Pendal Monthly Factsheet

Pendal Sustainable Future Australian Shares Portfolio (the Portfolio)

March 2025

Market review

The S&P/ASX 300 continued February's slide into March, as uncertainty over the nature of US tariffs prevailed and concerns mounted over the possible impact on the global economy.

The market had been very long US equities, so the sell-off was exaggerated by the previously crowded positioning and by the impact of systematic strategies.

There was a bounce back in mid-March, however the market sold off again into the month's end, as delayed investment and spending decisions in the US started to appear in softer economic data and downward earnings revisions.

There were notable developments elsewhere. In Germany, uncertainty over President Trump's relationship with Europe prompted a EUR500bn infrastructure fund and a constitutional amendment to exempt defence outlays from spending limits.

In China, the National People's Congress detailed a reform and spending package to boost domestic consumption.

Commodities were generally resilient. Iron ore was flat for the month, WTI Crude oil and copper both rose 3%, while gold rose 9%.

In Australia, year-on-year headline CPI inflation fell from 2.55% in January to 2.38% in February, below consensus expectations of 2.50%. It has now been in the 2-3% target band for seven consecutive months. There was little in the Federal budget to shift perspectives. They forecast CPI inflation to remain within the target band, though rising back towards its top end next year.

The S&P/ASX fell -3.3% for the month.

The small Utilities (+1.5%) sector was the only one to gain ground. Origin Energy (ORG, -1.0%) fell but held up better than the market, while APA Group (APA, +7.1%) posted well-received results and alleviated fears of a capital raise.

Materials (-0.1%) outperformed as the miners held up better than the broader market. BHP (BHP, -0.2%) and Rio Tinto (RIO, +5.0%) outperformed, while gold miners such as Northern Star (NST, +8.3%) and Evolution Mining (EVN, +18.1%) strengthened along with the gold price.

Information Technology (-9.1%) was the worst sector on market rotation away from growth stocks. Weakness was broad-based, with Xero (XRO) down -9.4%, Wisetech Global (WTC) -9.1% and Technology One (TNE) -5.5%.

Consumer Discretionary (-6.2%) also underperformed as concerns over the outlook for the US consumer weighed on Aristocrat Leisure (ALL, -11.0%) and Light & Wonder (LNW, -20.7%). Concern over tariffs saw Breville (BRG) off -10.5%. Domestically-focused companies such as Wesfarmers (WES, -2.9%), Lottery Corporation (TLC, +0.2%) and JB Hi-Fi (JBH, +0.9%) fared better.

Portfolio overview

Investment strategy	Pendal's investment process for Australian shares is based on its 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 its assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Pendal's fundamental company research focuses on valuation, franchise, management quality and risk factors (both financial and non-financial risk).
Sustainability	The strategy aims to invest in companies that advance the transition to a more sustainable economy. Pendal views a sustainable economy as one which is comprised of companies: – producing or offering products or services that provide social and/or environmental benefits; and/or – that have leading operational practices with regard to the environment, their employees and community, and conduct their business ethically; and/or – whose actions, business models and products or services do not cause significant harm. In managing the strategy, Pendal focuses on sustainable themes (including energy transformation, sustainable environment, human basics and increasing prosperity), and draws on internal and external research to assess companies on their sustainability performance.
Exclusionary screens	In addition to employing a sustainability assessment framework, exclusionary screens are applied to avoid exposure to companies with business activities that Pendal considers to negatively impact the environment and/or society[1].
Investment objectives	To deliver outperformance relative to the benchmark before fees over a rolling five-year period by investing in companies which Pendal has identified as having leading financial, ethical and sustainability characteristics.
Benchmark	S&P/ASX 300 (TR) Index
Number of stocks	15 - 40 (30 as at 31 March 2025)
Sector limits	Australian Shares, 65 - 98%, Australian Property 0 - 30%, Cash 2 - 5%
Dividend yield	3.60%[2]

Top 10 holdings

Code	Name	Weight
CSL	CSL Limited	8.86%
CBA	Commonwealth Bank of Australia	8.61%
TLS	Telstra Group Limited	6.69%
RIO	Rio Tinto Limited	6.31%
WBC	Westpac Banking Corporation	4.77%
NAB	National Australia Bank Limited	4.55%
XRO	Xero Limited	4.37%
BXB	Brambles Limited	3.68%
MQG	Macquarie Group, Ltd.	3.35%
QBE	QBE Insurance Group Limited	3.34%

Source: Pendal as at 31 March 2025

[1] As defined by the Portfolio's exclusionary screens and gross revenue thresholds.

[2] 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 Sustainable Future Australian Shares Portfolio	-3.15%	-1.50%	-0.64%	5.90%	6.96%	14.01%	9.45%
S&P/ASX 300 (TR) Index	-3.34%	-2.85%	-3.64%	2.64%	5.30%	13.23%	7.83%
Active return	**0.19%**	**1.36%**	**3.00%**	**3.26%**	**1.66%**	**0.79%**	**1.62%**

Source: Pendal as at 31 March 2025.
*Since Inception - 16 June 2018.
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 overweights versus S&P/ASX 300

Code	Name	Weight
TLS	Telstra Group Limited	4.68%
RIO	Rio Tinto Limited	4.54%
CSL	CSL Limited	3.88%
XRO	Xero Limited	3.45%
QAN	Qantas Airways Limited	2.71%

Source: Pendal as at 31 March 2025.

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
BHP	BHP Group Ltd (not held)	-8.00%
WES	Wesfarmers Limited (not held)	-3.37%
WDS	Woodside Energy Group Ltd (not held)	-1.81%
CBA	Commonwealth Bank of Australia	-1.81%
TCL	Transurban Group Ltd. (not held)	-1.72%

Source: Pendal as at 31 March 2025.

Top 5 contributors - monthly

Code	Name	Value Added
RIO	Rio Tinto Limited	0.36%
TLS	Telstra Group Limited	0.22%
NST	Northern Star Resources Ltd	0.20%
MPL	Medibank Private Ltd.	0.16%
ALL	*Aristocrat Leisure Limited (not held)*	*0.14%*

Source: Pendal as at 31 March 2025.
Underweight positions are shown in *italics*.

Top 5 detractors - monthly

Code	Name	Value Added
BHP	*BHP Group Ltd (not held)*	*-0.25%*
XRO	Xero Limited	-0.24%
JHX	James Hardie Industries PLC	-0.11%
EVN	*Evolution Mining Limited (not held)*	*-0.10%*
BSL	Bluescope Steel Limited	-0.10%

Source: Pendal as at 31 March 2025.
Underweight positions are shown in *italics*.

Top 5 contributors - 1 year

Code	Name	Value Added
QAN	Qantas Airways Limited	2.25%
BHP	*BHP Group Ltd (not held)*	*1.12%*
XRO	Xero Limited	0.51%
TLS	Telstra Group Limited	0.51%
WDS	*Woodside Energy Group Ltd (not held)*	*0.50%*

Source: Pendal as at 31 March 2025.
Underweight positions are shown in *italics*.

Top 5 detractors - 1 year

Code	Name	Value Added
PLS	Pilbara Minerals Limited	-0.74%
ORA	*Orora Limited (not held)*	*-0.69%*
LTM	Arcadium Lithium Plc (not held)	-0.62%
CSL	CSL Limited	-0.61%
ALL	*Aristocrat Leisure Limited (not held)*	*-0.55%*

Source: Pendal as at 31 March 2025.
Underweight positions are shown in *italics*.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

Overweight Rio Tinto (RIO, +5.0%)

Commodity prices held up reasonably well and buoyed the larger miners. Its recent results were largely in-line with expectations. The company is maintaining a 60% dividend payout ratio, versus BHP at 50%. Similar to BHP, future capex is doubling compared to recent years, but the difference for RIO is that that growth is nearer-dated and the balance sheet is in better shape.

Overweight Telstra (TLS, +1.7%)

Telstra benefited from a rotation to defensives and continued to rise in the wake of a well-received 1H FY25 result in February. The company is also executing a $750m stock buy-back, enabled by earnings growth now that previous issues in the fixed-line businesses are seemingly under control.

Overweight Northern Star Resources (NST, +18.3%)

Northern Star did well, along with the rest of the gold mining sector, on the back of strength in the gold price. In February, NST reported that 1H FY25 cash earnings were up 63% on the same half in FY24 and announced a record dividend. In March an independent expert also concluded that NST's bid for De Grey Mining, which will secure the largest undeveloped gold mine in Australia, is fair and reasonable.

Three largest detractors

Underweight BHP (BHP, -0.2%)

Commodity prices held up well and saw the major miners outperform the market, although BHP's coking coal exposure was a drag compared to Rio Tinto, with prices off 9%. BHP's recent result was in-line with expectations. The company continues to pivot towards copper, however near-term production is slowing and further development requires significant investment.

Overweight Xero (XRO, -9.4%)

There was little stock-specific news on Xero in March, however it was caught up in the broader rotation away from technology and growth. We continue to like the company for its strong competitive position in a growing market and management's renewed focus on profitability.

Overweight James Hardie (JHX, -24.0%)

JHX fell on the combination of concern over the outlook for US residential construction and the announcement that it was acquiring outdoor decking company AZEK in the US. JHX failed to convince the market of the merits of the deal, which is heavily dependent on long dated revenue synergies to offset initial earnings dilution. More broadly, economic uncertainty, softening consumer confidence and rising construction costs given tariffs and potential limitations on labour availability are all creating headwinds for US housing.

Performance and outlook

The model portfolio finished slightly ahead of the index in March. There was good performance from some of the portfolio's more domestically-focused, relatively defensive exposures such as Telstra (TLS), Medibank Private (MPL) and Scentre Group (SCG). Cyclicals Qantas (QAN) and Rio Tinto (RIO) also outperformed, as did Lynas Rare Earths (LYC, +1.8%), being a potential beneficiary of further trade friction between China and the US.

This was offset by weakness in the portfolio's growth exposures, where the market rotated out of sectors such as technology, which weighed on Xero (XRO) and NextDC (NXT). Exposure to the US economy saw BlueScope Steel (BSL, -12.3%) down and the market did not like James Hardie's (JHX, -24.0%) proposed acquisition of a deck-cladding maker.

In early April the Trump administration announced a tariff policy far harsher than many expected, which saw a sharp sell-off in equities and a spike in volatility.

This scenario is largely unprecedented, with great uncertainty over how the moving parts will develop and the nature and magnitude of second-order effects.

The initial weighted effective tariff rate initially moved to 24%, the highest in over one hundred years. Given tariffs are effectively taxes, this equates to a US$700b tax hike - or 2.4% of US GDP, the biggest in history.

The Trump administration is justifying this on the view that the negative economic impact of tariffs is preferable to sustaining the current trade system. In their view, it has seen the loss of millions of US job, unsustainable income disparity, loss of technology leadership, declining productivity, wage stagnation and strategic vulnerability.

This prompted a plunge in equities as the probabilities of a US recession spiked. The move has been compounded by the need for some investors to unwind leverage and access liquidity. Volatility has surged.

The situation remains fluid and uncertainty high. Rhetoric from the Trump Administration and from other countries – notably China – is likely to swing sentiment in the near term.

However a key factor is that the starting point for tariffs was so high that even large, negotiated concessions are unlikely to prevent an economic shock unless the Administration totally walks away from their policy, which they seem unlikely to do.

The move on 9th April to postpone reciprocal tariffs for ninety days whilst maintaining the baseline 10% tariff and hitting China with a 125% tariff in response to their counter-actions alleviates stress in the bond market, but still results in an effective tariff rate of 15-20%.

The Administration argue that growth will be underpinned by proposed tax cuts, investment in US manufacturing, lower energy prices and lower bond yields and interest rates.

While this may be true, a number of these factors don't kick in until the second half of the year.

The Fed's challenge is that the economy is currently in good shape and consumers are starting to anticipate a rise in inflation. So it does not have space at the moment to cut rates while keeping expectations anchored.

However if we start to see economic bad news – or there are some signs dislocation in credit markets or debt issuance – then the Fed is likely to act. The market is now expecting four rate cuts this year.

Ultimately we see the Fed Put as real and it does represent the most likely counter to the bearishness.

There is a scenario in the second half of 2025 where there are rate cuts, tax cuts and lower negotiated tariffs, which could see markets rebound. The question is – from what level?

Having seen the initial sell-off we may see a period of consolidation and attempts to bounce.

However the next phase could be a grind lower, depending on the economic and policy path.

The US market does not yet have valuation support, being well above the average price/earnings multiple reached in recessions. The other issue is earnings risk. The market consensus still sits at high-single-digit growth. If we get a recession there is further downside risk here.

Our view is that the Australian economy is well protected and should avoid recession.

This is supported by the high degree of fiscal stimulus, scope for rate cuts, a weaker currency, limited exposure to US exports and low level of tariffs.

The key risk is contagion from a broader global recession and a possible terms-of-trade shock from lower commodity prices.

Stimulus from Beijing could provide additional support.

There is a lot of work in understanding the effects of tariffs on ASX-listed stocks. There are direct effects on some – although companies are still largely unsure of the ultimate outcome. The other – usually larger – risk is to companies with exposure to US consumption which may deteriorate.

This environment highlights the importance we place on managing thematic exposures and not being leveraged to one particular economic scenario or pathway.

We are also very mindful of the extremes in mispricing that occur in market episodes such as this. This provides the opportunity to establish positions in companies that drives future performance.

We have held back so far from stepping into heavily sold-down stocks given the degree of change in the global outlook.

Given the scale of moves and liquidity available in the funds we may well start deploying some of this.

The focus here will not be on the high beta names such as tech, where the market remains over-exposed.

Instead, we are likely to be looking at well-positioned industrial names with strong cashflow and no exposure to tariff risk.

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

Buy a new position in Sandfire Resources (SFR)

Sell to zero in Orora (ORA)

We are adjusting the portfolio’s cyclical exposure via the addition of Sandfire Resources (SFR), funded by the sale of Orora (ORA).

Sandfire Resources is a copper-focused miner. Copper production is classified as a Sustainable Product and Service within our model’s sustainability framework, given that it supports electrification and renewables development as part of the Energy Transition thematic

SFR’s two key producing assets are the MATSA Copper Operations in Spain, acquired in February 2022, and the Motheo Copper Operations in Botswana, which began producing in the June 2023 quarter. It has recently retired its De Grussa copper mine in Western Australia and is also undertaking feasibility studies on a project in the US.

We have a positive outlook for the copper price. Demand is underpinned by the investment in energy transition and renewal energy and also by the infrastructure requirements by generative AI. At the same time, growth in copper supply has been relatively muted. These dynamics support the copper price and provide an earnings tailwind for Sandfire.

Operationally, the Motheo mine has ramped up well and MATSA is delivering broadly to target. Costs remain reasonably well controlled. In combination, they are underpinning an improvement in free cash flow which should help reduce net debt. Within 18 months, we expect SFR to be back in a net cash position. That should trigger a resumption of dividend payments.

Beyond copper’s role as a critical input into energy transition, SFR has a corporate sustainability framework and has appointed a Chief Sustainability Officer as part of its executive suite.

It has detailed climate-change related targets, which include a 35% reduction in Scope 1 and 2 emissions by 2035, from a 2024 baseline and zero net emissions by 2050. In 2024, 73% of its electricity was produced from renewable sources.

It also has targets and programs in place with the communities that live near its operations. In Spain, it has implemented a fully-funded mining skills program aimed at increasing female participation in the industry. In Botswana, it participates in the Women's Garden Project initiative which supports victims of gender-based violence via training and facilities for horticultural production.

It has additional targets and action plans around biodiversity, tailings management, water stewardship, human rights and cultural heritage, among others.

The new position is funded in part by selling out of packaging and bottling manufacturers Orora (ORA).

ORA's results for the first half of FY2025 demonstrated that the global downturn in demand for bottles from its Saverglass division - which has disappointed since acquisition in December 2023 - has been unusually deep and prolonged.

At the same time, there was a surprise downgrade for the Australian glass business on the combination of what appears to be a structural decline in volumes and pressure on pricing from higher competitive intensity.

While the headwinds for Saverglass are cyclical – and the stock is supported by an ongoing on-market buyback – the outlook for a recovery is clouded by its exposure to disruption from tariffs, which may lead to an even more extended downcycle for the global industry. Saverglass is specifically vulnerable to US tariffs on both Mexican and European exports to the US.

Given ongoing cyclical issues and the potential disruption from US efforts to restructure global trade, ORA is no longer among the highest conviction positions for this portfolio and we are taking the opportunity to rotate into Sandfire, where we have greater confidence in the upside.

Carbon performance

The estimated weighted average carbon intensity (WACI) of a portfolio provides an indication of the portfolio's exposure to carbon intensive companies.

The estimated WACI of the Portfolio, using greenhouse gas emissions (scope 1 and 2[1]) data supplied by ISS and weighted by the size of the Portfolio's holding in each company, is shown in the table below. We also compare this to the weighted average emissions for the companies in the aggregated ASX300 index.

We caution that there are limitations with using carbon metrics as an indicator of a portfolio's overall exposure to climate-related risks. For example, not all companies report their emissions data and hence some of the below analysis includes estimates. Also, it does not include scope 3 emissions. Further, portfolio carbon analysis does not capture exposure to physical climate-related risks, or the unique transition risks some companies within the Portfolio face. Nevertheless, the WACI metric is recommended by the Task Force on Climate-related Financial Disclosures (TCFD)[3], noting it supports greater comparability of investor reporting.

Weighted Average Carbon Intensity (tonnes CO_2e / $M revenue)

Pendal Sustainable Future Australian Share Portfolio	ASX 300	Relative to ASX300
89.20	105.59	-16.39

Source: ISS STOXX, Pendal holdings as at 31 March 2025. Report run on 08/04/2025 using latest ISS STOXX data. Currency AUD

[1] Scope 1 emissions result from sources directly owned or controlled by the company. Scope 2 accounts for emissions from the generation of purchased electricity consumed by the company.

[2] Scope 3 emissions result from activities not directly owned or controlled by the company but are associated with its operation such as business travel, waste management, commuting, and the use of sold products and services. https://ghgprotocol.org/sites/default/files/standards/ghg-protocol-revised.pdf

[3] Recommendations of the Task Force on Climate-Related Financial Disclosures, June 2017 https://www.fsb-tcfd.org/recommendations/

Exclusionary Screens

In managing the Portfolio, we will not invest in companies which:

Fossil Fuels – directly extract or explore for fossil fuels (specifically, coal, oil and gas); or
– derive 10% or more of their gross revenue from fossil fuel-based power generation, or from fossil fuel refinement or distribution (coal, oil and gas)*; or
– derive 10% or more of their gross revenue from the provision of supplies or services which relate specifically to fossil fuel extraction or exploration (coal, oil and gas)*

**Companies with a climate transition plan may be exempted from this exclusion, provided that they have in place a Paris Agreement aligned transition plan and produce climate related financial disclosures annually, which in both cases we consider credible.*

Uranium – derive 10% or more of their gross revenue from directly mining uranium for the purpose of nuclear power generation

Logging – derive 10% or more of their gross revenue from unsustainable forestry or forest products, including non-Forest Stewardship Council certified forest products or non-Roundtable on Sustainable Palm Oil certified palm oil production

Gambling – directly manufacture, own or operate gambling facilities, gaming services or other forms of wagering; or
– derive 10% or more of their gross revenue from the indirect provision of gambling (for example, through telecommunications platforms)

Pornography – produce pornography; or
– derive 10% or more of their gross revenue from the distribution or retailing of pornography

Weapons – manufacture or distribute controversial weapons (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, blinding laser weapons, incendiary weapons, non-detectable fragments, depleted uranium and white phosphorous weapons); or
– supply goods or services specifically related to controversial weapons; or
– manufacture non-controversial weapons or armaments (including civilian firearms or military equipment); or
– derive 10% or more of their gross revenue from the distribution or retailing of non- controversial weapons or armaments (including civilian firearms or military equipment); or
– derive 10% or more of their gross revenue from the supply of goods or services specifically related to non-controversial weapons or armaments.

Alcohol – produce alcoholic beverages; or
– derive 10% or more of their gross revenue from the distribution or retailing of alcoholic beverages

Tobacco – produce tobacco (including e-cigarettes and inhalers); or
– derive 10% or more of their gross revenue from the distribution of tobacco (including e-cigarettes and inhalers) or supply of goods or services specifically related to the tobacco industry (for example, packaging or promotion)

Animal cruelty – directly undertake animal testing for cosmetic products; or
- directly undertake live animal export

Predatory lending practices
- directly provide products or services with lending practices that are unfair or deceptive to ordinary borrowers, including small amount short term loans at higher than commercial rates
of interest (for example, payday loans, pawn loans or the use of aggressive sales tactics)

Breaches/Misconduct – we consider to have been found to have significant breaches of social or environmental norms or regulations, or are subject to serious and substantiated allegations of unethical conduct, which we consider have not been remedied or adequately addressed.

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

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