PENDAL

Factsheet

Pendal Focus Australian Share Fund

Equity Strategies

ARSN: 113 232 812

30 September 2024

About the Fund

The Pendal Focus Australian Share Fund (**Fund**) is an actively managed concentrated portfolio of Australian shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes), that significantly exceeds the S&P/ASX300 (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 from a concentrated portfolio of primarily 15-30 Australian shares 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.

Fund Positioning

The Fund is designed to complement a conventional, core share portfolio by providing satellite exposure to selected Australian equities with the potential for performance enhancement.

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.

Other Information

Fund size (as at 30 September 2024)	$1,975 million
Date of inception	April 2005
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Half-yearly
APIR code	RFA0059AU

[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 tracking error	3.0% - 6.0%
Max absolute stock position	15%
Min/max sector position relative to index	+/- 15%
Min/Max BARRA style factors	+/- 0.5 SD
SIRA style factors	Within 1 SD
Maximum cash level	30%
Shorting	No
Borrowing	No

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	3.74	3.80	3.07
3 months	7.98	8.18	7.81
6 months	7.70	8.10	6.52
1 year	21.86	22.77	21.69
2 years (p.a)	17.63	18.51	17.21
3 years (p.a)	8.00	8.80	8.13
5 years (p.a)	9.47	10.41	8.29
Since Inception (p.a)	9.47	10.53	8.06

Source: Pendal as at 30 September 2024

"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: April 2005.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 30 September 2024)

Energy	4.8%
Materials	18.2%
Industrials	6.5%
Consumer Discretionary	3.3%
Consumer Staples	2.4%
Health Care	9.8%
Information Technology	7.1%
Telecommunication Services	8.4%
Utilities	0.0%
Financials ex Property Trusts	27.2%
Property Trusts	4.8%
Cash & other	7.4%

Top 10 Holdings (as at 30 September 2024)

BHP Group Ltd	10.0%
CSL Limited	8.3%
Commonwealth Bank of Australia	6.8%
Telstra Group Limited	6.0%
Westpac Banking Corporation	5.9%
National Australia Bank Limited	5.7%
Xero Limited	4.2%
Qantas Airways Limited	4.2%
Santos Limited	3.5%
Goodman Group	3.4%

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]	0.75% pa
Performance fee[3]	15% of the Fund's performance (before fees) in excess of the performance hurdle.

[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.

[3] This is the fee we charge if the Fund's investment performance exceeds its performance hurdle, and any performance deficit has been recouped. The Fund's performance fee is 15% of the Fund's performance in excess of the performance return hurdle. The performance hurdle is the performance of the Fund's benchmark (S&P/ASX 300 (TR) Index) plus the management fee of 0.75% pa. If a performance fee is payable, it is charged in addition to the management fee. The performance fee is calculated in dollar terms each Business Day based on the investment performance and value of the Fund on that day. If we are entitled to a performance fee, it is paid to us as at 30 June each year.

Market review

The US Federal Reserve began its much-anticipated easing cycle in September with a 50bp reduction in interest rates.

Australia lags the rest of the developed world in terms of its path of inflation and potential rate cuts. However the increasing confidence that the US will avoid recession and achieve a soft-landing provided a benign backdrop for equity markets and the S&P/ASX 300 gained 3.07%.

Late in the month, policy announcements in China sparked hopes of a material pivot towards providing more economic support for a weakening economy. There were several monetary policy measures including cuts to bank reserve requirement ratios and mortgage rates as well as capital injections into banks.

There was also talk of a fiscal injection in the order of US$2 trillion, although no details had been forthcoming as at the month's end.

This prompted a swift rotation within the Australian market, with the Resource sector unwinding some of the material underperformance of banks over the year to date.

Materials (+12.95%) was the best performing sector as a result of China's announcements. Gains were broad-based with BHP (BHP, +15.94%), Rio Tinto (RIO, +15.76%), Fortescue (FMG, +19.41%) and South32 (S32, +21.77%) all recording sharp rises.

Information Technology (+7.21%) also outperformed. Wisetech (WTC, +15.50%), the largest stock in the sector, was a key driver as it continued to rise in the wake of a well-received result in August. However Xero (XRO, +4.62%), NextDC (NXT, +3.24%) and Technology One (TNE, +4.15%) also outperformed.

Health Care (-2.97%) underperformed as conviction in a US soft-landing grew, prompting some rotation away from cyclicals. CSL (CSL, -6.12%), ResMed (RMD, -2.10%) and Cochlear (COH, -5.40%) were all soft, while Pro Medicus (PME, +18.45%) bucked the sector's trend.

Consumer Staples (-1.65%) also lagged, dragged down by soft months from Woolworths (WOW, -4.07%) and Coles (COL, -2.22%) as the ACCC announced its was commencing proceedings over allegedly misleading pricing practices.

Fund performance

The Fund outperformed the benchmark over the month of September. The position in Qantas (QAN) helped as the market continues to gain confidence in the sustainability of its profit uplift in the post-Covid era. The underweight in banks was also beneficial given the swift rotation from that sector to resources late in the month. The portfolio position in Mineral Resources (MIN) was helped by the latter, although the announcement of approval for an asset sale and a cut to cost for FY25 also bolstered sentiment at a stock-specific level. Some of the portfolio's more defensive exposures underperformed as sentiment towards cyclicals improved.

Key contributors

Overweight Qantas (QAN, +10.58%)

QAN traded well following its FY24 result delivered late in August. Profit before tax was lower than FY23, as expected, but remains well above pre-Covid levels. Cash flow was better than expected, allowing management to continue the buyback programme and potentially re-start dividends in 2H FY25, even while upgrading the fleet. Comments on the outlook for Fy25 were positive. QAN has substantial further upside, in our view, with earnings growth and capital management all underpinned by a supportive domestic travel industry.

Overweight Mineral Resources (MIN, +29.61%)

The lithium sector was buoyed by the news that a Chinese EV battery maker had suspended mine production. MIN also announced it received FIRB approval for its road infrastructure sell down, worth $1.1bn, and that it is cutting both capex and opex in FY25 in response to the drop in lithium and iron ore prices. The move provided welcome relief given the stretched balance sheet position, although deleveraging will still not begin until 1H CY25.

Underweight Wesfarmers (WES, -1.53%)

WES continued to fall in the wake of its earnings result. FY24 was in-line with expectations, but the trading update for FY25 disappointed the market, with Kmart, Bunning and Officeworks all seeing revenue growth in the 3-4% range for the first eight weeks of FY25. As a result, consensus expectations of full-year profit growth have been tempered from 9% to 4%.

Key detractors

Overweight CSL (CSL, -6.12%)

Health care stocks generally traded lower over the month as sentiment became more positive around the outlook for cyclicals. We retain a positive view on CSL. Its FY24 result demonstrate that its core Behring business remains a powerhouse, delivering on margin expansion with more to come. We expect the company to deliver double digit earnings-per-share (EPS) growth through to 2030, implying valuation upside.

Underweight Fortescue (FMG, +19.41%)

China's policy announcement saw a surge in resource stocks including iron ore miner FMG. The portfolio is underweight this stock, but does own BHP (BHP) and Rio Tinto (RIO), in part due to greater clarity around their capex and return profiles. These positions helped offset some of the drag from this underweight.

Overweight Telstra (TLS, -1.27%)

TLS consolidated following the gains made since June. The announcement on a new pricing structure in July, coupled with comments from Optus about improving returns, have allayed market fears of a potential price war in the mobile phone segment. We think that a supportive industry structure in mobile, coupled with recent moves to stem and repair other underperforming parts of the business, underpin a pathway for TLS to growth earnings for an extended period of time.

Outlook

The notion that the Fed will achieve a soft-landing of the US economy despite the severity of its rate-hiking cycle continues to take hold. This provides a benign backdrop for markets as the risk of a recession – and consequential hit to corporate earnings – is diminished.

Australia is lagging the US in terms of bringing inflation under control to the point where the RBA can start cutting rates. However macro datapoints and reports from companies indicate that the economy continues to hold up reasonably well. Again, this is generally supportive for equities.

There is the potential for some near-term market volatility related to US Presidential election.

At a broader thematic level, Harris is seen to represent the status quo and therefore a limited change in the market's outlook. There is the potential that the Democrats may become more fiscally disciplined post a victory, given the scale of the budget deficits. However, there is little evidence of this and the allure of using monetary accommodation to fund fiscal spending has become strong for both sides. The potential for corporate tax increases represents the main risk with Harris.

Trump's planned tariff increases are seen to be more negative for bonds given the inflationary consequences, although this may impact on homebuilders and other rate sensitive stocks. The offset to this could be the potential lower corporate tax and de-regulation, which through higher growth generate more earnings upside for the market.

Possibly the greatest election-related risk is that of no clear outcome from the November election. Given the rhetoric and polarisation leading up to the election, a close result on the day could lead to a period of poll re-counts in voting districts and states, potentially exacerbated by legal challenges.

The risk is this leads to a prolonged period of uncertainty without a clear winner, which we expect would be poorly received by markets – and particularly for risk assets.

The composition of the Presidency and the U.S. Congress also has a material impact on the longer-term election outcome. A split Congress - which is currently expected with the Senate going to Republicans and the House to Democrats - would significantly restrict any policy objectives of either of the Presidential candidates. The markets prefer this option to a clean sweep for either side, as it prevents any radical departure from the current situation.

Beyond this, we expect that the start of the Fed cutting cycle is an indicator of the gradual normalisation of macro risk.

The Covid and post-Covid period has been characterised by an unusually high degree of macro-related risk associated with economic and market impact of the pandemic, the policy response, the inflationary pressures, the historically sharp tightening of monetary conditions to contain it and the risk of recession that ensued.

Looking forward, we expect a reduction in macro risk and the possibility of extreme outcomes, as inflation comes under control, the risk of recession is reduced, and the scale of a potential downturn lessens and the outlook for rates becomes more predictable.

There is a strong argument that this should, in turn, lead to an environment where fundamentals play a greater role in driving stocks, which plays to the strength of our approach.

For more information please call 1300 346 821,
contact your key account manager or visit pendalgroup.com

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