

Pendal Australian Equity Fund

ARSN: 087 593 191

Factsheet

Equity Strategies

31 October 2023

About the Fund

The Pendal Australian Equity Fund (**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 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, diversification across a broad range of Australian companies and industries 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.

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.

Investment Guidelines

Ex-ante (forward looking) tracking error	2.0% - 6.0%
Min/max stock position	+/-4%
Min/max sector position	+/-8%

Other Information

Fund size (as at 31 October 2023)	\$113 million
Date of inception	August 1996
Minimum investment	\$500,000
Buy-sell spread ¹	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0055AU

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.

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	0.79% 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.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-3.35	-3.28	-3.80
3 months	-6.63	-6.45	-7.29
6 months	-4.10	-3.72	-5.41
1 year	4.68	5.51	2.51
2 years (p.a)	0.36	1.15	-0.08
3 years (p.a)	9.17	10.04	8.68
5 years (p.a)	7.44	8.29	7.15
Since Inception (p.a)	8.44	9.40	8.49

Source: Pendal as at 31 October 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: August 1996.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 October 2023)

Energy	8.1%
Materials	22.3%
Industrials	5.9%
Consumer Discretionary	4.1%
Consumer Staples	3.5%
Health Care	8.8%
Information Technology	6.6%
Telecommunication Services	8.2%
Utilities	0.0%
Financials ex Property Trusts	26.8%
Property Trusts	3.4%
Cash & other	2.3%

Top 10 Holdings (as at 31 October 2023)

BHP Group Ltd	12.5%
CSL Limited	8.2%
Commonwealth Bank of Australia	6.2%
National Australia Bank Limited	5.9%
Telstra Group Limited	5.2%
Santos Limited	5.1%
Westpac Banking Corporation	4.5%
Xero Limited	4.1%
Qantas Airways Limited	3.8%
QBE Insurance Group Limited	3.7%

Market review

Higher long-term bond yields in both the US and Australia weighed on equity markets in October.

Inflation continued to trend in the right direction in the US. However resilience in the economy, underpinned by several stronger-than-expected economic data points, saw the market shift to a “higher for longer” narrative in its outlook for interest rates.

Instability in the Middle East added to the mix, and saw sharp rallies in both gold and oil, although Brent crude finished off -8.3% for the month.

In Australia, the RBA held rates steady at 4.10%. However the headline monthly consumer price index (CPI) rose 5.6% for September, which was stronger than August’s 5.2% gain and is still well ahead of the RBA’s target. This underpinned the view that the RBA has to shift rates higher to bring inflation under control.

The S&P 500 fell -2.2% while the S&P/ASX 300 shed -3.8%.

Weakness was broad-based across the Australian market with every sector except Utilities (+1.68%) going backwards. The gains in this sector came as a result of the ACCC granting conditional authorisation for the Brookfield consortium’s proposed takeover of Origin Energy (ORG, +3.99%), although the deal still remains in doubt.

Materials (-1.19%) held up relatively well on the back of the large cap miners with BHP (BHP) up 0.56%, Rio Tinto (RIO) +3.55% and Fortescue Metals (FMG) +6.6%. The iron ore price rose a further 2.1%, defying ongoing weakness in the Chinese property sector. There is continued hope and speculation that Beijing will stimulate further to put a floor under economic growth.

It was the long-duration growth stocks and sectors which bore the brunt of higher bond yields.

Information technology (-7.36%) fell furthest as higher yields weighed on valuations. Xero (XRO, -5.11%), Wisetech (WTC, -10.59%), NextDC (NXT, -5.17%) and Altium (ALU, -8.63%) all finished the month down.

Higher yields also dragged on the growth names in Health care (-7.11%). This sector has seen additional volatility in recent months as the market grapples with the potential impact of anti-obesity GLP-1 drugs on the addressable market for various companies. Of the three largest stocks in the index, CSL (CSL) was off -7.36%, Cochlear (COH) -5.67% and Sonic Health Care (SHL) -3.52%.

Fund performance

The Fund outperformed the benchmark over the month of October.

Key contributors

Overweight Northern Star (NST, +11.76%)

The gold price rose 7.3% in October, helped by geopolitical instability, which saw the gold miners such as the portfolio’s position in Northern Star (NST) outperform. NST’s quarterly production report was among the best in the sector although it missed consensus expected production by 4%, with costs 4% higher. Management retained full year guidance, expecting better production in the second half of the year.

Underweight Liantown Resources (LTR, -45.24%)

The challenging headwind of softer lithium prices was exacerbated in Liantown’s case by the news that US miner Albermarle was withdrawing its indicative takeover offer. The company raised equity capital and negotiated a debt package to fund the Kathleen Valley lithium project in Western Australia, which is due to start production in mid-2024. The portfolio does not hold Liantown.

Key detractors

Underweight Fortescue Metals (FMG, +6.60%)

The underweight in iron ore miner Fortescue Metals dragged as the iron ore price remained resilient and the market is looking for further economic stimulus from Beijing. The portfolio owns BHP in

preference to Fortescue Metals given the high degree of uncertainty around capex and expected return for Fortescue Future Industries projects – the first of which are expected to be announced later this year.

Underweight Rio Tinto (RIO, +3.55%)

Rio Tinto outperformed as the iron ore price remains elevated and resilient despite weakness in the Chinese property sector. The market has been holding out hope for further stimulus from Beijing to support economic growth. The portfolio holds BHP in the iron ore space, which has less headwind from the need to replace production and more exposure to copper. This offset much of the drag from the underweight in Rio Tinto.

Outlook

At this point, our base case remains that both the US and Australian economies continue to “muddle through” with low growth.

The Australian economy is being supported by population growth, a weaker currency, resilient commodity prices and government spending. At this point, consumers have been able to withstand the “mortgage cliff” of variable home loans re-sets better than many feared, although there are strains in some parts of the household sector. Further, domestic real interest rates (ie nominal rates minus inflation) are lower than other developed markets.

In the US, the chance of achieving the “soft landing” of bringing inflation under control without a deep recession has increased.

However the risk of mild recession in early 2024 remains, given the potential combination of the lagged effects of tighter monetary policy, waning fiscal spending and the run-down of excess savings. Potential headwinds from higher oil prices and/or a government shutdown also remain wildcards.

The risk to Australia is more that of persistent inflation leading to the RBA ratcheting rates higher than expected in the next six months, which could lead to a market de-rating.

Other considerations are:

1. Geopolitical risk. Further instability in the Middle East could disrupt oil markets. We are also wary that Russia may seek to restrict oil supply and cause further instability in a US election year.
2. China. The economy is weak, but this is well known. At this point it appears policy will be sufficient to underpin growth, but not lead to an acceleration.

The S&P/ASX 200 is trading at around 15x next twelve month P/E. We see this as consistent with the level of interest rates. The market multiple could fall on a material shift in expectations around higher rates. Conversely, if perceived risk around the economic outlook diminished, this could support a gradual re-rating.

Consensus earnings growth for the market for the next twelve months is around zero. Industrials are expected to grow earnings in mid-to-high single digits, but this is offset by expectations of falling earnings in the resource sector.

Importantly, at this point we are not seeing any signs of economic weakness affecting revisions.

Given the context of continued uncertainty in the potential economic environment, we continue to focus portfolio risk primarily on stock and industry-specifics, rather than style or other macro thematic factors. As always, our aim is to mainly drive performance via insight at the company level.

In this vein, we note that sector-level dispersion has fallen and stock-level dispersion has risen over the course of 2023, suggesting we are possibly moving into an environment which is better for stock picking.

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

PENDAL

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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.