Factsheet

Equity Strategies

31 October 2024

Pendal Focus Australian Share Fund

ARSN: 113 232 812

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 31 October 2024)	$1,943 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 Return
	(post-fee)	(pre-fee)	
1 month	-0.88	-0.82	-1.30
3 months	2.47	2.66	2.19
6 months	9.27	9.68	8.30
1 year	25.32	26.25	24.86
2 years (p.a)	13.62	14.47	13.13
3 years (p.a)	7.54	8.34	7.62
5 years (p.a)	9.23	10.17	8.09
Since Inception (p.a)	9.38	10.43	7.95

Source: Pendal as at 31 October 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 31 October 2024)

Energy	4.7%
Materials	17.9%
Industrials	6.8%
Consumer Discretionary	4.0%
Consumer Staples	3.1%
Health Care	10.3%
Information Technology	7.7%
Telecommunication Services	8.5%
Utilities	0.0%
Financials ex Property Trusts	28.5%
Property Trusts	5.2%
Cash & other	3.5%

Top 10 Holdings (as at 31 October 2024)

BHP Group Ltd	9.6%
CSL Limited	8.7%
Commonwealth Bank of Australia	7.3%
Telstra Group Limited	6.0%
National Australia Bank Limited	6.0%
Westpac Banking Corporation	6.0%
Xero Limited	4.7%
Qantas Airways Limited	4.2%
Aristocrat Leisure Limited	4.0%
Santos Limited	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 narrative of a soft landing in the US sustained equity market gains into the first half of October.

However the market increasingly appeared to be pricing in a Trump win, with US ten-year government bond yields rising 50bps over the course of the month on concerns over the potentially inflationary impact of his policy platform.

Higher bond yields ultimately began to weigh on equities, which retreated from mid-October's all-time high. The S&P/ASX 300 ended down -1.30% for the month, while the S&P 500 fell -1.0% in USD terms. Equity market volatility was also elevated ahead of the US election.

Most sectors finished down for the month.

The rotation from banks to resources on the back of China's stimulus package petered out and then reversed, as hopes of further policy detail and a potential fiscal element were disappointed.

Commodity prices were generally down as a result. Iron ore ended -7.3% lower while copper was off -3.0%. Oil prices were volatile due to escalating conflict in the Middle East, but ultimately Brent Crude only ended up 1.9%.

Financials (+3.25%) was one of the few sectors that ended in positive territory as the previous month's rotation reversed. All four major banks made gains, led by Commonwealth Bank (CBA, +5.4%) and National Australia Bank (NAB, +3.9%). QBE (QBE, +4.1%) did best among the insurers.

Health Care (+0.68%) also bucked the weaker trend, helped by gains from ResMed (RMD, +5.6%) and Pro Medicus (PME, +9.3%).

Utilities (-7.23%) fell furthest. APA Group (APA, -10.2%) was sold down after it issued disappointing FY25 guidance. A sell-side downgrade weighed on AGL Energy (AGL, -11.41%).

Consumer Staples (-6.89) also underperformed, in disappointing updates from Woolworths (WOW, -10.03%), Coles (COL, -2.60%) and Metcash (MTS, -14.53%).

Fund performance

The Fund outperformed the benchmark in October. There was a mix of drivers from different parts of the portfolio.

On the cyclical side, Qantas continued it good run following a well-received FY24 result which demonstrates that industry fundamentals remain supportive. At the same time, it continues to address and rectify issues that arose in 2023.

Gold miner Evolution, insurer QBE and gaming company Aristocrat all made positive contributions. Within the tech space the position in Xero – and not owning Wisetech – was beneficial.

Metcash detracted, although there was some offset from not owning Woolworths, while the modest bank underweight also dragged. The position in Mineral Resources also underperformed.

Key contributors

Overweight Qantas (QAN, +8.89%)

QAN's AGM trading update demonstrated that the domestic demand environment remains robust. Management upgraded guidance for revenue yield growth and lowered expected fuel expense due to a drop in jet fuel prices. The combined upside from these two items is about $230m, in our view, compared to consensus earnings of $2.3bn for FY25.

Overweight Evolution Mining (EVN, +12.93%)

EVN reported its best quarterly in a couple of years. Key positives included; de-gearing and further balance sheet improvement, Alaska's Red Lake had first positive cash flow result since Q3 FY21, and the Mungari mill expansion is tracking slightly ahead of schedule. The result clearly benefits from the shift in gold prices, but it also reflects more conservatism from management with respect to guidance.

Underweight Woolworths (WOW, -10.03%)

WOW downgraded estimated 1H FY25 Australian Food EBIT guidance, driven by margin pressure as customers trade down and eCommerce growth continues. Looking forward, the group expects customers to remain value-conscious as cost-of-living pressures persist for the remainder of FY25. This has resulted in consensus EPS downgrades of 9% for FY25 and 5% for FY26 and FY27.

Key detractors

Overweight Metcash (MTS, -14.53%)

MTS provided a profit update for 1H25 8% lower than consensus, leading to downgrades of closer to 10% for FY25. This is due to weakness in hardware sales, related to housing market weakness, which has resulted in material operating deleverage, given Metcash's exposure to retail in this segment. Metcash's Food and Liquor distribution business continues to perform in line with expectations in what is also a challenging environment.

Underweight Commonwealth Bank (CBA, +5.44%)

September's rotation from banks to resources petered out and then reversed in October as conviction in the China stimulus story waned. The portfolio is underweight in CBA and has a modest underweight in the bank sector, which detracted. There was some offset from the positions in National Australia Bank and Westpac as well as from the holding in insurer QBE Insurance.

Underweight ANZ (ANZ, +2.20%)

September's rotation from banks to resources petered out and then reversed in October as conviction in the China stimulus story waned. The portfolio is underweight in ANZ and has a modest underweight in the bank sector, which detracted. There was some offset from the positions in National Australia Bank and Westpac as well as from the holding in insurer QBE Insurance.

Outlook

The broad market backdrop of inflation trending down and economic growth slowing, but not stalling, remains supportive for equities.

That said, the outcome of the US election may drive some near-term volatility – particularly if results are contested and the process of determining a winner becomes protracted.

The Fed appears comfortable with the current trajectory of inflation and its focus has shifted to supporting labour markets, which have been softening. This means the Fed has shifted to an easing bias, which provides further economic support and diminishes the risk of an earnings recession.

Australian inflation is heading in the right direction, but is lagging most of the developed world and seems too high for the RBA to contemplate cutting rates yet. Nevertheless, the economy remains in reasonable shape, helped by consumer spending, particularly among older cohorts. There are signs that consumption is slowing under cost-of-living pressures, however lower inflation, tax cuts and continued wage growth may help ease this pressure.

Recent updates are demonstrating a wider dispersion in outlooks for different companies and parts of the market. For example companies with exposure to Europe, or to domestic housing construction, are seeing headwinds. Other areas, such as domestic travel and mining services, are doing well.

Overall, S&P/ASX 200 consensus earnings-per-share are currently expected to fall -1.1% in FY25, however this is largely driven by resources (-10.4%), while industrials (ex-financials) are currently at 6.6% EPS growth.

The potential for further Chinese policy measures – potentially in the wake of the US election – may change the current negative sentiment around resources.

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

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