

# Responsible investment philosophy and approach

September 2019

## Scope

This document applies across Pental Group Limited's Australian investment management business (Pental), providing guidance to our investment teams.

This statement is aligned with Pental's 'Corporate Sustainability and Responsibility Statement', 'Proxy Voting Policy Statement' and 'Principles of Internal Governance and Asset Stewardship'.

The document was approved by the Pental Australia Executive Committee in September 2019 and is reviewed annually or more frequently if required.

## Background

Pental is an investment manager with a proud history and ongoing commitment to leadership in responsible investment (RI).

We offer a range of innovative approaches to RI across multiple strategies, including:

- Australian Equities
- Global Equities
- Australian Fixed Income and Credit
- International Fixed Income and Credit
- Multi-Asset Investments.

However, as a fiduciary and a corporate citizen, our approach to RI extends beyond product solutions.

We view effective management of our impact upon the environment, the community and other stakeholders as critical to our continued ability to deliver sustainable value to our clients, employees and our shareholders. Further, to meet our duties as a fiduciary, we consider the impacts from environmental, social and corporate governance (ESG) risks upon the investments made on behalf of our clients.

## Responsible investment philosophy

A company's performance is closely linked to the quality of its management. The way a company handles environmental, social and corporate governance (ESG) issues can provide insight into the company's exposure to negative incidents or ability to capitalise on emerging opportunities.

Pental's RI philosophy is based on three core beliefs:

- Attention to environmental and social performance and to corporate governance can improve the quality and consistency of long-term wealth creation.
- As an active manager, we are well positioned to help our clients manage these risks and thus enhance returns, including through innovative investment solutions that provide opportunities to invest in line with the values of our clients.
- Our actions and decisions can affect practices in the entities in which we invest, in turn affecting the environment, our stakeholders, and the community. We have both a duty and an interest in managing this influence.

Where ESG considerations may impact the financial performance of an investment, those factors are taken into account as part of our active investment processes (in the same way as other potential risk factors).

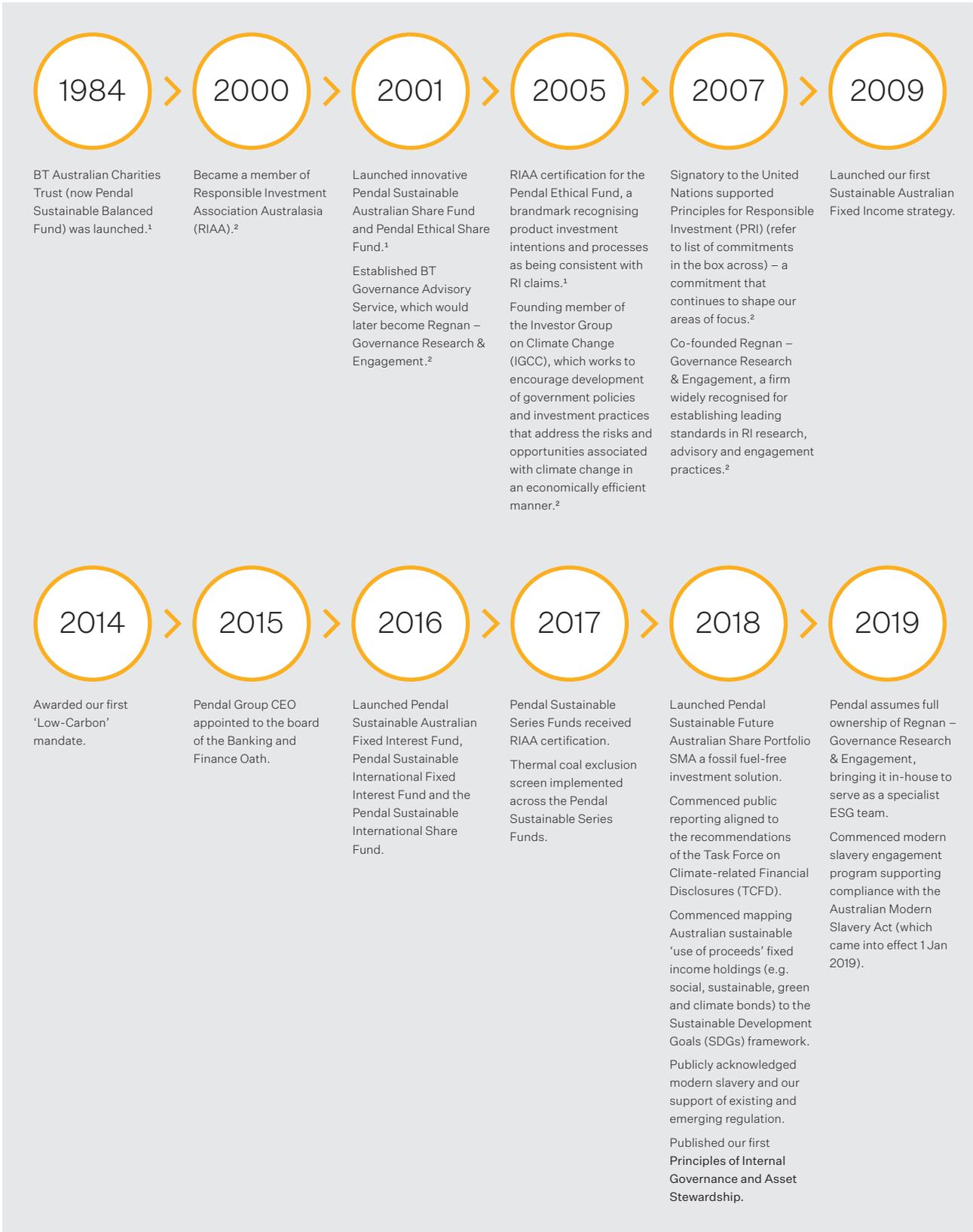
In addition to integrating ESG via our active management processes, we strive to assist our clients to meet their objectives through innovative, performance-driven investment solutions. We focus on assisting clients to manage their own ESG commitments and responsibilities, through investment options aligned to their ethical, environmental or social priorities.

**“Responsible investing is part of our heritage and is a natural extension of our active approach to investing.”**

Emilio Gonzalez, Group CEO, Pental Group Limited

# Our RI history

Our commitment to corporate sustainability and responsible investing has a long and proud heritage. Key milestones in Pental’s RI journey to-date include:



1 The fund was launched when Pental was part of the BT Financial Group. Pental Fund Services Limited (previously known as BT Investment Management (Fund Services) Limited) became the responsible entity of this fund in 2007.

2. When Pental was part of the BT Financial Group.

## The PRI is a set of six commitments:

- 1 We will incorporate ESG issues into investment analysis and decision
- 2 We will be active owners and incorporate ESG issues into our ownership policies and practices;
- 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest;
- 4 We will promote acceptance and implementation of the Principles within the investment industry;
- 5 We will work together to enhance our effectiveness in implementing the Principles; and
- 6 We will each report on our activities and progress towards implementing the Principles.

Source: PRI

## Active ownership and engagement

Active ownership is a natural extension of our active management investment process. Pandal engages in an ongoing dialogue with the management of the companies in which we invest to manage risk, effect change and protect value over the long term. We are committed to transparency in our active ownership practices, and provide comprehensive information to clients such as disclosing proxy voting and engagement on our website.

We commenced our active ownership journey with the creation of an in-house governance advisory unit, BT Governance Advisory Service (BT GAS). In time, and with a desire for an enhanced focus and independent perspective on ESG issues in the market, we collaborated with other institutional investors and evolved BT GAS into specialist ESG firm Regnan in 2007, under shared ownership.

Since that time, Regnan has undertaken collective engagement on our behalf with top 200 ASX-listed companies on ESG issues relevant for long term value. We consider this to be an important complement to our own practice, ensuring the capacity for emerging issues in the field to benefit from sufficient attention and expertise. We are proud that through our involvement in Regnan's establishment, we have also been able to support our clients' and our industry's RI practices in this endeavour.

In 2019, Pandal assumed full ownership of Regnan, bringing the team in-house to operate as a boutique under Pandal's existing multi-boutique model. Closer alignment with Regnan supports Pandal's objectives to improve investor outcomes through a continued focus on active ownership and engagement. Regnan continues to offer services independently.

Please refer to our 'Principles of Internal Governance and Asset Stewardship' available on our website for additional information.

3. <https://pandalgroup.com/about/corporate-governance/>

4. We disclose Regnan's Annual Engagement Record in our 'Corporate Sustainability & Responsibility' report as part of our Annual Report.

5. The World Economic Forum's Global Risks Report 2019 listed 'Failure of climate-change mitigation and adaption', 'Extreme weather events', 'Natural disasters', and 'Water crises' as four of the top five risk factors in terms of impact, with the first three also in the top five risks by likelihood.

6. Please refer to the Corporate Sustainability & Responsibility report within the 2018 Pandal Group Annual Report for a discussion of our actions as a corporation in managing the risks and opportunities associated with climate change.

7. Anti-Slavery International

## Approach to key ESG issues

We recognise the need for the responsible investment agenda to evolve with changes in society and the financial ecosystem, and place additional emphasis on emerging topics within RI as their importance increases.

Contemporary examples include technological disruption of traditional industries, use of plastics, modern slavery, and climate change.

## Climate change

The transition to a low carbon economy is reconfiguring the investment landscape, while the physical impacts of a changing climate are already manifesting, with consequences for both physical and financial assets.

While we are able to measure the carbon intensity across our portfolios, we believe robust investment analysis must go beyond reporting a carbon footprint to consider the impacts of climate-related risks and opportunities more broadly and across all sectors. These include:

- Adoption of cleaner technologies (e.g. energy efficiency, advances in battery storage);
- Changes in consumer preferences (e.g. shift to renewable energy);
- Related regulatory/policy initiatives (e.g. energy efficiency standards); and
- Physical impacts from extreme weather events, rising sea levels, and consequent institutional responses (e.g. diminishing insurance availability).

As an active investment manager, our analysts also pose similar questions, where relevant, during Pandal meetings with investee company management and use this information to assess when, where, and how real and financial asset markets may be affected.

**“We are committed to working with our clients to help them to tailor their investments to manage the risks and opportunities associated with climate change.”**



## Modern Slavery

Modern Slavery is a form of human rights abuse estimated to affect 40 million people globally. While there is no agreed global definition, it is widely understood to refer to human trafficking and slavery-like practices such as servitude, forced labour, deceptive recruiting, forced marriage and debt bondage. Such forms of exploitation – where a person cannot leave due to threats, coercion, deception or abuse of power – are the subject of the Australian Modern Slavery Act which came into effect 1 January 2019.

Pendal has long considered social risks, including human rights, within our investments. We welcome the Act and broader efforts to eliminate modern slavery around the world. Not only will this benefit vulnerable people, we believe it will enhance our ability to manage risks within investments on behalf of our clients.

In light of the Act, under which Pendal has compliance obligations, we have begun to better understand the potential for modern slavery to exist within our investments and adequately manage for such risks. Engagement has, and will continue to, play a significant role in supporting our obligations as well as to positively contribute to efforts to eliminate modern slavery by using our influence as an investor to effect change.

## Continuous improvement

While RI is well-established, its evolution and growth continue to provide new opportunities. As the quality of data, disclosure and tools evolve, we continue to develop our RI processes and our products (including those serving different asset classes and geographies).

## Conclusion

We believe it is possible to deliver competitive returns while investing responsibly, including in a manner consistent with the values and missions of our clients.

We understand that views on responsible investing are varied and that approaches need to evolve with changes within society and the corporate environment. We are committed to continuing our proud heritage of partnering with investors to deliver RI solutions with a focus on long-term wealth creation.

Pendal acknowledges that climate change is an escalating and complex issue. We are committed to working with our clients to help them to tailor their investments to manage the risks and opportunities associated with climate change while also delivering responsible, performance-driven strategies that meet their long-term investment objectives.

For more information please email [RI@pendalgroup.com](mailto:RI@pendalgroup.com) or visit [pendalgroup.com](http://pendalgroup.com)

**PENDAL**

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