

Pendal Monthly Factsheet

Pendal Australian Tax Effective Income Portfolio (the Portfolio)

March 2026

Market review

The disruption to commodity production and shipping in the wake of US and Israeli attack on Iran dominated markets in March.

Iran retaliated with strikes on Gulf State energy production infrastructure and effectively closed the Strait of Hormuz.

This saw energy prices surge and prompted concern about the ultimate impact on inflation and interest rates - with the market in the US flipping from pricing rate cuts to rate hikes.

The Gulf and Strait are also important in global production of fertiliser, helium, aluminium and sulphur, among other commodities. The market also started to focus on the possible effect of a period of higher prices - or shortages - of key inputs at a macroeconomic, industry and company level.

The Trump Administration made several statements that suggested a relatively short conflict. However continued attacks and deadlines, bellicose Iranian responses, and threats of escalation to critical infrastructure, saw market sentiment oscillate and extremely volatile markets with sometimes large intra-day swings.

The net effect was the S&P/ASX 300 fell -7.3% for the month, an outcome which suggests that on balance, the market still expects a cessation to hostilities relatively soon and the resulting disruption to be brief.

Energy did best, with strength across the oil/LNG producers, the fuel refiners and distributors, and the coal miners as the market started to contemplate substitutes. Woodside Energy (WDS, +27.2%), Santos (STO, +17.8%), Ampol (ALD, +21.9%), Whitehaven Coal (WHC, +18.4%) and Viva Energy (VEA, +48.0%) all surged.

Utilities also held up relatively well on the view that they would also benefit from higher energy prices. Origin Energy (ORG) gained 4.5% and pipeline company APA Group (APA) 8.2%.

Materials was the worst-performing sector. Gold miners fell as the gold price fell 11.5% in March despite heightened geopolitical risk. A rally in the US dollar was a headwind, as were reports of investors taking recent profits in gold to deploy elsewhere or cover margin calls and some commentary around central banks pausing gold purchases. This saw Northern Star (NST) down -32.2% and Evolution (EVN) -23.0%. Copper was also weak. Continued friction between BHP (BHP, -12.1%) and China's iron ore buying group saw it fall. Rio Tinto (RIO, -1.4%) held up better than the market, with Gulf disruption seeing aluminium price rises.

Meanwhile fears around AI disruption continued to weigh on Information Technology. Selling remained largely broad-based, with software stocks Xero (XRO) down -9.7%, Wisetech (WTC) -19.9% and Life360 (360, -23.6%). Data centre stocks were also weak. Technology One (TNE, +3.0%) bucked the trend.

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.

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 higher than market yield with a particular consideration for CGT.
Investment objective	To deliver outperformance relative to the benchmark after fees on 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 (33 as at 31 March 2026)
Sector limits	Australian Shares 60 - 98%, Australian Property 0 - 30%, Cash 2 - 10%
Dividend yield	3.63%#

Top 10 holdings

Code	Name	Weight
BHP	BHP Group Ltd	12.56%
CBA	Commonwealth Bank of Australia	8.50%
NAB	National Australia Bank Limited	7.31%
TLS	Telstra Group Limited	6.51%
RIO	Rio Tinto Limited	5.75%
ANZ	ANZ Group Holdings Limited	5.08%
CSL	CSL Limited	4.89%
QAN	Qantas Airways Limited	3.36%
STO	Santos Limited	2.96%
QBE	QBE Insurance Group Limited	2.91%

Source: Pendal as at 31 March 2026.

Top 5 overweights versus S&P/ASX 300

Code	Name	Weight
TLS	Telstra Group Limited	4.26%
RIO	Rio Tinto Limited	3.49%
BHP	BHP Group Ltd	2.93%
QAN	Qantas Airways Limited	2.89%
NAB	National Australia Bank Limited	2.52%

Source: Pendal as at 31 March 2026.

Top 5 underweights versus S&P/ASX 300

Code	Name	Weight
WES	Wesfarmers Limited (not held)	-3.12%
WDS	Woodside Energy Group Ltd (not held)	-2.51%
WBC	Westpac Banking Corporation	-2.46%
CBA	Commonwealth Bank of Australia	-2.06%
WOW	Woolworths Group Ltd (not held)	-1.67%

Source: Pendal as at 31 March 2026.

Performance

	1 month	3 month	6 month	1 year	3 year (p.a.)	5 year (p.a.)	Since inception (p.a.)*
Pendal Australian Tax Effective Income Portfolio	-8.15%	-2.96%	-4.83%	7.23%	7.85%	7.42%	8.89%
S&P/ASX 300 (TR) Index	-7.30%	-2.04%	-2.91%	11.59%	9.43%	8.46%	9.16%
Active return	-0.85%	-0.92%	-1.92%	-4.36%	-1.58%	-1.04%	-0.27%

Source: Pendal as at 31 March 2026

*Since Inception - 14 September 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	0.39%
TLS	Telstra Group Limited	0.38%
RIO	Rio Tinto Limited	0.19%
QBE	QBE Insurance Group Limited	0.13%
MPL	Medibank Private Ltd.	0.10%

Source: Pendal as at 31 March 2026.

Underweight positions are in *italics*.

Top 5 contributors - 1 year

Code	Name	Value Added
MIN	Mineral Resources Limited	0.94%
RIO	Rio Tinto Limited	0.79%
TLS	Telstra Group Limited	0.76%
DOW	Downer EDI Limited	0.66%
BHP	BHP Group Ltd	0.58%

Source: Pendal as at 31 March 2026.

Underweight positions are in *italics*.

Top 5 detractors - monthly

Code	Name	Value Added
<i>WDS</i>	<i>Woodside Energy Group Ltd (not held)</i>	<i>-0.63%</i>
NST	Northern Star Resources Ltd	-0.35%
NAB	National Australia Bank Limited	-0.22%
QAN	Qantas Airways Limited	-0.21%
<i>COL</i>	<i>Coles Group Ltd. (not held)</i>	<i>-0.15%</i>

Source: Pendal as at 31 March 2026.

Underweight positions are in *italics*.

Top 5 detractors - 1 year

Code	Name	Value Added
CSL	CSL Limited	-1.91%
XRO	Xero Limited	-1.87%
<i>WDS</i>	<i>Woodside Energy Group Ltd (not held)</i>	<i>-1.01%</i>
SEK	Seek Limited	-0.68%
<i>TWE</i>	<i>Treasury Wine Estates Limited (not held)</i>	<i>-0.55%</i>

Source: Pendal as at 31 March 2026.

Underweight positions are in *italics*.

Stock specific drivers of monthly performance relative to benchmark

Three largest contributors

Overweight Santos (STO, +17.8%)

The surge in energy prices saw oil/LNG producer Santos rise in March. At a company level, the company continues to ramp up the newly-commissioned Barossa project as it transitions from a capex-heavy period to one of greater free cash flow. During March it announced the decision to progress with the Moomba Central Optimisation Project, in partnership with Beach Energy, which aims at achieving \$600 million in capex and opex savings for STO's assets in South Australia's Cooper basin.

Overweight Telstra (TLS, +2.9%)

Telstra benefited from a rotation towards defensives amid the volatility in March. The stock also continues to perform well in the wake of its 1H26 result, where strength in the mobile business underpinned an unexpected increase in dividend. The company continues to be disciplined on costs, allowing operating leverage. TLS continues to deliver dependable growth with cash EBIT expected to grow over 12% this year and trades on a cash PE of 20.5x which makes it attractive relative to other predictable defensives.

Overweight Rio Tinto (RIO, -1.4%)

Rio Tinto held up better than the market, helped by disruption to the aluminium market. The Middle East produces roughly 8-9% of global aluminium supply, most of which is exported via the Strait of Hormuz. Its share of the non-China market is even higher. The aluminium price rose 13.5% in response, which is a tailwind for RIO given in CY 2025, almost 29% of its revenues were sourced from its Aluminium & Lithium division.

Three largest detractors

Underweight Woodside Energy (WDS, +27.2%)

The surge in energy prices saw oil/LNG producer Woodside rise in March. It delivered its FY25 result early in the month. While largely pre-announced, the tax outcome was better than expected and helped fuel a higher dividend. We continue to prefer Santos within the oil/LNG sector, as production ramps up from recent developments and the company inflects from high capex to high free cash flow. The position in Santos helped offset the drag from Woodside.

Overweight Northern Star Resources (NST, -32.2%)

The gold price fell in March, weighing on the gold mining sector, including NST. However this move was compounded by management downgrading expected production for FY26. While its KCGM project remains on track for start-up in Q1 FY27, the spate of recent downgrades has driven a material de-rating and the market is expressing uncertainty with respect to the company's multi-year guidance, due to be delivered in June.

Overweight National Australia Bank (NAB, -15.5%)

NAB's share price was negatively impacted by three broker recommendation downgrades. The combination of higher interest rates and higher oil prices has the potential to slow credit growth and increase bad debt provisions across the sector. NAB is potentially more exposed than other banks given its skew to business banking.

Performance and outlook

The Portfolio finished behind the index in March. Its balanced construction, designed to help manage market shocks meant that material changes in the portfolio's thematic positioning were not required in an environment of elevated market stress and volatility.

Several of the portfolio's positions saw material drawdowns on the back of issues related to the conflict. Northern Star Resources fell on a weaker gold price, Qantas was down on concerns over fuel costs while the potential higher cost of oil-based inputs for packaging weighed on Amcor.

There was some offset from Santos, which benefits from higher energy prices. The portfolio's more defensive, less cyclical exposures such as Telstra and QBE Insurance also helped performance.

The outlook remains highly uncertain. The market is highly sensitive to statements from the Trump Administration; the consensus view on the conflict's likely end could shift quickly in either direction and prompt a rapid relief rally or further drawdowns.

This underpins the case for retaining a balanced portfolio construction, not positioning the portfolio to be reliant on one pathway or outcome, and having stocks that can outperform in either scenario.

Even if the conflict is brought to swift resolution and the Strait returns to something like normal traffic, there will still likely be the "air pocket" of constricted supply to work through the system.

At the same time, the combination of war-related damage to Gulf commodity production infrastructure - and the time required to restart and ramp up shuttered capacity - is likely to further exacerbate a period of disrupted supply.

The risk for Australia is that this will be felt in a period higher prices and lower demand, against a backdrop in which the RBA is raising rates. This could weigh on the earnings outlook for companies tied to domestic consumer demand and we are incrementally more cautious on these stocks.

The counterpoint could be in areas more tied to the global growth outlook. Resource companies look relatively well placed in this regard, helped at the margin by disrupted supply in certain commodities as a result of the conflict. Companies with little exposure to a disrupted supply chains or higher input costs, but which have nevertheless been sold down on broader fears around global demand, are also looking more attractive. We have been using this month's weakness to add to some of these positions.

There were some constructive signals from both the US and Iran at the start of April, possibly suggesting the desire to bring the conflict to an end. However this remains uncertain - as does the timeframe, the structure of any agreement, and the implications for supply chains.

As a result we continue to stay close to our companies, understanding the nature and scope of their sensitivity to issues raised by the conflict (both positive and negative), when they are likely to manifest, and what proactive strategies management are employing to deal with them.

Historically, we have been able to use episodes of market volatility to identify and add value via opportunities in individual companies, while balancing the portfolio construction to help deal with a quickly-changing environment. Single stock volatility was already elevated heading into the conflict, suggesting a high degree of mispricing that has only been exacerbated by the spike in uncertainty related to Iran. Current uncertainty is a challenge for investors, but the degree of mispricing suggest a good environment for active investors looking beyond the near-term volatility.

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

Sell Suncorp (SUN) to zero.

Buy a new position in Light & Wonder (LNW)

We are selling out of Suncorp (SUN) in the portfolio.

Returns in general insurance have improved markedly over the past three-to-four years given improvements in the pricing and interest rate cycles. For SUN, these benefits were further compounded by the sale of the bank, driving a valuation re-rating and making a positive contribution to portfolio returns.

There are still some positives left to come, with a conservative weather budget and strong balance sheet. However, these benefits would be one off in nature. Underlying profits look set to deteriorate as pricing and interest rates start to roll over. Management now reference current returns as attractive, to the point where they are starting to push for volume.

While early days, on balance of risk there is higher chance that multiples and margins will retrace on a multi-year view. As a result we have reduced our insurance exposure, taking profits in SUN.

QBE appears to have the most insulation, given a discounted share price and strong trends on cash versus reported profits and we maintain our position there.

The proceeds are being rotated into Light & Wonder, a global gaming content and technology company.

The company has been listed in Australia since May 2023 as part of a major structural change, selling its lotteries and sports betting platform and changing its name from Scientific Games. Prior to that it had been listed in the US since 1984, though it traces its corporate history back to the invention of the totaliser in Australia in the 1910s.

It now operates across three divisions: 1) Gaming, which provides products and services to land-based casinos, 2) iGaming, which provides online real money gaming content and platforms to regulated operators, and 3) SciPlay, which are free-to-play social casino games which generate revenue via in-app purchases.

A key element of its strategy is to develop game franchises that can be deployed across all three divisions, improving returns on its research and development spending and extending the game lifecycle. Roughly 70% of revenue come from the United States, with the remainder spread across the world.

Having initially listed in Australia at above 30x price/earnings, LNW has de-rated materially since, now trading at just above 11x price/earnings. Initially, this was driven by the combination of: 1) concern that cost-of-living pressures would drag on demand in North American land-based casinos, 2) some technical selling as the company announced it would be delisting in the US and moving primary listing to the ASX, and 3) the overhang of litigation between it and competitor Aristocrat, who alleged that its intellectual property had been used in LNW's Dragon Train game.

More recently, this has been compounded by contagion from the AI-related sell-off in other sectors, with some speculation that AI would increase competition in slot machine development. Broader selling in the US wagering space has also weighed, given the competitive threats from Prediction Markets.

In our view, the de-rating is overdone and the upside looks compelling from here.

In January, LNW and Aristocrat announced settlement of litigation and announced the intention to resolve future disputes privately. This crystallises the legal costs and settlement, removes the management distraction and remove the overhang of further games being affected.

While there has been some volatility in terms of mix between higher-and-lower margin products in recent quarters, the underlying picture is one of healthy demand in the Gaming division. In its most recent update, it is demonstrating strength in its "Participation" units, which are higher margin. It also indicated a stabilisation in earnings in SciPlay, as recent investment gains traction and drives improved margins. iGaming is steady, with an outlook for low teens revenue growth and margin expansion.

The more recent selling pressure appears without foundational basis. At this point there is little evidence that AI will increase competition in slot machines and instead is likely to underpin the advantage of incumbents given the regulatory approval, floor-lease arrangements and servicing infrastructure required. Likewise, the competitive threat posed by Prediction Markets is not applicable to LNW's business.

We see LNW as set to deliver mid-teen annual EPS growth over the medium-term as its strong content generation and distribution business delivers strong growth, particularly in Participation and in iGaming products. In combination with a supportive industry structure, the clearance of the litigation overhang, a good management team and strong operating cashflow, we see the upside opportunity from current valuations as compelling. We expect the company to re-rate as it demonstrates strong earnings growth and de-gears its balance sheet.

We also continue to hold Aristocrat Leisure, which has been similarly de-rated to the low-end of its historical range and also continues to offer attractive upside from current levels.

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

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