

Pendal Monthly Factsheet

Pendal Australian Shares Portfolio (the Portfolio)

May 2025

Market review

The S&P/ASX 300 maintained the rebound from the lows of early April into May, as the market gained confidence that the Trump Administration is not willing to drive the US economy into recession in pursuit of its policy agenda.

Positive developments in terms of US-China trade talks and a decent US quarterly earnings season were generally supportive for markets, while a spike in concern around the US fiscal situation - prompted by Moody's downgrading the US credit rating and the passage of the "big beautiful" bill of tax cuts and reforms - provided some volatility.

The S&P/ASX 300 (TR) index returned +4.2% in May and returned to the previous February highs at the end of the month.

Domestically, it was helped by a rate cut from the RBA, accompanied by a surprisingly doveish tone the presaged further cuts.

Banks (+4.4%) were in line with benchmark, but this hid a more material divergence with Commonwealth Bank (CBA) +5.6% and National Australia Bank (NAB) +5.2% while ANZ (ANZ) was -2.8% and Westpac (WBC) -0.9%. Financials (+5.1%) were driven more by the insurers and market sensitives rather than the banks.

Large cap Resources (+3.1%) underperformed with the outlook for iron ore seen as more subdued.

Information Technology (+18.83) did best, helped by well-received results from Life360 (360, +51.9%) and Technology One (TNE, +36.8%) as well as broader strength in the global technology sector on the back of positive results and commentary from US tech stocks.

Energy (+8.7%) also outperformed on reduced concern over the risk of recession.

Defensive sectors such as Utilities (+0.3%) and Consumer Staples (+1.2%) lagged, having done well in April, while Health Care (+1.4%) was also weak on lingering concern over tariffs.

Domestic cyclicals such as Qantas (QAN, +19.9%), Nine Entertainment (NEC, +12.9%) and Seek (SEK, +14.1%) also outperformed, helped by the RBA's 25bp interest rate cut and positive signalling on future cuts, as well as Labor's election win which underpins government spending.

Portfolio overview

Investment strategy	Pendal employs a bottom up, fundamental approach to build a diversified portfolio of Australian shares where the majority of active risk and outperformance is driven by stock selection. The portfolio will focus primarily on capital growth.
Investment objective	To deliver outperformance relative to the benchmark after fees over a rolling three year period.
Benchmark	S&P/ASX 300 (TR) Index
Number of stocks	15 - 35 (35 as at 31 May 2025)
Sector limits	Australian Shares 60 - 98% Australian Property 0 - 30% Cash 2 - 10%
Dividend yield	3.19% [#]
Income target	No target

Top 10 holdings

Code	Name	Weight
CBA	Commonwealth Bank of Australia	8.27%
BHP	BHP Group Ltd	7.47%
CSL	CSL Limited	7.46%
TLS	Telstra Group Limited	6.54%
NAB	National Australia Bank Limited	6.06%
XRO	Xero Limited	4.86%
QAN	Qantas Airways Limited	3.86%
QBE	QBE Insurance Group Limited	3.79%
WBC	Westpac Banking Corporation	3.23%
ALL	Aristocrat Leisure Limited	3.12%

Source: Pendal as at 31 May 2025.

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
TLS	Telstra Group Limited	4.42%
XRO	Xero Limited	3.84%
QAN	Qantas Airways Limited	3.24%
CSL	CSL Limited	2.87%
QBE	QBE Insurance Group Limited	2.46%

Source: Pendal as at 31 May 2025.

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
WES	Wesfarmers Limited (not held)	-3.62%
CBA	Commonwealth Bank of Australia	-3.03%
TCL	Transurban Group Ltd. (not held)	-1.69%
WDS	Woodside Energy Group Ltd (not held)	-1.62%
ANZ	ANZ Group Holdings Limited	-1.62%

Source: Pendal as at 31 May 2025.

[#] The Portfolio's dividend yield represents the weighted average 12-month forward-looking dividend yield of the Portfolio's holdings (excluding cash), as at the date of this factsheet. Each individual security's dividend yield is calculated using market consensus forecast data, collated by Pendal, for dividend per share (DPS) before tax and franking credits, and divided by the closing market price of the security as at the date of this factsheet. The Portfolio dividend yield is therefore only an estimate and predictive in nature. It does not reflect the actual dividend yield of the Portfolio which will be affected by market movements in the price of the individual securities, the returns on other assets such as cash holdings and variances of an 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 Australian Shares Portfolio	5.71%	4.50%	2.24%	15.07%	9.62%	12.85%	9.91%
S&P/ASX 300 (TR) Index	4.20%	4.34%	1.64%	13.17%	9.34%	11.99%	8.57%
Active return	1.51%	0.15%	0.60%	1.90%	0.29%	0.86%	1.34%

Source: Pendal as at 31 May 2025.

*Since Inception - 15 June 2015.

Performance returns track the value of a notional portfolio and are calculated pre-fee. The performance information shown may differ from the performance of an individual investor's portfolio due to differences in portfolio construction or fees. 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
TNE	Technology One Limited	0.53%
QAN	Qantas Airways Limited	0.48%
XRO	Xero Limited	0.29%
STO	Santos Limited	0.12%
NEC	Nine Entertainment Co. Holdings Limited	0.12%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Top 5 contributors - 1 year

Code	Name	Value Added
QAN	Qantas Airways Limited	2.13%
TNE	Technology One Limited	1.50%
TLS	Telstra Group Limited	1.11%
XRO	Xero Limited	0.82%
FMG	Fortescue Ltd (<i>not held</i>)	0.81%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Top 5 detractors - monthly

Code	Name	Value Added
ALL	Aristocrat Leisure Limited	-0.19%
CSL	CSL Limited	-0.19%
TWE	Treasury Wine Estates Limited	-0.14%
WTC	Wisetech Global Ltd. (<i>not held</i>)	-0.11%
360	Life360, Inc. Shs (<i>not held</i>)	-0.09%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Top 5 detractors - 1 year

Code	Name	Value Added
MIN	Mineral Resources Limited	-0.98%
VEA	Viva Energy Group Ltd. (<i>not held</i>)	-0.84%
CBA	Commonwealth Bank of Australia	-0.82%
CSL	CSL Limited	-0.78%
STO	Santos Limited	-0.76%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

Overweight Technology One (TNE, +36.8%)

TNE delivered a strong 1H25 result, beating revenue and earnings estimates. Management upgraded guidance from 12-16% to 13-17% profit before tax (PBT) growth as they continue to migrate from a historical target of 10-15% to 15-20% annual growth. However, guidance still looks conservative based on a very strong 1H, in our view. The Rule of 40 measure continues to improve, with revenue growth plus free cash flow margin at 45.5% for the last twelve months.

Overweight Qantas (QAN, +19.9%)

Qantas had sold off in April on concerns over the risk of US recession and global contagion dragging on travel demand - despite the ongoing strength in domestic airline demand. It rebounded in April as these concerns receded, coupled with positive market commentary around QAN, noting the benefits of rationality and resilient demand in the domestic airlines industry as well as the tailwind of lower oil prices.

Overweight Xero (XRO, +12.2%)

XRO delivered a good result with management demonstrating solid execution and the ability to invest within a well-defined capital allocation framework. Headline numbers were mixed; revenue met expectations, subscriptions and cash flow beat expectations, while EBITDA was a small miss. However the market picked up on some positive signals, such as investment in the International market starting to pay off with accelerating growth in net subscriber additions.

Three largest detractors

Overweight Aristocrat Leisure (ALL, -6.0%)

ALL fell after a disappointing 1H25 result. Earnings were revised down due to softer-than-expected sales of gaming machines as well as a decline in fee-per-day in its high margin Participation business. Management attributed the shortfall in sales to customers holding off on purchases ahead of the release of their new Baron cabinet and is guiding for a return to strong growth in 2H25. On the positive side, the Social Casino business delivered stronger revenue and margin performance than expected. In addition, post-result ALL resumed its share buyback. We remain positive on ALL; it has market leadership in its industry, with substantial free cash flow generation and should deliver 10% annualised EPS growth on a sustained basis.

Overweight CSL (CSL, -1.7%)

Uncertainty around the tariff and trade regime for pharmaceuticals in US - including tariffs and most favoured nation pricing - weighed on CSL in May. CSL is in a relatively strong position in that it has manufacturing capability in the US. Should the worst-case scenario on tariffs emerge, it can accelerate already-planned capex to increase production capacity there. The core business continues to perform strongly, the company is improving margin and has a renewed focus on cost control. We believe current uncertainties are overdone in the share price, which looks attractive value.

Overweight Treasury Wine Estates (TWE, -5.6%)

TWE announced that the CEO had resigned and would be replaced by an experienced liquor industry executive. Although the company stated that the CEO's departure was his own decision and had been flagged to the Board six months ago, it heightened existing investor anxiety about recent weak performance from TWE's US wine business. TWE has faced a large number of headwinds this year but the share price has overreacted, in our view. The company will soon provide a comprehensive trading update which will give some guidance on the outlook for FY26 and detail the proactive measures the company is taking, including potential capital management.

Outlook

The outlook for tariffs still remains clouded. There is a decent chance that the US Court of International Trade's ruling that the reciprocal and border control/fentanyl-related tariffs are not legal could be upheld by the US Supreme Court.

However tariffs remain in place while that process plays out. At the same time, there are other avenues under the Trade Act that the Trump Administration can pursue.

In our view, they remain a key part of the Administration's five-pronged approach to re-industrialising the US economy and we should assume that they will find a way to apply them.

However the ultimate scale will depend on the ongoing negotiations between the US and other countries - and this remains a source of uncertainty.

On the positive side, the Administration has signalled that they are unwilling to drive the US economy into recession in pursuit of their agenda. The US earnings season and macro data suggests the economy continues to hold up well - although there is risk of deceleration. The "big, beautiful" bill progressing through congress also contains near-term stimulus measures which can help offset tariff-induced weakness.

In Australia, the most recent inflation data was broadly in line with expectations, while retail sales were a bit soft (-0.1% month-on-month, possibly tied to the election) which helps underpin expectations for further RBA cuts.

The July meeting remains live for a cut, with the market at 60% probability, with two more cuts expected by year end.

Overall, the rebound in May means that Australian equities have returned to the top end of its historical valuation band at around 18x price/earnings, which limits the valuation-driven upside from here and means the market will be earnings driven.

The positive here is FY26 earnings-per-share growth is currently expected to be 6.9% (for the S&P/ASX 200), with resources finally no longer being a headwind.

The current valuation rating does make the market vulnerable to a deterioration in earnings. This looks unlikely in the next few months, however, given the solid economic outlook and supportive fiscal and monetary policy.

Aggregate bank valuations remain at extreme levels, with the sector trading at almost four standard deviations above long-term price-to-earnings (P/E) and price-to-pre-provision-profit levels.

However the bulk of this is now the CBA premium over the rest of the big four banks - this has reached record levels at 13 P/E points (23x versus 15x for the other "Big Three") and is the best representation of the distorting effects of index weights.

We remain underweight the banks - however we are mindful of the liquidity and flow factors which continue to underpin valuation here and so are careful in sizing this position and managing the thematic risk elsewhere in the portfolio.

At this point uncertainty around the timing and nature of trade deals, the economic impact, and other factors such as tax and rate cuts to offset any slowdown all remains elevated. This warrants against taking large thematic positions in the portfolio and emphasises the importance we place on managing macro risk.

At the same time, increased uncertainty increases the chance of mis-pricing at the stock level, potentially presenting new opportunities to add medium-term alpha. We believe this plays to the strength of our team and process and have been selectively adding to positions in the portfolio.

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

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

For more information contact your
key account manager or visit pendalgroup.com

PENDAL

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