

Pendal Monthly Factsheet

Pendal Australian Tax Effective Income 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 cyclical 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 focuses on both capital growth and delivering higher than market yield with a particular consideration for CGT.
Investment objective	To deliver outperformance relative to the benchmark after fees on a rolling three year period while delivering a higher gross yield than the market.
Benchmark	S&P/ASX 300 (TR) Index
Number of stocks	15 - 35 (32 as at 31 May 2025)
Sector limits	Australian Shares 60 - 98%, Australian Property 0 - 30%, Cash 2 - 10%
Dividend yield	3.47% [#]

Top 10 holdings

Code	Name	Weight
CBA	Commonwealth Bank of Australia	8.95%
BHP	BHP Group Ltd	8.11%
CSL	CSL Limited	7.16%
TLS	Telstra Group Limited	6.77%
NAB	National Australia Bank Limited	6.60%
XRO	Xero Limited	4.35%
QAN	Qantas Airways Limited	4.27%
WBC	Westpac Banking Corporation	3.85%
QBE	QBE Insurance Group Limited	3.19%
RIO	Rio Tinto Limited	3.00%

Source: Pendal as at 31 May 2025.

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
TLS	Telstra Group Limited	4.65%
QAN	Qantas Airways Limited	3.65%
XRO	Xero Limited	3.34%
CSL	CSL Limited	2.57%
MPL	Medibank Private Ltd.	2.31%

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	-2.36%
TCL	Transurban Group Ltd. (not held)	-1.69%
WDS	Woodside Energy Group Ltd (not held)	-1.62%
WOW	Woolworths Group Ltd (not held)	-1.49%

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 Tax Effective Income Portfolio	4.71%	4.32%	2.47%	12.73%	8.46%	12.46%	9.65%
S&P/ASX 300 (TR) Index	4.20%	4.34%	1.64%	13.17%	9.34%	11.99%	9.61%
Active return	0.51%	-0.02%	0.83%	-0.44%	-0.88%	0.47%	0.04%

Source: Pendal as at 31 May 2025

*Since Inception - 14 September 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
QAN	Qantas Airways Limited	0.50%
XRO	Xero Limited	0.25%
NEC	Nine Entertainment Co. Holdings Limited	0.12%
STO	Santos Limited	0.11%
ORI	Orica Limited	0.10%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Top 5 detractors - monthly

Code	Name	Value Added
CSL	CSL Limited	-0.16%
ALL	Aristocrat Leisure Limited	-0.12%
RIO	Rio Tinto Limited	-0.12%
<i>TNE</i>	<i>Technology One Limited (not held)</i>	<i>-0.12%</i>
<i>WTC</i>	<i>Wisetech Global Ltd. (not held)</i>	<i>-0.11%</i>

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	2.08%
TLS	Telstra Group Limited	1.20%
XRO	Xero Limited	0.67%
MPL	Medibank Private Ltd.	0.41%
SUN	Suncorp Group Limited	0.41%

Source: Pendal as at 31 May 2025.

Underweight positions are in *italics*.

Top 5 detractors - 1 year

Code	Name	Value Added
<i>VEA</i>	<i>Viva Energy Group Ltd. (not held)</i>	<i>-1.00%</i>
MIN	Mineral Resources Limited	-0.97%
CSL	CSL Limited	-0.64%
STO	Santos Limited	-0.59%
<i>WES</i>	<i>Wesfarmers Limited (not held)</i>	<i>-0.57%</i>

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 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.

Overweight Nine Entertainment (NEC, +12.9%)

NEC was among several more cyclical exposures which underperformed in April, but staged a strong rebound in May as concerns over a tariff-induced recession faded. At the same time the RBA cut rates and a clear Federal election result suggested further government spending - both supportive factors for the domestic economy.

Three largest detractors

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 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 Rio Tinto (RIO, -3.8%)

The outlook for iron ore demand remains subdued, while China's stimulus efforts seen as more likely to focus on stimulating consumer demand rather than boost construction activity. The iron ore price subsided -1.6% over the month, weighing on RIO. The company also surprised the market with the announcement that the CEO will be stepping down after just four years in the job.

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 a round 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

This factsheet has been prepared by Pendal Institutional Limited ABN 17 126 390 627, AFSL 316455 (**Pendal**) and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

This factsheet relates to the Pendal Australian Tax Effective Income Portfolio, a notional portfolio of assets constructed and managed by Pendal (the **Portfolio**). Descriptions relating to the investment strategy, investment process and approach of the Pendal Australian Tax Effective Income Portfolio are in respect of the notional portfolio and references to "Portfolio" are to the notional portfolio.

Performance figures are shown gross of fees and are calculated by tracking the value of the notional portfolio. Past performance is not a reliable indicator of future performance.

The portfolio composition for any individual investor may vary and the performance information shown may differ from the performance of an individual investor's portfolio. This may occur due to factors such as differences in the buy and sell spreads of investments compared to the notional portfolio, fees, income elections and any personal investment preferences of the investor which may result in portfolio composition differences between the investor's portfolio and the notional portfolio.

Any projections contained in this factsheet are predictive and should not be relied upon when making an investment decision or recommendation. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the projections may be based on incorrect assumptions or may take into account known or unknown risks or uncertainties. The actual results may, therefore, differ materially from these projections.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their or their clients' individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither Pendal nor any company in the Perpetual group accepts any responsibility or liability for the accuracy or completeness of this information.