large buffer of value.

Outlook

Equity markets sit at an interesting juncture after falling over the last month.

The bullish perspective is this is a period of consolidation at a seasonally weak time of year. From here, this could see US inflation and wage growth continue to slow while the economy holds up, which may mean no recession. In this case, interest rates may have peaked despite Fed rhetoric, implying that earnings are set to grow and valuation ratings rise, lifting markets higher.

The alternative, bearish case is that bond yields, the US dollar and the oil price have all been moving higher, which have historically been warning signals for the market. Higher oil prices means that inflation in the US, while softening, may not fall as fast as the market wants. There is also a risk that the delayed effects of monetary tightening will lead to the economy slowing more materially than expected, putting pressure on earnings.

Australian GDP grew 0.4% in the June quarter and 2.1% year-on-year. While in line with expectations, it highlighted some challenges for the economy.

GDP per capita fell 0.3% for the quarter given strong population growth. When it comes to company earnings aggregate spending is what counts.

Breaking down the data, quarterly growth in household consumption was weak at 0.1% quarter-on-quarter. Savings rates have fallen to 3.1% which is a cycle low.

There is growth coming from business investment, which is up 5.6% year-on-year in mining and 9.1% in non-mining sectors. Government spending remains strong at 1.8% growth quarter-on-quarter and exports grew 4.3%, helped by mining.

Employee compensation growth is strong at 1.6% quarter-on-quarter and 9.6% year-on-year. Households continue to find ways to supplement income.

Nevertheless Australia is an economy with slowing growth, reliant on government spending, business investment and commodity exports. All of which are either unsustainable or volatile and potentially leaves us vulnerable to an inflation surprise and/or a growth problem if the current environment shifts.

At the same time productivity is very weak, which may lead to profits coming under pressure, higher unemployment or more price inflation as companies pass costs on.

There have been some positive signs on China. While we have not seen a large-scale stimulus packages, there have been a slew of more targeted measures to help underpin the economy. The latest PMI activity indices may suggest the worst of activity data could now be behind us. Nevertheless the property market remains weak, although the iron ore price has remained surprisingly resilient.

In this environment we see stock selection as critical. The range of macro pathways and outcomes remains wide, in our view this means it is important to try and balance thematic risks in the portfolio. Instead we are looking for companies which offer different types of macro exposures, in combination with a company-specific opportunity for earnings growth or valuation re-rating.

In this vein, rolling twelve-month sector dispersion has fallen materially versus stock dispersion for the S&P/ASX 300 over the course of 2023, after rising for most of the previous year. This suggests an improved environment for stock picking, which we believe plays to the strengths of our team.

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 Pental's [website](#).

For more information please call 1300 346 821,
contact your key account manager or visit [pentalgroup.com](#)

PENTAL

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PFSL is the responsible entity and issuer of units in the Pental Horizon Sustainable Australian Share Fund (Fund) ARSN: 096 328 219. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting [www.pentalgroup.com](#). The Target Market Determination (TMD) for the Fund is available at [www.pentalgroup.com/ddo](#). You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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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.