

Pendal Sustainable Balanced Fund

ARSN: 637 429 237

Factsheet

Multi-Asset Strategies

October 2020

About the Fund

The Pendal Sustainable Balanced Fund (**Fund**) is an actively managed diversified portfolio that invests in Australian and international shares, Australian and international property securities, Australian and international fixed interest, cash and alternative investments. Investments are selected based on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees and expenses) that exceeds the Fund's benchmark over the medium to long term. The suggested investment timeframe is five years or more.

Description of Fund

For Australian and international shares and Australian and international fixed interest, the Fund uses an active security selection process that combines sustainable and ethical criteria with Pendal's financial analysis. 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.

The Fund will not invest in companies with material business involvement in the following activities:

- production of tobacco or alcohol,
- manufacture or provision of gaming facilities,
- manufacture of weapons or armaments,
- manufacture or distribution of pornography,
- directly mine uranium for the purpose of weapons manufacturing,
- extraction of thermal coal and oil sands production.

We consider that a company or issuer has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

The assets of the Fund are managed by Pendal together with a number of leading investment managers, such as AQR for international shares and AEW for international property securities. Pendal manages the asset allocation of the Fund.

Pendal actively engages with the management of the companies we invest in to manage risk, effect change and realise potential value over the long term.

Benchmark

The benchmark for the Fund is created from a range of published indices. The benchmark is based on the neutral position and the index returns for each asset class. Details of the particular market indices used for the Fund's benchmark can be found at <http://www.pendalgroup.com/Pendal-Sustainable-Balanced-Fund>.

Investment Team

The Fund is managed by Stuart Eliot who has more than 30 years' industry experience. The team has a diverse skill set; combining a range of global and domestic market experience and drawing on the resources of Pendal's other specialist teams.



CERTIFIED BY RIAA

The Pendal Sustainable Balanced Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Performance¹

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.32	-0.26	0.20
3 months	0.92	1.12	1.15
6 months	4.57	4.99	5.29
1 year (pa)	-2.22	-1.42	-0.66
2 years (pa)	4.00	4.89	6.20
3 years (pa)	2.90	3.80	5.60
5 years (pa)	4.52	5.44	6.46

Asset allocation (as at 31 October 2020)

Australian shares	25.8%
International shares	30.5%
Australian fixed interest	6.6%
International fixed interest	4.9%
Australian property securities	6.4%
International property securities	2.0%
Alternative investments	16.6%
Cash	7.2%

Investment Guidelines

Asset allocation ranges (%)	Neutral position	Ranges	
		Min	Max
Australian shares	30	20	40
International shares	30	20	40
Australian fixed interest	8	0	25
International fixed interest	5	0	25
Australian property securities	3	0	10
International property securities	1	0	10
Alternative investments	15	0	20
Cash	8	0	20

Other Information

Fund size (as at 31 Oct 2020)	\$634 million
Date of inception	August 1984
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	BTA0122AU

² The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs³

Issuer fee ⁴	0.84% pa
Estimated indirect costs ⁵	0.05% pa

³ You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

⁴ This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

⁵ This is an estimate of the last financial year's indirect costs. These are reflected in the unit price of the Fund and are not charged to you as a fee or retained by us.

¹ The asset allocation neutral position, asset allocation ranges and the benchmark have changed over time. As it is historical information, the Fund performance reflects the asset allocation neutral positions and ranges that have applied over time. The benchmark performance shown is that of the combined benchmarks that the Fund has aimed to exceed over time.

Risks

An investment in the Fund involves risk, including:

- **Market risk** - The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Interest rate risk**: The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk** - Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Credit risk** - The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.
- **Counterparty risk** - The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Product Disclosure Statement (PDS) for a detailed explanation of each of these risks.

Market review

The S&P/ASX 300 Accumulation index gained +1.9% over October; although -4% was wiped off the market during the last week of the month. Resources (-1.2%) continued to underperform Industrials (+2.7%) as performance miners and energy companies remained lackluster.

The continued surge in new Covid cases in the US and Europe led to the start of lockdowns in the latter. Meanwhile Pfizer announced that the interim results of its vaccine trial would be delayed. In the US there were some speculation that the election may be tighter than people expected a few weeks ago, while results season has been a touch disappointing thus far. The key issue is how the combination of the pandemic, US election and policy responses will impact on the potential for rotation within the market. The market is at historical extremes when it comes to the outperformance of growth over value and also on the latter's valuation premium.

Domestically, the Australian Federal budget was stimulatory, as expected. On balance, the scale of injection was probably a touch larger than consensus was looking for. The scale of measures, which will drive the budget deficit close to 12%, demonstrates the willingness of policy makers to underpin the economy. The shift in mindset away from fiscal prudence and balance budgets is material and suggests that there is more the government can do if required.

Turning to sector performance, there were five sectors finishing the month in the red, led by Industrials (-3.5%). The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names. Transurban (TCL, -4.6%), Sydney Airport (SYD, -7.0%) and Atlas Arteria (ALX, -7.1%) were amongst the largest performance detractors within their sector. The acceleration in Covid cases and the newly declared lock-down in France also weighed on investor sentiment for ALX.

Global markets retreated through October, driven by fading stimulus expectations, weak US tech results and rising COVID cases with European and US second waves intensifying and geopolitical risks mounting (US election, Brexit, trade). The MSCI World ex Australia (USD) sold off -3.07% while emerging markets (+2.0%) outperformed developed markets (-3.1%) in US dollar terms. Although, the -1.4% depreciation in the Australian dollar vs the US dollar from risk-off sentiment and dovish RBA comments benefitted Australian investors in October.

Following this sentiment, major US indices S&P 500 (-2.77%), NASDAQ (-2.29%) and Dow Jones (-4.61%) all sold off in October. Rising European cases saw the FT 100 (-4.92%), German DAX (-9.44%) and French CAC 40 (-4.36%) also decline. Across Asia, the Hang Seng (2.76%) managed to hold up while the Nikkei (-0.90%) fell.

Fund performance

The Fund underperformed the benchmark over the month of October.

Active positioning contributed negatively to returns in October. Portfolios started the month positioned with overweights in a range of under-valued equity markets, a volatility carry position in VIX futures, plus overweights to S&P-500 and STOXX® Europe 600 ESG-X in equity trend-following, partially offset by an underweights in Dow Jones and ASX-200 while being meaningfully protected via options. Fixed income positions were mostly relative value in nature, with a small short bias. In commodities we held long positions in copper and gold.

In equities, our active positioning driven by valuation insights held overweight positions in Mexico's Bolsa, a long position in the futures of EURO STOXX 50 dividends paid in the calendar year 2024 and FTSE 100 dividends paid in the calendar year 2023 and overweights to both global and Australian listed property, all of which screened amongst the most under-valued markets in the universe which we monitor. The portfolio was long volatility carry through VIX futures. On the other side we held a short position in Dow Jones, as US large cap equities trade materially expensive, however this was switched from Dow Jones to S&P-500 towards the end of the month, netting off against the trend-based S&P overweight, as the S&P-500 moved to be considerably more expensive than the Dow Jones. These mostly overweight positions are meaningfully hedged by an option strategy to protect against possible downside in Australian equities, which consists of buying a put spread, funded by selling an out-of-the money call option, all with an expiry in December: beyond the US presidential election and the associated event risk. Attractive features of this hedging strategy are that the net premium cost was approximately zero and that the strike price of the sold call option is where we expected to be reducing exposure to Australian equities on a valuation basis at the time the trade was initiated. Our trend-following process held overweights to STOXX® Europe 600 ESG-X and S&P-500 and an underweight to S&P/ASX-200 during October. At the end of the month, the underweight ASX was closed and the STOXX® Europe 600 ESG-X trend switched from overweight to underweight, the combination of which slightly reduced the portfolio's overweight to growth assets.

In fixed income, the portfolio was slightly short with modest overweights in Australian and Canadian 10-year bonds more than offset by underweights in German Bunds, US 10-year Notes and UK Gilts. We took profit on half of the Australian "3s-10s curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures), later adding a flattener in the 10- vs 20-year part of the curve. At the end of the month, the trend models re-initiated the overweight to German Bunds.

In commodities, the portfolio was long copper and gold and short Brent crude oil.

Our active positioning at the start of November remains risk-on but slightly less so than the prior month. The portfolio is positioned with overweights in a range of under-valued equity markets, long volatility carry, underweight STOXX® Europe 600 ESG-X in equity trend-following while being meaningfully protected via options. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper and gold.

Market outlook

The "Blue wave" did not emerge in the US election. While the Democrats seem set to take the White House, they underperformed expectations in both Houses. Their majority in the House of Representatives was reduced, while the Senate also looks set to retain a republican Majority. The Democrats have done worse than expected in the House of Representative, losing nine seats thus far. They should retain a majority, albeit smaller.

The prospect of divided government means lower likely stimulus, but also less chance for some of the more contentious policy changes such as higher taxes. Without the control of Congress Biden is likely to plump for a more centrist cabinet, potentially taking some of the more left wing agenda off the table. It is also notable that Biden has a strong relationship with Republican Senate Leader McConnell, which may be constructive for some

degree of cooperation. All in all, the outcome has been broadly welcomed by markets.

Covid cases continue to deteriorate throughout Europe and the US, with increased test positivity indicating the momentum continues to rise.

Total US hospitalisations are up to 50k, versus the previous peak of 60K. In this instance, they are spread wider geographically and there are no signs of strain on the system as yet. However, this remains a key factor to watch.

Several European countries have reinstated lock downs. However, the market seems to be taking a relatively sanguine view at this point and appears to be looking through this wave of Covid on a combination of:

- a better understanding of the virus,
- better healthcare system preparation,
- a view that lockdowns work within a reasonable time frame,
- that policy stands ready to plug the economic gap,
- that liquidity is so prevalent it means any sell-off is quickly supported,
- optimism on positive vaccine developments.

The prospect of further trade friction with China remains a risk to Australian equities. There has been speculation of additional measures on some goods – for example of low grade iron ore. At this point Beijing may be happy to have these additional threats in conversation without acting on them, but this is an issue, which must be watched.

That said, we are mindful that there are several positives lining up which can support the market into the year's end. These include:

1. Supportive global markets
2. Fiscal stimulus from the budget flowing through
3. Melbourne re-opening, perhaps more quickly now than hoped
4. Borders re-opening
5. Pent-up demand, with more people than usual staying in Australia over Christmas
6. More stimulus from the RBA
7. Cautious positioning from investors
8. The potential for M&A activity.

For more information please call **1800 813 886**, contact your key account manager or visit pendalgroup.com

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- i. any other aspect of the company's performance;
- ii. the prospects of the company; or
- iii. the company's suitability or attractiveness from an investment perspective.

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PFSL is the responsible entity and issuer of units in the Pental Sustainable Balanced Fund (Fund) ARSN: 637 429 237. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.pentalgroup.com. You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.

Regnan Sustainability Snapshots#

OZ Minerals Ltd (OZL)

OZ Minerals is a copper-focused international mining company with three operating assets: Prominent Hill and Carrapateena in Australia, and Carajas in Brazil, as well as various exploration and development projects throughout Australia and Latin America.

Oversight of safety management is undertaken by the board sustainability committee. OZL's safety policy is applicable across its operations, including contractors who make up a large portion of operational and project development work. The company's TRIFR rates improved from 7.52 in 2018 to 6.27 in 2019, which includes unaudited figures from Brazil. We note that a sub-contractor fatality occurred at the Carrapateena operations, an incident involving a helicopter crash whilst installing power lines at the site. In 2020, the company aims to embed a refreshed critical risk management program at its key Prominent Hill operations.

OZL discloses sound community relations practices, however investors would benefit from more granular detail on these processes. Regnan notes positively the company's continued focus on implementation of integration plans for Brazilian operations.

The company has exposure to physical impacts of climate change. Governance includes a board sustainability committee with explicit oversight of OZL's operational response to climate change. Further enhancements have been made this year, which include progress on TCFD, where the company has established a roadmap for future disclosure; the release of a formal climate change statement expressing support for the Paris agreement; and plans to formally integrate climate risk management and TCFD within the company strategy and governance framework. This should contribute to long term business resilience through improved risk identification.

Costa Group Holdings Ltd (CGC)

Costa Group is a horticulture company primarily engaged in the growing of mushrooms, blueberries, raspberries, glasshouse grown tomatoes, citrus and other fruits.

Disclosure of climate change mitigation and adaptation plans has improved year on year. CGC's 'protected' crops operate under controlled conditions and are therefore less impacted by acute and chronic impacts of climate change. Innovative and technology enabled harvest management further enhances business resilience to physical impacts of climate change. Energy efficiency efforts, including chilling efficiency in growing rooms, and water efficiency efforts, including reviewing irrigation practices across avocado farms, are evident.

Over the years the company has reduced reliance on third-party hire firms to recruit seasonal workers, increasing visibility and control over labour conditions and arrangements. Work health and safety performance has improved including on lost time injury frequency rate (LTIFR) and total recordable injury frequency rate (TRIFR) from 2.53 to 2.42 y/y and 19.22 to 17.02 respectively.

PENTAL