PENDAL

Pendal Monthly Factsheet

Pendal Australian Specialised Retirement Income Portfolio (the Portfolio)

June 2025

Market review

June was largely dominated by geopolitical headlines as Israel launched attacks on Iran, followed by US involvement, culminating in a cease-fire by the month's end.

The market largely shrugged off the conflict; oil prices spiked towards US$75 a barrel, but declined again on de-escalation.

The equity market ploughed on, with the S&P/ASX 300 returning 1.4%.

There was further commentary on trade negotiations, with intimations that the US was nearing agreements with several key counterparts ahead of the 9th July deadline.

The Fed continued to take the view that there was no need to cut rates, preferring to keep their powder dry until there was greater clarity on the economic impact of tariffs.

There were indications that US consumer concerns about the impact of tariffs are receding.

In Australia, March quarter GDP data was weaker than consensus, but still reflects a slowing economy, rather than one facing recession. Inflation remains near the lower end of the RBA's target band and underpins expectations of two-to-three more rate cuts in 2025.

Energy (+8.9%) was the best-performing sector, helped by higher oil prices and by a takeover bid for Santos (STO, +16.2%).

Financials (+4.3%) also continued to do well. The banks remain well-supported by flows, which saw Commonwealth Banks (CBA) gain a further 5.0%.

Materials (-3.0%) was the weakest sector, with broad-based underperformance. BHP (BHP, -3.9%), Rio Tinto (RIO, -4.9%), Fortescue (FMG, -0.7%) and South32 (S32, -4.6%) all lost ground, while even the gold miners had a rare soft month with Northern Star (NST, -11.6%) and Evolution (EVN, -12.0%) ending down.

Consumer Staples (-2.3%) also underperformed as risk appetite remained sound. Woolworths (WOW) fell -2.3% and Coles (COL) -3.5%. Metcash (MTS, +15.7%) bucked the trend on the back of a well-received result.

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 a higher than market yield and franking credits but no considerations for Capital Gains Tax (CGT) allowing for higher turnover to drive returns.
Investment objective	To deliver outperformance relative to the benchmark after fees over 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 30 June 2025)
Sector limits	Australian Shares 60 - 98%, Australian Property 0 - 30%, Cash 2 - 10%
Dividend yield	3.35%#

Top 10 holdings

Code	Name	Weight
CBA	Commonwealth Bank of Australia	9.16%
BHP	BHP Group Ltd	7.99%
NAB	National Australia Bank Limited	7.18%
CSL	CSL Limited	7.07%
TLS	Telstra Group Limited	6.53%
XRO	Xero Limited	4.21%
WBC	Westpac Banking Corporation	3.91%
QAN	Qantas Airways Limited	3.87%
STO	Santos Limited	3.29%
QBE	QBE Insurance Group Limited	3.17%

Source: Pendal as at 30 June 2025.

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
TLS	Telstra Group Limited	4.44%
QAN	Qantas Airways Limited	3.25%
XRO	Xero Limited	3.23%
CSL	CSL Limited	2.68%
NAB	National Australia Bank Limited	2.61%

Source: Pendal as at 30 June 2025.

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
WES	Wesfarmers Limited (not held)	-3.64%
CBA	Commonwealth Bank of Australia	-2.55%
WDS	Woodside Energy Group Ltd (not held)	-1.70%
TCL	Transurban Group Ltd. (not held)	-1.65%
WOW	Woolworths Group Ltd (not held)	-1.44%

Source: Pendal as at 30 June 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 Specialised Retirement Income Portfolio	1.56%	9.07%	6.39%	14.79%	13.07%	12.63%	9.50%
S&P/ASX 300 (TR) Index	1.42%	9.48%	6.36%	13.74%	13.35%	11.77%	9.08%
Active return	**0.14%**	**-0.41%**	**0.04%**	**1.05%**	**-0.28%**	**0.86%**	**0.42%**

Source: Pendal as at 30 June 2025.

*Since Inception - 20 August 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
STO	Santos Limited	0.30%
MTS	Metcash Limited	0.23%
NXT	Nextdc Limited	0.10%
EVN	*Evolution Mining Limited (not held)*	*0.09%*
MPL	Medibank Private Ltd.	0.09%

Source: Pendal as at 30 June 2025.

Underweight positions are in *italics*.

Top 5 detractors - monthly

Code	Name	Value Added
NST	Northern Star Resources Ltd	-0.21%
XRO	Xero Limited	-0.13%
CSL	CSL Limited	-0.12%
TWE	Treasury Wine Estates Limited	-0.11%
CBA	*Commonwealth Bank of Australia*	*-0.09%*

Source: Pendal as at 30 June 2025.

Underweight positions are in *italics*.

Top 5 contributors - 1 year

Code	Name	Value Added
QAN	Qantas Airways Limited	2.27%
TLS	Telstra Group Limited	1.12%
TNE	Technology One Limited	0.93%
XRO	Xero Limited	0.52%
MPL	Medibank Private Ltd.	0.43%

Source: Pendal as at 30 June 2025.

Underweight positions are in *italics*.

Top 5 detractors - 1 year

Code	Name	Value Added
CSL	CSL Limited	-0.90%
TWE	Treasury Wine Estates Limited	-0.78%
VEA	*Viva Energy Group Ltd. (not held)*	*-0.78%*
MIN	Mineral Resources Limited	-0.75%
CBA	*Commonwealth Bank of Australia*	*-0.64%*

Source: Pendal as at 30 June 2025.

Underweight positions are in *italics*.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

Overweight Santos (STO, +16.2%)

Santos received a takeover offer from Abu Dhabi National Oil Company (ADNOC) and Carlyle, at a ~30% premium to Santos's previous price, subject to satisfactory completion of confirmatory due diligence. STO is trading at a large discount to the proposed transaction price given uncertainty around regulatory approval as well as due diligence and the expectations that the whole process will take 9 - 12 months. The Board appears favourable to the transaction.

Overweight Metcash (MTS, +15.7%)

Metcash's FY25 result came in at the high end of the pre-announced range, with EBIT 2% ahead of consensus. The key positives came at a divisional level. MTS is holding market share in Supermarkets and winning customers through its distribution network. While the Liquor segment remains tough - driven in part by the base effect of an inflationary bump last year - MTS continues to grow market share. Hardware - which has weighed on the company in recent halves - appears to be bottoming and offers material operating leverage upside as and when margins start to recover. Metcash is being well managed in an environment of earnings headwinds and is well positioned to grow from FY25.

Overweight NextDC (NXT, +10.6%)

NextDC announced a 7% increase in their order book contracted across the KL1 data centre in Kuala Lumpur as well as data centress in Melbourne and Sydney. This is the first contract award internationally for NXT and implies 15% utilisation for KL1 before the facility has been completed. The ramp up on this contract win should be quick with full run-rate in FY28, driving upgrades to consensus numbers. We believe the pipeline remains strong and any further contract wins should drive further upgrades and support sentiment for the stock.

Three largest detractors

Overweight Northern Star Resources (NST, -11.6%)

Northern Star underperformed in June along with Evolution, the other of the largest cap gold miners. There were some sell-side changes in ratings following the strong performance of the sector. We continue to see NST as attractive within the gold sector. It downgraded production and increased cost guidance for FY26 early in July which, while more negative than expected, has removed uncertainty. NST continues to offer the best growth profile of the larger Australian gold miners.

Overweight Xero (XRO, -2.4%)

Xero announced the US$2.5bn acquisition of US company Melio and raised A$1.8bn to fund the transaction. We like the deal's rationale, which is aligned with the company's strategy, improves their product market fit and customer value proposition, offers significant scale opportunities from bringing two very complementary platforms together, and solves a critical need for US small-to-medium businesses in an attractive and growing end-market. There is some sticker-shock on the price and it is expected to be low to mid-teens earnings dilutive in FY27, before being almost breakeven in FY28 and then accelerating accretion from FY29 onwards.

Overweight CSL (CSL, -3.0%)

CSL remained soft, with a degree of uncertainty persisting around the pricing outlook for the US. We continue to see this risk as overdone, given flexibility in supply chains and a strong competitive position. From here, we believe that CSL's return on capital will recover, driven by lower capex and higher margins in the core plasma business as the benefits of investment in new technology begin to manifest. At the same time, the company has recently announced a focus on greater efficiency and cost reduction. We believe this should support both earnings growth and a valuation re-rating.

Performance and outlook

The Portfolio model was a touch ahead of the benchmark index in June.

There was a good mix of positive contributors, including energy (Santos (STO)), defensive consumer (Metcash (MTS)), data centres (NextDC (NXT)), and financials (Medibank Private (MPL)).

The portfolio's exposure to gold miner Northern Star Resources (NST) detracted, although there was some offset from not owning Evolution (EVN). CSL (CSL) detracted given near-term uncertainties around pricing in the US, although we believe it is well positioned to weather this. Xero (XRO) underperformed as it raised capital to fund an acquisition, however this is widely seen as a strong strategic move.

Newsflow around tariffs and trade deals is likely to dominate near-term market sentiment.

Macro data and corporate anecdotes suggest that the US economy, while decelerating, is proving reasonably resilient. Most economists expect Q4 CY2025 GDP to fall to a range of 1%-2%.

There are signs that households have been managing budgets carefully and that many companies – including some of the larger retailers – are looking to absorb the impact of tariffs via supply chains rather than passing the cost on to consumers.

This is all bolstering the view that the economy can cope with the impact of tariffs better than many feared.

It is also important in supporting the equity market. The consensus expectation is for the June quarter S&P 500 earnings to grow 4% year-on-year, versus the 12% growth seen in the March quarter, with softness in the commodity and cyclical sectors expected to contribute to lower growth. Concerns over a tariff-driven margin compression for FY26 guidance is the largest risk around reporting season.

Slower, but positive, economic growth and earnings suggests that equity markets can remain well supported, but are likely to consolidate in coming months as we wait on trade deals and clarity on the economic effects of tariffs.

The Fed has scope to cut rates, given the slowing economy, however they are looking to keep their powder dry given uncertainty over the impact of tariffs on the economy and inflation.

In the Australian market, aggregate earnings-per-share for the S&P/ASX 300 are expected to be modestly negative for FY25, dragged down by the resource sector.

However this is expected to swing back to positive territory in FY26 helped by improved returns from resources and mid-single digits gains from industrials ex-banks.

This earnings support is important for local markets, given that the index has returned to the upper end of its historical valuation range, making it harder for continued re-rating to drive returns.

The outlook for the domestic economy continues to look reasonable, helped by limited direct exposure to tariffs, continued government spending, and signals from the RBA that they are looking to cut rates further before the end of the year. The market continues to price close to three further cuts in 2025.

New stocks added and/or stocks sold to zero during the month

Buy a new position in Challenger (CGF)

Sell to zero in James Hardie (JHX)

We have adjusted the portfolio's domestic financial exposure via the addition of Challenger (CGF).

Challenger operates a Life division – which is Australia's largest provider of retirement annuities – as well as a Funds Management division. All up, it manages $131bn in assets (as at 31 December 2024).

CGF had been weak from Q3 2024 until recently, with the market concerned over the impact of lower interest rates on the firm's investment book. However recent updates suggest the company is handling this headwind well and maintaining a strong capital buffer.

At the same time, the announcement in April that Japan's TAL Dai Ichi Life was taking a strategic stake in CGF was welcomed – it is the largest variable annuity provider in Japan and its Australian subsidiary has strong market share among life insurance for Australian industry super funds. This helps generate growth opportunities for CGF.

However the key change for CGF comes in the form of proposed changes from APRA regarding the capital reserve requirements companies need for annuities. At this stage, there are broad proposals and a consultation period, however the underlying thrust is to free up capital requirements and reduce barriers to supply, helping to meet rising demand for annuities as the superannuation system switches from accumulation to retirement.

While details are still to be ironed out, this potentially frees up to $1bn of capital for CGF. This can help lift its returns on capital substantially and may also help growth via the ability to provide better customer prices.

This is in addition to a substantial, structural tailwind from the shift from accumulation to retirement phase. While annuities aren't likely to play a large role in all retirement portfolios, they are likely to be significant at the smaller end of market.

Current estimates are for the retirement market to be worth $2tr in ten years time, which is likely to provide material scope to grow CGF's current $20bn book of annuities.

And there is scope for CGF's growth potential to be solidified by a Treasury review that is underway on retirement.

Within the financial sector, we still see banks as fully-valued and, while we continue to like insurers, they have performed well and we have recently been reducing the exposure to Suncorp. The addition of CGF reflects an adjustment in our financials exposure, adding in a diversified financial with attractive growth potential and a valuation which is still-compelling despite the stock's recent rebound.

We are partly funding this via the removal of James Hardie (JHX).

JHX has been held as part of the portfolio's interest-rate-sensitive exposure, given its large presence in the North American housing construction and repair and remodelling (R&R) market.

While the Federal Reserve had cut short-term interest rates – and more cuts are expected this year – the 10-year bond yield has remained elevated due to the introduction of tariffs and the high degree of uncertainty over the impact on inflation and US consumption, as well as concerns about the sustainability of the US budget deficit. This has been reflected in ongoing weakness in the crucial R&R market, as mortgage rates have remained higher than expected and consumer confidence has been softer. JHX's gains in market share, which are an important driver of growth, have also slowed.

JHX has continued to generate strong operating cashflow, which underpins a solid outlook for growth in free cash flow. However at this point it appears that a valuation re-rating is dependent on signs of an improvement in the cyclical backdrop. Here, there is little visibility on the pathway and timeline for a recovery in demand, which increases the risk of disappointing market earnings expectations.

At the same time, the cyclical outlook is complicated by JHXs acquisition of AZEK, which is expected to complete in the second half of CY2025. There is strategic merit in the deal and there are revenue synergies, albeit long-dated. However this is a large acquisition and our observation is that the digestion of deals of this magnitude can be more complex than first thought and can complicate a cyclical rebound.

As a result JHX is no longer among our highest-conviction positions.

For more information contact your
key account manager or visit **pendalgroup.com**

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