Pendal Quarterly Commentary

Pendal Macquarie Sustainable Moderate Managed Portfolio

June 2024

Portfolio overview

Moderate Managed Portfolio	
Investment objective	To provide a return (before fees and expenses) that exceeds the portfolio's benchmark over the medium to long term.
Suggested minimum investment timeframe	5+ years
Description	The Pendal Sustainable Moderate Model Portfolio is a managed diversified portfolio that actively invests considering a range of sustainable, ethical and financial criteria. Investments are diversified across Australian and international shares, Australian and international property securities, Australian and international fixed interest, cash and alternative investments. We actively seek exposure to securities and industries that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to companies with activities or behaviour we consider to negatively impact the environment or society. ESG considerations are also taken into account at the asset allocation level.
Benchmark	Composite Benchmark
Asset allocation ranges	Australian Equities 2 - 32% Australian Property 0 - 8% Australian Fixed Income 6 - 36% International Equities 9 - 39% International Fixed Interest 0 - 33% Property 0 - 11% Alternative Assets 0 - 21% Cash 1 - 26%

Performance

	3 month	6 month	1 year	Since inception (p.a.)*
Pendal Macquarie Sustainable Moderate Managed Portfolio	-0.74%	3.58%	8.43%	1.70%
Benchmark	-0.03%	4.55%	9.41%	3.93%
Active return	**-0.71%**	**-0.97%**	**-0.98%**	**-2.24%**

Source: Pendal as at 30 June 2024

*Since Inception - 7 October 2021

Performance returns are pre-fee. Investors should contact their platform provider for applicable fee rates.

Past performance is not a reliable indicator of future performance.

Sector returns - 3 month

Asset class	Portfolio Weight	Sector Returns		
		Portfolio	Index	Active
Alternatives	14.78%	0.17%	1.08%	-0.91%
Australian Equities	17.72%	-1.21%	-1.05%	-0.15%
Australian Fixed Interest	17.05%	-0.73%	-0.84%	0.11%
Australian Property	2.14%	-5.54%	-5.66%	0.12%
Global Property	1.21%	-1.59%	-1.80%	0.21%
International Equities	18.55%	-2.18%	0.28%	-2.45%
International Equities hedged	4.65%	3.68%	2.95%	0.73%
International Fixed Interest	17.09%	-0.47%	-0.16%	-0.30%
Cash	6.81%	0.78%	1.08%	-0.30%

Source: Pendal as at 30 June 2024

Market review

Markets faltered in April before resuming their steady climb over the remainder of the quarter.

- Developed market equities (+3.2%) generated positive returns, shaking off a down month during April to end the quarter higher. Performance was led by the US (+4.3%) where large cap tech companies continued to drive performance, benefitting from strong corporate earnings results. The Magnificent 7 collectively, and Nvidia especially continue to substantially outperform the broader market.
- The ASX 300 (-1.2%) trailed the broader market, reflecting increasingly hawkish expectations for RBA policy.
- European equities (-1.6%) saw mixed performance with France (-6.6%) the notable laggard. Sharemarket returns reflected the increased political uncertainty against a backdrop of improving economic growth data. Meanwhile, the UK (+3.8%) market rose, with investors responding well to increased share buybacks.
- Emerging markets (+6.6%) rose, led by strong quarters from Taiwan (+14.1%) and China (+7.2%) where supportive government policy and the improving economic outlook fuelled gains.
- US 10-year Bond yields (+17bps) ended the quarter higher, masking a sharp rise in April followed by a steady decline over May and June. Domestic 10-year yields (+35bps) also rose over the quarter as higher than expected monthly inflation print raised the possibility of further policy tightening from the RBA.
- Lastly, commodity markets were mixed with base metals and Gold (+5.3%) performing well while coal (-12.9%) sold off.

The key factor driving markets throughout the quarter remained near-term expectations for the path of monetary policy. In April, expectations of near-term central bank rate cuts were unwound as robust US growth data were interpreted as markers of an overheating economy. Over the remaining months, these concerns eased in the face of softening economic data and the expectation of soft-landing was resurgent. While equity valuations recommenced their rally during May and June, there remains uncertainty with consensus rate expectations oscillating throughout this year as initial central bank optimism was persistently watered down by resilient monthly core inflation results which sparked expectations of higher-for-longer rates.

Although expectations for monetary policy easing have been scaled back over the year to date, some central banks have commenced rate cutting as inflation pressures have dissipated. The ECB cut rates in June in a move that was widely expected following doveish guidance. Inflation and wages growth remain well outside of target however and the ECB flagged that the level and duration of their restrictive stance would remain data dependent. In Australia, inflation is proving far tougher to contain with successive monthly CPI releases above consensus expectations. The upcoming quarterly print will be crucial to understanding the path of RBA policy with futures markets pricing in an even chance of a rate increase at the August meeting by quarter end.

Portfolio update

The Macquarie Sustainable Moderate Portfolio returned of -0.74% for the quarter, underperforming the benchmark return of -0.03%. The key driver of underperformance for the quarter was stock selection within Global equities. Asset allocation was slightly negative for the quarter, as our overweight to fixed income detracted marginally.

In regard to benchmark underperformance within Global equities, the increasing concentration of share market performance around a handful of high growth mega cap US tech stocks continues to contribute to underperformance of the Fund's equity exposures which maintain a more diversified and value aware focus. In our Global equity impact strategy, the funds exposure to mid-cap health care and industrials detracted as the market was laser focussed on large cap stocks, whereas impact strategies tend to focus on stocks that are earlier in their product life cycle and with higher interest rate sensitivity.

The portfolio finished the quarter with overweight Alternatives & Australian Fixed Interest positions and underweight GREITs and Cash positions. The consensus view today is for the US to experience a soft landing in 2024 but markets pulled a lot of the good news from 2024 into last year's return. This leaves the market with elevated valuations, expected 12-month earnings growth close to double the historic average supported by dovish interest rate expectations. With so much good news already priced in, we remain cautious on the outlook.

Market outlook

The global growth outlook has broadened somewhat with US growth moderating from a high base, whereas regional growth outside the US is accelerating from a low level. Some of the tail risks highlighted at the start of the year around inflation and economic have growth have subsided somewhat and what is left is more mundane cycle of trend growth around 3% with persistent and above-target inflation also around 3%.

Despite recent improvements in Europe and resilient US data, it remains hard to see a significant global growth acceleration this year, as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, employment growth is slowing, and the global credit impulse is at a post-GFC low. While resilient growth is supportive for equities, the soft-landing scenario and some rate cuts have already been priced in which increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets or central bank expectation.

Despite an improving growth outlook, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging environment for markets to negotiate.

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

PENDAL

This quarterly commentary has been prepared by Pendal Institutional Limited ABN 17 126 390 627, AFSL 316455 (**Pendal**) and the information contained within is current as at the date of this quarterly commentary. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

This quarterly commentary relates to the Pendal Macquarie Sustainable Moderate Managed Portfolio, a portfolio developed by Pendal. The portfolio composition for any individual investor may vary and the performance information shown may differ from the performance of an investor portfolio due to differences in portfolio construction or fees.

Performance figures are shown gross of fees and are calculated by tracking the value of a notional portfolio. Past performance is not a reliable indicator of future performance.

This quarterly commentary is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their or their clients' individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this commentary may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this commentary is complete and correct, to the maximum extent permitted by law neither Pendal nor any company in the Pendal group accepts any responsibility or liability for the accuracy or completeness of this information.