

PENDAL

Pendal MidCap Fund

ARSN: 130 466 581

Factsheet

Equity Strategies

30 September 2023

About the Fund

The Pendal MidCap Fund (**Fund**) is an actively managed portfolio of Australian mid cap shares.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Pendal MidCap Custom 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 portfolio of primarily 40-60 Australian mid cap shares and are prepared to accept higher variability of returns. Pendal defines the mid cap universe to include companies ranked between 51 and 150 of the S&P/ASX 200 Index. The Fund may also invest in equivalent companies listed on the New Zealand Stock Exchange, 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).

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

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.

Investment Team

Pendal's Equity team is headed up by Crispin Murray who has extensive experience and a strong record in equities research. The Fund is managed by Brenton Saunders.

A combination of the Australian equities large cap and small cap teams' research is used to construct the Pendal MidCap Fund.

Investment Guidelines

Investable universe	ASX and NZX listed and soon to be listed companies; derivatives; cash
Investment ranges	Australian shares 80 - 100% New Zealand shares 0 - 10% Cash 0 - 20%
Ex-ante tracking error	3 – 8%
Number of stocks	Typically 40 – 60
Absolute stock position	15%
Maximum active stock position	+/- 5% ¹
Maximum active sector position relative to index	+/- 10% ¹

¹ compared to benchmark.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-4.07	-4.00	-4.17
3 months	-1.91	-1.69	-1.73
6 months	0.95	1.41	0.74
1 year	10.93	11.93	10.71
2 years (p.a)	-0.54	0.36	-1.42
3 years (p.a)	8.54	9.52	9.02
5 years (p.a)	5.31	6.27	6.08
Since Inception (p.a)	9.15	10.94	6.30

Source: Pendal as at 30 September 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: June 2008.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 30 September 2023)

Energy	6.8%
Materials	23.7%
Industrials	13.5%
Consumer Discretionary	10.3%
Consumer Staples	5.9%
Health Care	4.8%
Information Technology	7.7%
Telecommunication Services	6.6%
Utilities	0.0%
Financials ex Property Trusts	9.1%
Property Trusts	5.7%
Cash & other	5.9%

Top 10 Holdings (as at 30 September 2023)

Carsales.Com Limited	4.2%
Allkem Limited	3.9%
Viva Energy Group Ltd.	3.7%
Metcash Limited	3.3%
Seven Group Holdings Limited	3.0%
Worley Limited	2.9%
Technology One Limited	2.8%
Pro Medicus Limited	2.8%
Premier Investments Limited	2.8%
Nextdc Limited	2.7%

Other Information

Fund size (as at 30 September 2023)	\$358 million
Date of inception	June 2008
Minimum investment	\$25,000
Buy-sell spread ²	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0313AU

² 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.

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 ³	0.90% p.a.
Performance fee ⁴	20% of the Fund's performance (before fees) in excess of the performance hurdle

³ 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.

⁴ 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 20% of the Fund's performance in excess of the performance return hurdle. The performance hurdle is the performance of the Fund's benchmark (Pental MidCap Custom Index) plus the management fee of 0.90% 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.

Fund manager commentary

Continued resilience in the US economy has pushed out the timeline for expected rate cuts and saw expectations around the ultimate terminal rate creep up.

In combination with larger US bond supply, this pushed US ten-year bond yields up materially, weighing on equity markets in the US and around the world.

The dominant narrative of resilient global economic momentum and higher-for-longer rates continues.

The S&P/ASX 51-150 fell -4.17% for the month.

The Energy sector (+8.52%) was the only one to shine. Higher coal prices pushed up Whitehaven Coal (WHC, +16.75%) and New Hope Corporation (NHC, +12.79%) while uranium miner Paladin Energy (PDN) was up 30.18%.

Health Care (+0.07%) rose largely on the back of strength in Pro Medicus (PME) which was up 14.00% on a new contract win.

Real Estate (-8.54%) underperformed on broad-based weakness driven in part by higher bond yields. The recent reporting season demonstrated the effect that higher rates was having on interest expense and earnings. Vicinity Centres (VCX) fell -9.36% and Lendlease (LLC, -8.07%)

Consumer Discretionary (-7.16%) was also weak pretty much across the board, with larger names IDP Education (IEL, -12.51%), JB Hi-Fi (JBH, -0.55%) and Domino's Pizza (DMP, -1.61%) all losing ground.

The portfolio was slightly ahead of its index in September. There were solid contributions from the position in NexGen Energy (NXG, +17.95%), from the mining service and contracting exposures in Seven Group (SVW, +12.30%) and Ventia (VNT, +12.30%) as well

as from medical imaging software company Pro Medicus (PME, +14.00%) which signed its largest ever deal, a ten-year agreement with US healthcare provider Baylor Scott & White Health (BSWH). This represents a material increase in PME's market share. The deal is fully cloud-based and includes all bundled services. It also includes an archive for cardiology which could be precursor to them winning more products in that space. The pricing appears robust and other terms in-line with other announced contracts.

The largest drags came from gold miner De Grey Mining (DEG, -22.03%) and lithium miner Allkem (AKE, -16.24%)

Equity markets sit at an interesting juncture after falling over the last month.

The bullish perspective is this is a period of consolidation at a seasonally weak time of year. From here, this could see US inflation and wage growth continue to slow while the economy holds up, which may mean no recession. In this case, interest rates may have peaked despite Fed rhetoric, implying that earnings are set to grow and valuation ratings rise, lifting markets higher.

The alternative, bearish case is that bond yields, the US dollar and the oil price have all been moving higher, which have historically been warning signals for the market. Higher oil prices means that inflation in the US, while softening, may not fall as fast as the market wants. There is also risk that the delayed effects of monetary tightening will lead to the economy slowing more materially than expected, putting pressure on earnings.

Australian GDP grew 0.4% in the June quarter and 2.1% year-on-year. While in line with expectations, it highlighted some challenges for the economy.

GDP per capita fell 0.3% for the quarter given strong population growth. When it comes to company earnings aggregate spending is what counts.

Breaking down the data, quarterly growth in household consumption was weak at 0.1% quarter-on-quarter. Savings rates have fallen to 3.1% which is a cycle low.

There is growth coming from business investment, which is up 5.6% year-on-year in mining and 9.1% in non-mining sectors. Government spending remains strong at 1.8% growth quarter-on-quarter and exports grew 4.3%, helped by mining.

Employee compensation growth is strong at 1.6% quarter-on-quarter and 9.6% year-on-year. Households continue to find ways to supplement income.

Nevertheless Australia is an economy with slowing growth, reliant on government spending, business investment and commodity exports. All of which are either unsustainable or volatile and potentially leaves us vulnerable to an inflation surprise and/or a growth problem if the current environment shifts.

At the same time productivity is very weak, which may lead to profits coming under pressure, higher unemployment or more price inflation as companies pass costs on.

There have been some positive signs on China. While we have not seen a large-scale stimulus packages, there have been a slew of more targeted measures to help underpin the economy. The latest PMI activity indices may suggest the worst of activity data could now be behind us. Nevertheless the property market remains weak, although the iron ore price has remained surprisingly resilient.

In this environment we see stock selection as critical. The range of macro pathways and outcomes remains wide, in our view this means it is important to try and balance thematic risks in the portfolio. Instead we are looking for companies which offer different types of macro exposures, in combination with a company-specific opportunity for earnings growth or valuation re-rating.

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.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

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

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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.

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