

#### 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](http://www.pendalgroup.com/PendalHorizonSustainableAustralianShareFund-PDS)

#### Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-4.05	-3.97	-3.80
3 months	-9.05	-8.83	-7.29
6 months	-6.01	-5.56	-5.41
1 year	0.31	1.26	2.51
2 years (p.a)	-5.11	-4.21	-0.08
3 years (p.a)	4.73	5.72	8.68
5 years (p.a)	4.81	5.81	7.15
Since Inception (p.a)	7.44	8.48	7.60

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: May 2001.

Past performance is not a reliable indicator of future performance.

#### Sector Allocation (as at 31 October 2023)

Energy	0.0%
Materials	21.3%
Industrials	7.2%
Consumer Discretionary	1.6%
Consumer Staples	3.3%
Health Care	10.9%
Information Technology	6.8%
Telecommunication Services	10.0%
Utilities	0.0%
Financials ex Property Trusts	30.3%
Property Trusts	5.2%
Cash & other	3.4%

#### Top 10 Holdings (as at 31 October 2023)

CSL Limited	9.3%
Commonwealth Bank of Australia	6.8%
National Australia Bank Limited	6.8%
Telstra Group Limited	6.7%
Westpac Banking Corporation	5.0%
Rio Tinto Limited	4.9%
QBE Insurance Group Limited	4.9%
Qantas Airways Limited	4.5%
Xero Limited	4.5%
Fortescue Metals Group Ltd	4.4%

Signatory of:



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.responsibleinvestments.com.au](http://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 31 October 2023)	\$294 million
Date of inception	May 2001
Minimum investment	\$25,000
Buy-sell spread <sup>1</sup>	0.50 (0.25%/0.25%)
Distribution frequency	Quarterly
APIR code	RFA0025AU

<sup>1</sup> 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 <sup>2</sup>	0.95% pa
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<sup>2</sup> 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<sup>1</sup>) 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)<sup>2</sup>, noting it supports greater comparability of investor reporting.

## Weighted Average Carbon Intensity (tonnes CO<sub>2</sub>e / \$M revenue)

Pendal Horizon Sustainable Australian Share Fund	ASX 300	Relative to ASX300
104.46	170.77	-66.31

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

<sup>1</sup> 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>

<sup>2</sup> Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017 <https://www.fsb-tcfd.org/recommendations/>

## 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 underperformed the benchmark over the month of October.

## Key contributors

### Overweight Evolution Mining (EVN, +8.51%)

The gold price rose 7.3% in October, helped by geopolitical instability, which saw the gold miners outperform. EVN missed consensus expectations for quarterly production, however management have retained full-year production guidance, with the September quarter always expected to be the weakest in FY24 due to maintenance issues. The Red Lake mine in Canada continues to face challenges, however Ernest Henry in Queensland has recovered from flooding issues and performed better than expectations, while the outlook for Mungari in Western Australia is also improving.

### Overweight Fortescue Metals (FMG, +6.60%)

The overweight in iron ore miner Fortescue Metals contributed as the iron ore price remained resilient and the market is looking for further economic stimulus from Beijing.

## Key detractors

### Underweight BHP (BHP, +0.56%)

Resilience in the iron ore price and a view that Beijing will do more to underpin economic growth saw BHP hold up relatively well. The company's quarterly production was in line with expectations for iron ore and copper, however metallurgical coal was weaker than expected due a number of issues including maintenance. The company confirmed the sale of its Blackwater and Daunia coal assets to Whitehaven Coal. BHP is excluded from the portfolio's investable universe due to its coal exposure.

### Overweight Allkem (AKE, -18.88%)

The exposure to lithium miner Allkem detracted as the broader sector remains under pricing pressure given an excess of material in the battery metals supply chain. That said, this drag was ore than offset by the underweight exposure to other lithium miners such as Liotown (LTR), IGO (IGO) and Pilbara Minerals (PLS). We maintain a positive medium term view on the sector and regard AKE as among the highest-quality exposures, however the supply/demand imbalance may see further near-term softness.

## 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.
- **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](http://pentalgroup.com)

**PENTAL**

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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.