Pendal MidCap Fund

ARSN: 130 466 581

Factsheet

Equity Strategies

31 August 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.63	-0.55	-1.36
3 months	3.48	3.72	3.17
6 months	3.33	3.79	3.55
1 year	6.71	7.67	5.09
2 years (p.a)	-0.05	0.85	0.20
3 years (p.a)	9.17	10.15	9.29
5 years (p.a)	6.32	7.28	6.89
Since Inception (p.a)	9.50	11.30	6.64

Source: Pendal as at 31 August 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 31 August 2023)

Energy	5.9%
Materials	24.4%
Industrials	12.2%
Consumer Discretionary	9.4%
Consumer Staples	5.8%
Health Care	4.4%
Information Technology	9.3%
Telecommunication Services	7.6%
Utilities	0.0%
Financials ex Property Trusts	8.9%
Property Trusts	6.0%
Cash & other	5.9%

Top 10 Holdings (as at 31 August 2023)

Allkem Limited	4.5%
Carsales.Com Limited	4.2%
Wisetech Global Ltd.	3.8%
Viva Energy Group Ltd.	3.4%
Metcash Limited	3.1%
Nextdc Limited	2.9%
Evolution Mining Limited	2.8%
Worley Limited	2.8%
Premier Investments Limited	2.7%
a2 Milk Company Limited	2.7%

Other Information

Fund size (as at 31 August 2023)	$373 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 (Pendal 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

The equity market gave up much of its July rally over the first half of August.

However a softer-than-expected CPI inflation print in Australia, coupled with several US indicators that eased some concerns about excessive economic growth, saw some of the concern around further rate hikes recede.

Equities rebounded into the month's end as a result. The S&P/ASX 51-150 ended down -1.36% for August.

A recent softer-than-expected US employment report is seen as supporting the view that the Fed does not need to hike rates again.

The market is now pricing in a 94% chance that Fed holds rates steady in September and 65% chance of a hold in November too.

The consensus view is firmly that of a soft landing, goldilocks scenario playing out in the US.

Australian earnings season was largely in-line with expectations with earnings revisions no larger than normal. It painted a picture of an economy that remains in good shape with very little evidence of slowdown.

Broadly speaking, cyclicals generally performed better than defensives. In some instances, the former's earnings declined but held up better than the market feared.

There tended to be larger dispersion within sectors than across them. This indicates a market where stock specifics are exerting a great influence on performance than was the case twelve months ago.

Communication Services (+6.77%) was the best performing sector with good performance from online classified stocks CarSales.Com (CAR, +15.61%) and REA Group (REA, +5.32%)

Energy (+2.47%) also did relatively well, driven mainly by fuel refiner and distributor Ampol (ALD, +7.46%), coal miner New Hope (NHC, +6.03%) and uranium miner Paladin Energy (PDN, +14.97%)

Utilties (-7.13%) fell as AGL Energy (AGL, -7.13%) returned some of the recent strong gains it has made on the back of higher elecrticty prices.

Information Technology (-6.27%) fell as Wisetech (WTC, -18.99%), the largest stock in the sector, flagged that FY24 margins would be below consensus estimates due to the need to invest in in a new product portfolio.

The portfolio outperformed the index in August.

The overweight positions in CarSales.com and Premier Investments (PMV, +16.14%) made the largest positive contributions. Carsales.com delivered a well-received result which demonstrates accelerating growth in both its domestic and international operations. It has been able to extract greater yield in its domestic business, while costs are remaining under control. Management are guiding towards further growth.

The largest detraction came from not owning Altium (ALU, +26.69%) which saw a strong valuation re-rating as the results from its Octopart division proved better than many feared, taking out much of the bear case for the stock.

The global disinflation story continues. This is supportive for markets as we currently appear to be close to the end of the tightening cycle and economic growth in the US and Australia remains largely intact.

The consensus view is firmly that of a soft landing, goldilocks scenario in the US.

Extrapolating current data, it looks like the US is on track to deliver a very solid quarter of GDP growth, with the Atlanta Fed's GDPNow measure at 5.6% growth. The market takes a more nuanced view, believing that strength in the consumer cannot be sustained with a wave of headwinds due to bite.

Whilst real personal spending growth has continued to run hotter than expected, upcoming headwinds associated with a lower savings rate, resumption of student loan repayments and run down of pandemic excess savings would suggest that such strong personal consumption growth should not be sustained into 4Q.

But this does raise the concern that a stronger than expected economy may override the improving trends in inflation and wages, leading to further uncertainty in rates and at the Fed.

This would be counter to the soft landing scenario which is now being priced into the market and which recent data has supported.

In China, we are seeing a drip feeding of policies and support for markets, with concerns around housing, leverage, shadow banking and capital flight still in focus.

Beijing has delivered a number of easing measures to support the property sector, consumption and currency. It is a positive step in the right direction but more is needed.

In Australia, the underlying theme is the economy seems fine and earnings are largely holding up for industrials.

While there are pockets of weakness in certain retail categories, these are outweighed by positive signals in travel, commercial demand and building materials.

One emerging theme was the sharp increase in interest costs in response to higher rates. This remains a key area to watch for the higher-geared companies – particularly where slowing revenue growth may lead to operating de-leverage.

However there are no signs of recession and, with rates on hold, it is hard to see what would trigger one.

The only issue is at some point inflation trends may force RBA to re-evaluate, but that remains a little way off.

In sum, the combination of slowing inflation and economic resilience is a good one – but it remains too soon to declare victory, in our view. Uncertainties remain about the lagged effect of monetary policy as various other supportive factors recede. Also inflation, while falling, may settle at a higher rate than central banks are comfortable with, prompting further rate hikes.

As a result we retain the balance in our portfolio construction, with a mix of defensives, cyclicals, growth stocks, capital returners and stocks that retain good pricing power.

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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