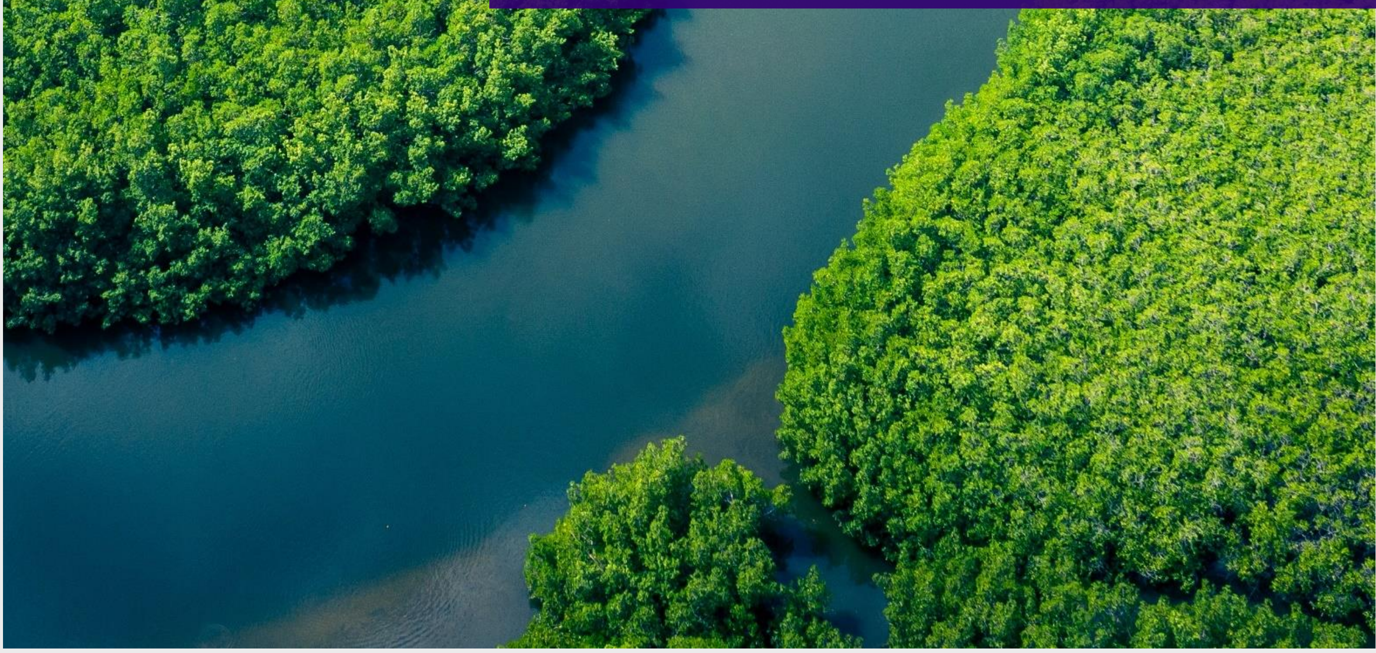
March 2022

Pendal Responsible Investment and Stewardship Annual Report 2021

Pendal Group is an independent, global investment management business focused on delivering superior investment returns for clients through active management. We operate a multi-boutique structure offering a broad range of investment strategies.

This report details the responsible investment and stewardship activities undertaken in 2021 across Pendal Group's Australian investment management business, referred to here as 'Pendal'.

Reported figures are current at Dec 31 2021, unless otherwise noted.



PENDAL

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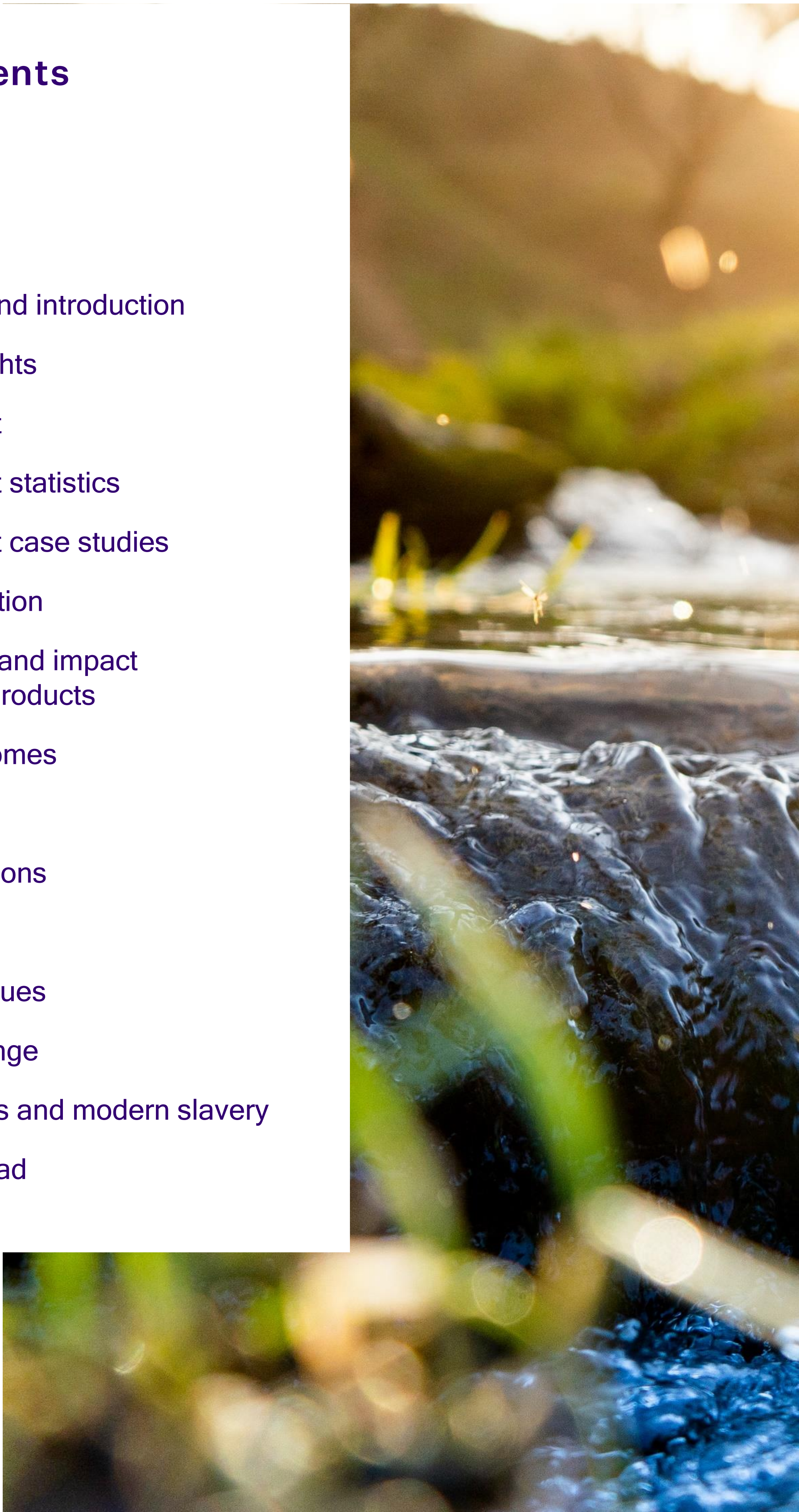


CEO letter and introduction

WE learnt in school that every action has an equal and opposite re-action.

This never made much sense to me at the time. But the more I understand the world around me, the more obvious it becomes that actions cannot be seen as simple things in two dimensions.

There are multiple implications for every action we take.

Often these are second and third-order responses or reactions to the decisions we make.

We cannot absolve ourselves from responsibility for these implications.

If we want to "do good" we need to be mindful of the flow-on effects on our personal report card. If something bad comes from our actions, we must bear responsibility.

Our role as active stewards of capital is no different. We exist to grow the assets of our clients and improve their well-being. But in doing so we are influencing the cost of capital, the quality of management and behaviours of the organisations in which we invest.

At Pendal we would not be able to do this effectively without fundamental research driven by one of the largest equity teams in the country and a commitment to active engagement with management and boards.

I note this now, in particular, because of the fragility of our system.

Two pieces of regulation emerged during the past year which were not sufficiently mindful of their higher-order implications for this system.

One has been effectively resolved by our Senate. The other will play out over many years.

Pleasingly the Senate rejected proposed legislation to limit the power of proxy advisers.

Ostensibly aimed at ensuring the Super funds act in the best interests of their members, the reforms would have been a critical blow to the proxy advice industry.

And to what end? Proxy advisers play a critical role in our system, providing research and non-binding voting recommendations to asset owners.

Proxy advice guides and sets expectations for corporate Australia. It has shaped some of the critical issues of our times – climate change, workplace behaviour, corporate wrongdoing and the business sector's social licence to operate.

Treasurer Josh Frydenberg's proxy reforms lasted just three days – and rightly so.

What will play out over many years, however, is the Your Future Your Super regulatory regime.

YFYS was designed to weed out underperforming super funds.

But it is inadvertently driving more and more capital to be allocated in line with arbitrary market capitalisation-weighted benchmarks selected by the regulator, as super funds look to minimise their risk of underperforming.

It's important to note that market cap-weighted indices/benchmarks were never designed to be optimal investment strategies. Stock weights are driven by past returns, not expected returns.

But even more importantly, they don't take into account any non-financial (or Environmental, Social and Governance) risks – risks that will increasingly drive future returns. In effect, more capital will be allocated in a naïve, backward-looking way.

And yet the fact that our superannuation assets dwarf our economy in size means we fundamentally need it be forward looking. The way Super allocates capital will shape the world into which we retire.

These potentially negative implications of YFYS will raise the bar for those of us involved in fundamental, active management.

Of course, we have a lot of work to do to make sure our own house is in order. The financial services industry needs to improve materially with respect to diversity and inclusion, for example.

At Pendal we recently committed to the *40:40 Vision* as a listed entity (Pendal was already founding investor signatory). This investor-led initiative aims to see women fill at least 40 per cent of executive roles in the ASX200 by 2030.

To quote from the initiative: "40:40 Vision seeks to move beyond tokenism to achieve this through business-oriented structural transformation, encouraging companies to set and publicly report on progress against composition targets for executive leadership."

We feel inspired by this particular initiative because of its focus on thoughtfully developing the whole career path for a more diverse workforce.

We also became carbon neutral this year. We formed a group-wide working group to establish our Net Zero Action Plan.

More work needs to be done.

Nevertheless, asset owners and asset managers are increasingly coming together to lead positive change and this is truly pleasing.

We have collaborated with many asset owners, industry groups and other active fund managers over the past year to push company managers on climate, diversity and social infrastructure.

More and more participants in the financial system are recognising that their actions matter. They have a role and a responsibility in improving the well-being of the broader community, alongside their own clients.

It is only through this recognition that we will create the better world we all seek.

R Brandweiner.

Richard Brandweiner
CEO, Australia

2021 Highlights

479

ESG engagements across our investment boutiques

Pendal Group became **carbon neutral** across our operations

Inaugural Pendal Group Modern Slavery Statement

A$5.28B

Funds under management in dedicated responsible investment strategies

Actively involved in 40:40 Vision engagement initiative on gender diversity

5

Dedicated responsible investment strategies launched or refreshed

A+

Pendal's average score across Principles for Responsible Investment (PRI) reporting modules

17

Engagements held by Pendal and Regnan on modern slavery

39

Sustainability-related impact bonds held across our portfolios

Engagement

As responsible stewards of capital, Pendal actively engages directly with investee companies and issuers.

We focus on companies or issuers where we have identified areas of concern or where our shareholding affords us greater influence.

We aim to drive improved practices including in environmental, social and governance (ESG) matters. We have a duty and an interest in doing so.

The **Australian Equities** team's regular engagement continued in 2021.

Aspects of Covid-related social issues carried over from 2020 (such as company resiliency and safeguarding the health and wellbeing of employees and customers). There was also increased focus on how companies managed their social licence to operate.

The team's steady focus on climate change continued in 2021. This included a new topic – the 'Say on Climate' (SoC) campaign which became an engagement theme directly with investee companies and collectively with other investors and advisory groups.

Pendal's Aussie equities and Responsible Investments teams continued their support for the 40:40 Vision, an ambitious investor-led initiative that aims to see women fill at least 40 per cent of executive roles in the ASX200 by 2030.

Pendal's **Interest and Fixed Income (I&FI)** team takes engagement responsibilities seriously and strives to use its influence for positive change.

Engaging with issuers is an important component of the I&FI team's ESG process.

This includes strong ESG performers as well as laggards. Some 80% of our engagements are with specific issuers.

Other areas of influence include shaping the debt market through specific instrument construction, expectations for reporting and where we would like the market to move to. About 20% of our engagements are with arrangers.

Pendal's responsible investment business Regnan developed a series of ESG guidance notes for our investment teams and clients, supporting efforts for constructive change when engaging with companies.

Investment teams benefited from additional sessions which explored in detail topics such as modern slavery, governance and diversity, equity & inclusion (DEI).

In addition to direct liaison with companies via our investment teams, Pendal continued to be represented in Regnan's ESG-focused collective engagement program alongside other institutional investors.

Regnan's work focuses not only on companies bearing ESG risks, but also companies contributing to risks that are likely to lead to the destruction of value elsewhere in portfolios.

Pendal is proud to work with other institutional investors via Regnan's program to ensure a coordinated approach and add weight to matters of market integrity. During the year we undertook a number of meetings jointly with Regnan on material ESG matters.

Full details of the key themes of Regnan's engagement and advocacy activities during the year, including detailed reporting on the impacts of this work, can be found in Regnan's annual report on its website at pend.al/regnan2021.

'Say on Climate' (SoC) is a new global initiative that became active in Australia in 2021. The campaign asks company managers to put forward advisory votes at shareholder meetings on their plans to address climate-related matters and disclosures. It's akin to shareholders' 'Say on Pay' through advisory resolutions on remuneration reports.

In 2021 Pendal's Australian Equities team encouraged a number of investee companies to support this initiative where we believed they would benefit from a clearer shareholder mandate to undertake strategic and capital expenditure decisions in support of climate action.

The SoC's emphasis on Taskforce on Climate-related Financial Disclosures (TCFD)-aligned reporting helps focus the climate conversation on key material issues for a company and its shareholders.

We welcome SoC votes enabling stronger and wider shareholder participation in climate-related stewardship practices.

Engagement statistics

ESG engagement by our Australian Equities team

Our large Australian Equities team actively meets with Australian companies, seeking outcomes that are in the long-term interests of shareholders.

Long-term ESG issues often feature in our corporate engagement alongside financial management.

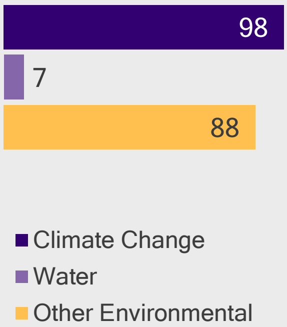
294
ESG engagements
conducted with companies

98
companies
engaged in the year

Environmental

147

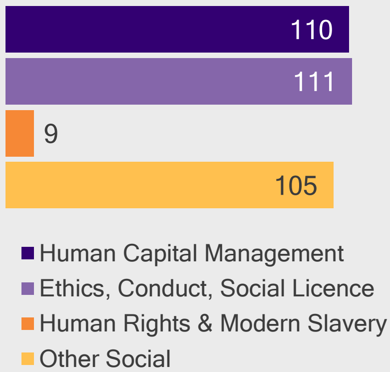
engagements discussed **environmental** issues



Social

186

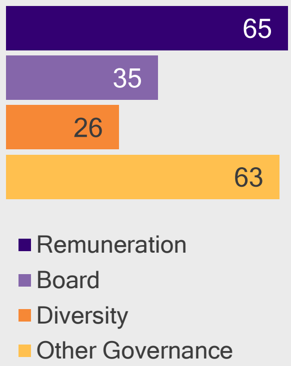
engagements discussed **social** issues



Governance

131

engagements discussed **governance** issues



ESG engagement by our I&FI team

79

ESG engagements conducted with issuers

In 2021 the I&FI team undertook 72 direct engagements across 51 different entities, covering a range of ESG concerns.
Key areas of engagement included reporting, climate change transition and shaping the debt markets.
Some engagements addressed more than one focus area. Of our engagements in 2021, 44 addressed reporting on impact and other ESG metrics, 43 related to climate change disclosure and 20 were about shaping the debt markets.
This last focus area is with arrangers or issuers offering a new type of impact bond in the Australian market (sustainability-linked bonds)

ESG engagement by our Global Equities team

106

ESG engagements conducted with companies

Pendal's Concentrated Global Share team actively engaged with companies remotely during 2021, despite not being able to travel due to Covid-19 travel restrictions.

The team undertook 106 ESG-related engagements during the year.

Engagement case studies

Case study

Australian equities engagement: harassment in the mining sector

The past year has seen a growing number of reports relating to sexual harassment incidents across the mining industry.

Apart from the seriousness of the impact on victims, this issue has gained importance with investors due to a growing awareness of the related financial risks to companies associated with reputational damage, lost productivity and operational disruptions.

A 2021 West Australian inquiry into sexual harassment in fly-in-fly-out mining sites served to highlight gaps in policies and systems in place to protect employees across the industry.

Submissions (including from a number of ASX companies) outlined an escalating need to improve workplace culture and develop systems for the reporting of sexual assault and harassment.

In 2021 Pendal engaged with a number of companies in the sector on this issue.

We highlighted our concerns about the seriousness of the issue and the need for transparency and evidence showing progress on prevention and response measures – at company level and collectively at an industry level.

We shared our observations that any response should identify this as an opportunity for improving employee engagement around equality and inclusion more broadly.

On the whole, companies have since taken steps to improve workplace culture such as better screening processes during hiring and improvements in security measures on mine sites.

A range of further improvements are planned for 2022. Importantly have tied completion of actions to remuneration and changes to drug and alcohol policies.

Some companies have outlined steps to achieve a gender-balanced workforce by 2025 and improve conduct and culture.

We will continue to monitor progress and adapt our engagement program on this very important issue in 2022.

Case study

Income & Fixed Interest team private markets engagement

One of the unique opportunities in fixed income is the ability to influence the behaviour of non-listed entities.

Preventing the disastrous consequences of climate change will require action from utilities and infrastructure businesses. These sectors are often high in private ownership.

Nearly two-thirds of our engagements with issuers in 2021 were with non-listed issuers who cannot be influenced in the same way as publicly traded companies.

We've focused on the commitment of utilities (particularly gas distribution networks) to shift to green hydrogen, ensuring their capital is not at risk during the energy transition. Hydrogen blending in gas networks plays a key early off-take role that will assist hydrogen as an energy source get to scale.

One of the new challenges in this type of engagement is the extensive research required to determine the feasibility of each issuer's plans.

Case study

Australian equities engagement: board diversity

A common theme in our Australian Equities engagement program in 2021 was heightened scrutiny of board skills – particularly in companies embarking on transition strategies. This included companies outside energy or mining-related industries.

Pendal's property team has been actively engaged on this topic for many years.

In 2021 they observed growing examples of innovative, value-creating diversity-related structures and practices that are translating into improved business performance.

Portfolio Manager Julia Forrest, cites emerging leading practices, some of which are flowing from recently listed start-ups. They include strategic alignment of director backgrounds in healthcare, real estate, finance and government policy as well as complementary advisory committees. These practices serve to inform discussions with other companies in the sector.

> "Active engagement is a two-way process – it serves as an information gathering tool as well as an opportunity for us to share our perspective which in turn can also help to drive system-wide change."

On the latter, the Australian Equities team are frequently consulted by boards and management drawing on the Team's views and relationships and this is increasingly so in the area of advancing diversity, equity and inclusion - a trend reinforced by growing stakeholder calls for action on the issue.

In 2021, the team elevated a multi-year diversity-related engagement program with an established global property company.

We held a long-standing view that a series of risk-management failures, cost overruns and project delays could be associated with an absence of diversity (both cognitive and experiential) at board level.

The company had not been an active holding in our portfolios for some time. But following its announcement of a pivot away from legacy businesses (property development, construction and engineering) into financial services, we believed it was timely to pick up on the diversity issue since discussions indicated a stronger commitment to undergoing board renewal and a strategic reset.

Case study

Global Equities engagement: water-related risks

One of the key holdings in our Pendal Concentrated Global Share Fund is a large global beverage company.

The team identified a reliance on large volumes of clean water as a potential risk.

Through engagement with company managers we were able to better understand the business risks and develop a better understanding of how the company was managing them.

Company managers were very aware of how closely their business and its success was tied to the health of the natural environment.

As the number one input for its product, water had been identified internally as a major risk for the company and the well-being of the communities they supplied.

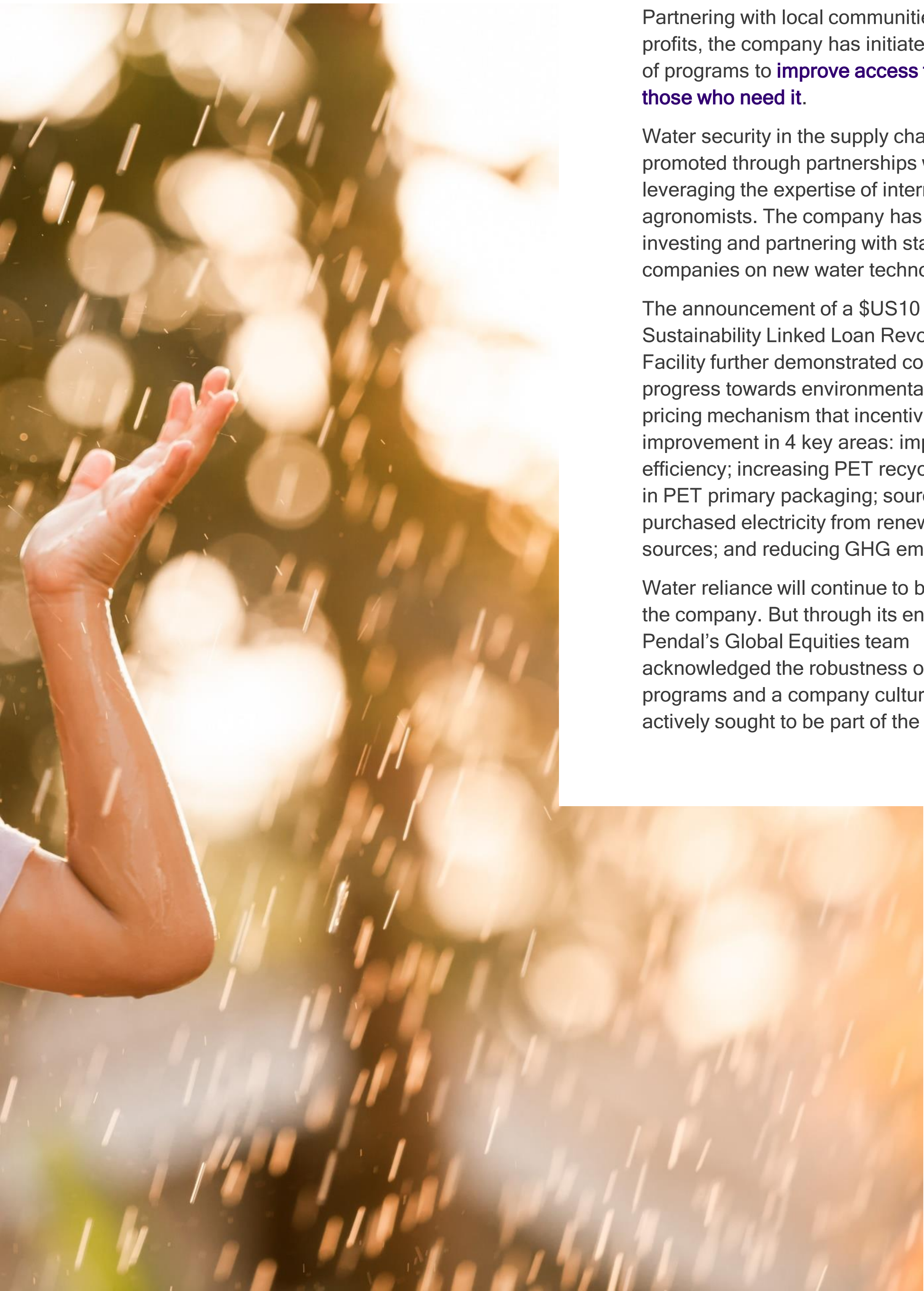
We were encouraged to observe that the company was taking a multi-pronged approach to mitigating the risks.

Leveraging operational technology expertise and internal data, the company had developed risk management systems over a number of years.

This included management and monitoring of water use across the company. Water efficiency goals were set and reviewed regularly.

Monitoring and measurement of impact was based on a framework developed in conjunction with The Nature Conservancy.

External to the company, management has recognised water security risks in some of the communities they supply and in their suppliers.



Partnering with local communities and not for profits, the company has initiated a number of programs to **improve access to water for those who need it**.

Water security in the supply chain is now promoted through partnerships with farmers, leveraging the expertise of internal agronomists. The company has a history of investing and partnering with start-up companies on new water technologies.

The announcement of a $US10 billion Sustainability Linked Loan Revolving Credit Facility further demonstrated commitment for progress towards environmental goals with a pricing mechanism that incentivises improvement in 4 key areas: improving water efficiency; increasing PET recycled content in PET primary packaging; sourcing purchased electricity from renewable sources; and reducing GHG emissions.

Water reliance will continue to be a risk for the company. But through its engagement, Pendal's Global Equities team acknowledged the robustness of mitigation programs and a company culture that actively sought to be part of the solution.

ESG Integration

For decades Pendal has been progressively factoring Environmental, Social and Governance considerations into our investment processes across multiple asset classes.

This included research, analysis and due diligence and covers issues such as climate change, human capital management and ethical conduct.

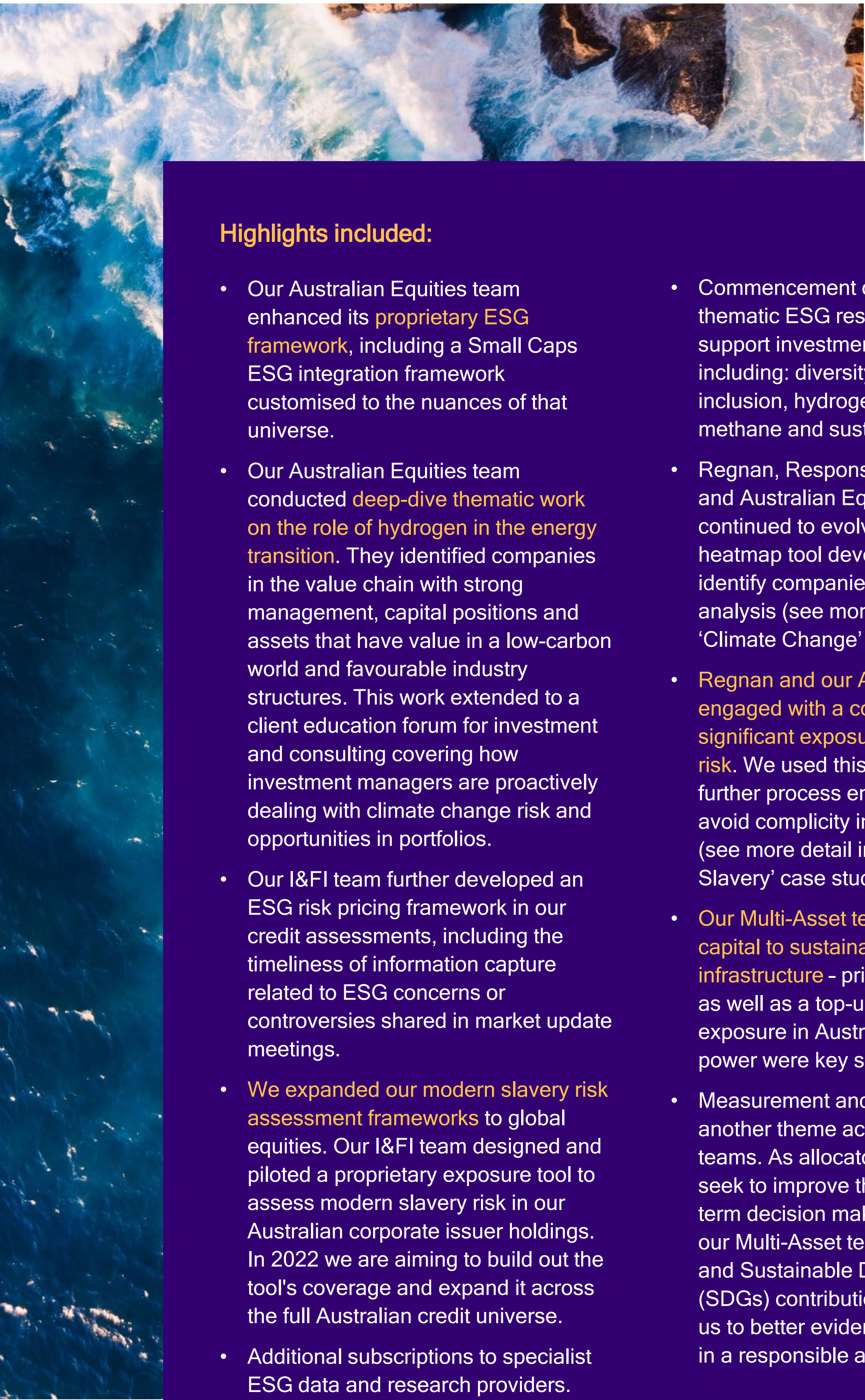
We believe this to be a natural extension of our active approach to investment management.

We recognise that a number of drivers (from client interest and regulatory changes to the presentation of ESG factors material to valuations) require us to continue building our ESG capabilities and access to high-quality, investment-relevant research.

The deeper our capabilities in this space, the better placed we are to manage risk and encourage sustainable business practices among our investee companies and issuers.

In 2021 we undertook several projects to enhance ESG-related investment practices, developing technology, process and people across the organisation.

Many of these projects have been supported by our specialist in-house Responsible Investments team and Regnan.



Highlights included:

- Our Australian Equities team enhanced its proprietary ESG framework, including a Small Caps ESG integration framework customised to the nuances of that universe.
- Our Australian Equities team conducted deep-dive thematic work on the role of hydrogen in the energy transition. They identified companies in the value chain with strong management, capital positions and assets that have value in a low-carbon world and favourable industry structures. This work extended to a client education forum for investment and consulting covering how investment managers are proactively dealing with climate change risk and opportunities in portfolios.
- Our I&FI team further developed an ESG risk pricing framework in our credit assessments, including the timeliness of information capture related to ESG concerns or controversies shared in market update meetings.
- We expanded our modern slavery risk assessment frameworks to global equities. Our I&FI team designed and piloted a proprietary exposure tool to assess modern slavery risk in our Australian corporate issuer holdings. In 2022 we are aiming to build out the tool's coverage and expand it across the full Australian credit universe.
- Additional subscriptions to specialist ESG data and research providers.
- Commencement of deep-dive thematic ESG research by Regnan to support investment decision making including: diversity equity and inclusion, hydrogen, modern slavery, methane and sustainable agriculture.
- Regnan, Responsible Investments and Australian Equities teams continued to evolve a climate risk heatmap tool developed in 2020 to identify companies for deeper risk analysis (see more detail in the ‘Climate Change’ section below).
- Regnan and our Asian equities team engaged with a company with significant exposure to modern slavery risk. We used this example to explore further process enhancements to avoid complicity in modern slavery (see more detail in the ‘Modern Slavery’ case study below).
- Our Multi-Asset team allocated further capital to sustainable listed infrastructure - primarily in UK/Europe as well as a top-up to a smaller exposure in Australia. Wind and solar power were key sectors of support.
- Measurement and monitoring was another theme across our investment teams. As allocators of capital we seek to improve this for better long-term decision making. For example, our Multi-Asset team’s new carbon and Sustainable Development Goals (SDGs) contribution reporting allows us to better evidence allocating capital in a responsible and impactful way.

A spotlight on Pendal's Australian Equities team's approach to ESG Integration

Our Australian Equities team's ESG integration framework is a standalone process designed to systematically feed into the overarching investment decision process for enhanced, risk-adjusted returns.

The proprietary framework identifies the most relevant company issues that impact on the investment case through a forward-looking lens.

This approach reflects the team's philosophy that active investors need to anticipate change and should be compensated for the risks they take in all market environments.

The team's score-based ESG integration framework is illustrated in the diagram below.

Key components to highlight include:

- The team's assessment of **materiality** is informed by industry standards, specifically aspects of the International Sustainability Standards Board (ISSB), including aspects of the Sustainability Accounting Standards Board (SASB) materiality matrix, as well as Pendal analyst insights (the team's own understanding of both sector and company specific ESG risks and opportunities (existing and emerging).

- Analysts also monitor ESG **momentum** by tracking the direction of ESG performance (improving or deteriorating) and market sentiment indicators, and

- The team's views on how **structural trends** may amplify ESG risks opportunities where relevant.

6 Stewardship (engagements, proxy voting & advocacy)

1 ESG Research
- ESG data
- Internal Research
- Broker Research
- Company disclosure

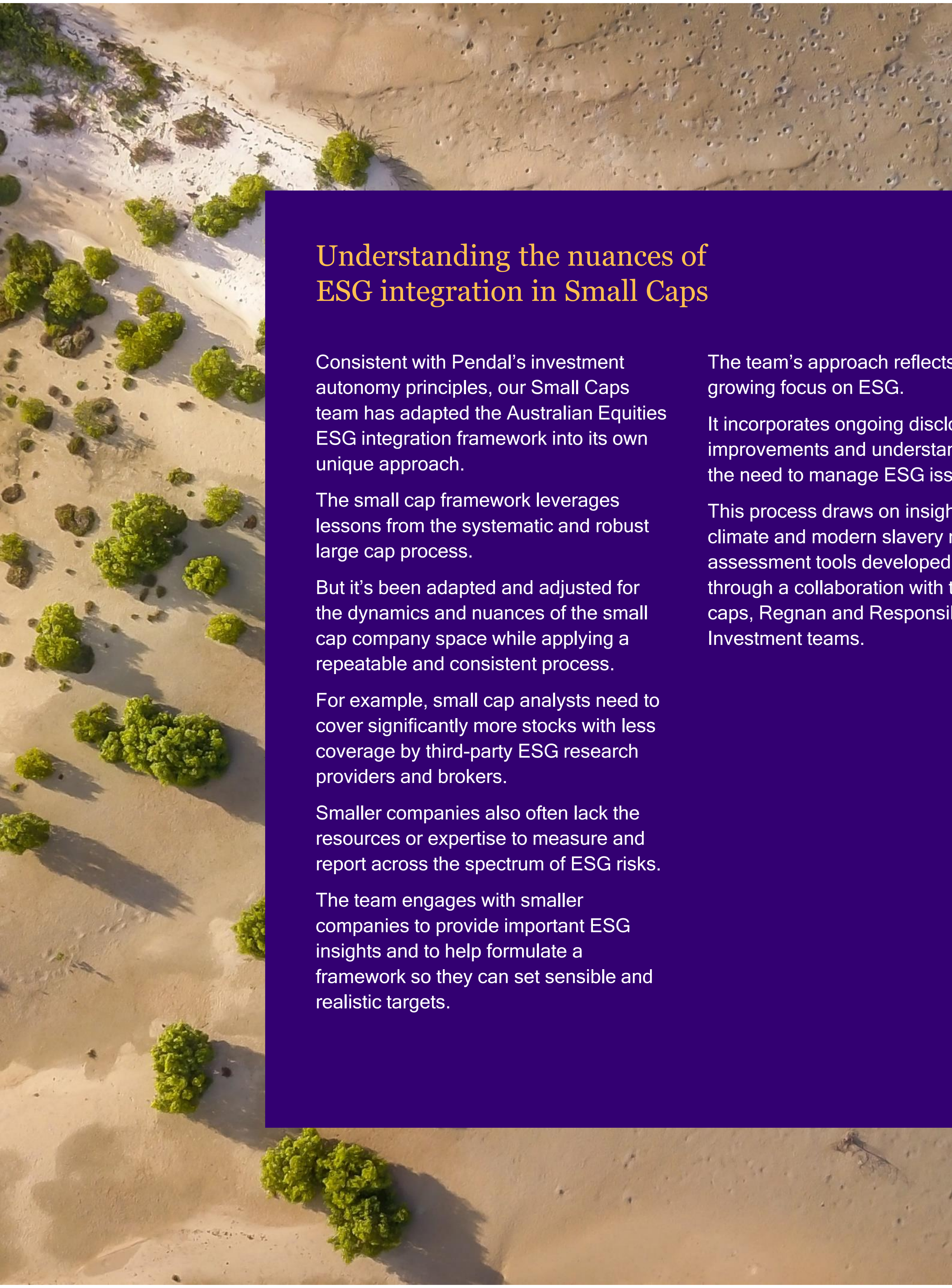
2 Materiality
- Environment
- Social capital
- Human capital
- Business model & innovation
- Leadership & governance

3 Momentum
- Forward looking ESG performance
- Market sentiment indicators

4 Secular & Structural Trends
- Industry-level dynamics
- Policy settings
- Regulations & standards
- Stakeholder expectations

5 Investment Risk & Oversight
- Valuation adjustments
- Portfolio construction
- ESG risk oversight tools
- Controversies

7 Reporting & Review



Understanding the nuances of ESG integration in Small Caps

Consistent with Pendal's investment autonomy principles, our Small Caps team has adapted the Australian Equities ESG integration framework into its own unique approach.

The small cap framework leverages lessons from the systematic and robust large cap process.

But it's been adapted and adjusted for the dynamics and nuances of the small cap company space while applying a repeatable and consistent process.

For example, small cap analysts need to cover significantly more stocks with less coverage by third-party ESG research providers and brokers.

Smaller companies also often lack the resources or expertise to measure and report across the spectrum of ESG risks.

The team engages with smaller companies to provide important ESG insights and to help formulate a framework so they can set sensible and realistic targets.

The team's approach reflects our growing focus on ESG.

It incorporates ongoing disclosure improvements and understanding of the need to manage ESG issues.

This process draws on insights from climate and modern slavery risk assessment tools developed in 2020 through a collaboration with the larger caps, Regnan and Responsible Investment teams.

Spotlight: what happens when a portfolio company faces allegations of modern slavery

In 2021 Pendal embarked on an extensive due diligence exercise investigating allegations of links to modern slavery at a portfolio company in the Pendal Asian Share Fund.

The portfolio manager was aware of the elevated risks of forced labour in the fund's investment universe – and acutely aware of the nuance and judgment involved in a world where work standards differ markedly from developed countries.

The PM undertook an extensive exercise to get to the bottom of reports of forced labour in a Chinese-branded goods manufacturer.

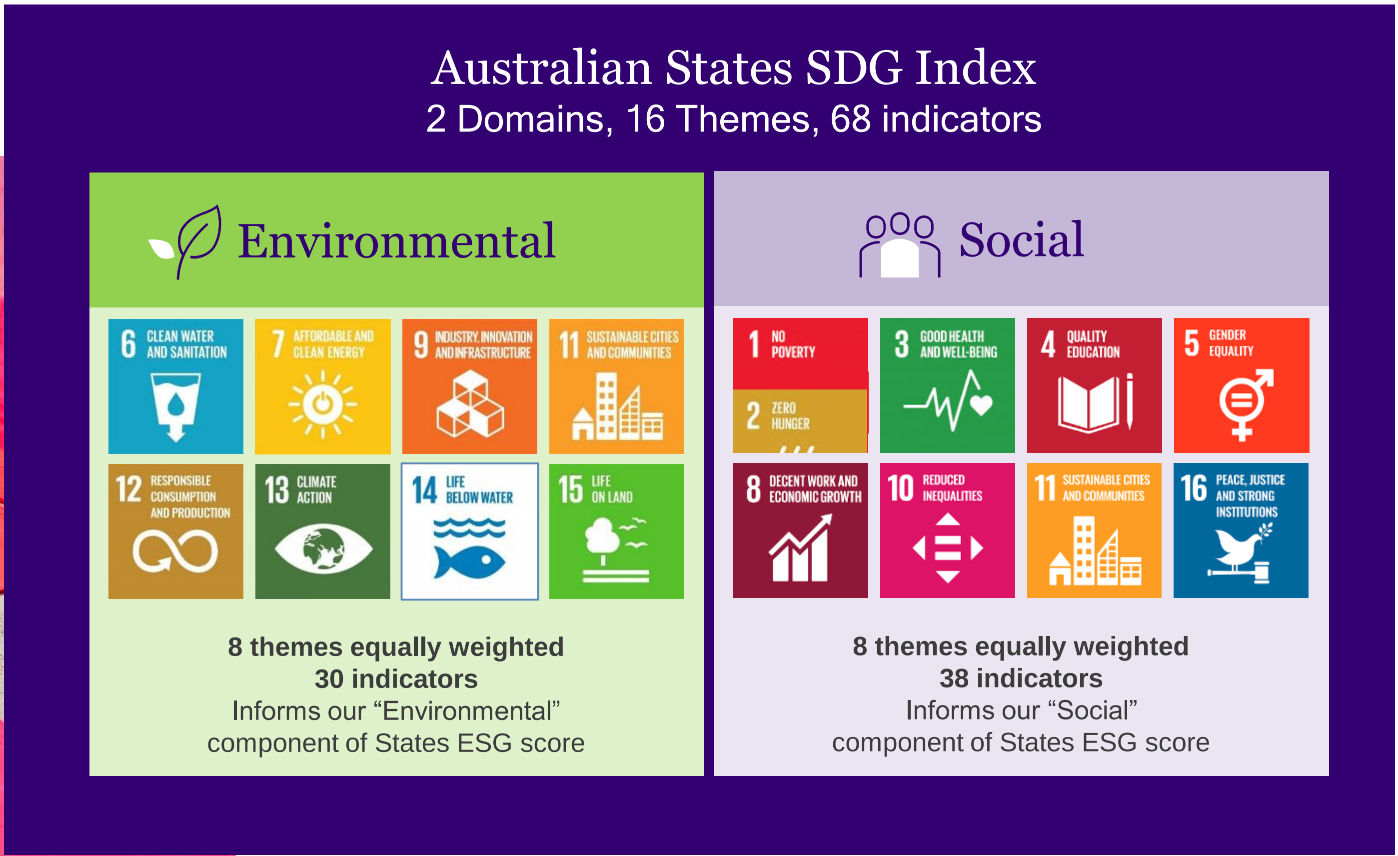
In a collective research and engagement program, the PM and Regnan engaged directly with the company as well as with human rights activists, lawyers, ESG research houses and sell-side analysts.

Working with Regnan, the PM was able to draw conclusions from the limited information available, which was often highly procedural in nature but with little disclosure of the outcomes or efficacy of these approaches.

"Assessing the risks of modern slavery is quite difficult," says the PM. "For an environmental issue we can calculate how much CO2 is being emitted – these things are quantifiable. But when it comes to forced labour, it is very difficult to quantify."

As an active investment manager, it's Pendal's fiduciary duty to form our own judgement on the evidence available.

In this case we formed the view that there was a strong likelihood of forced labour and a low likelihood of success from continued engagement. This posed a high risk to our clients and a decision was made to exit the position.



Building out our ESG risk assessments in semi-sovereign investments

As investors we seek to maximise returns for our clients, minimise financial risks and invest sustainably.

This means incorporating responsible investing principles when we look at our approach to semi-sovereign investments.

Every year we analyse the Australian state and territory governments across social and environmental policies and outcomes to influence our investment decisions. The update this year has been more extensive, reflecting the importance of State actions.

We are interested in areas that a government has influence over to achieve the United Nations Sustainable Development Goals (SDGs). We have developed an Australian States SDG Index with 16 themes and 70 indicators to help us compare each Australian state and territory.

While the SDGs were never intended as an investment tool, they have become increasingly useful as a framework to anchor environmental social credentials against real-world targets.

This has allowed us greater insights on the differences between states across electricity policy, biodiversity, access to services, health and gender equality.

Our investments and engagements with semi-government issuers is heavily influenced by the findings from our Australian States SDG Index.

Multi-Asset update:
building out climate-solutions allocations and disclosure

In 2021 we continued to enhance the sustainability credentials of Pendal's range of diversified funds.

In our alternatives allocations we continued to participate in **capital raisings for listed renewable energy assets**, with the underlying assets primarily in UK and Europe, though with steadily increasing geographic diversification, including solar assets in Australia.

These assets contribute directly to decarbonisation of the global economy, while providing attractive yields.

We expanded the range of instruments we trade in our tactical asset allocation process to include futures on European **carbon emissions allowances**.

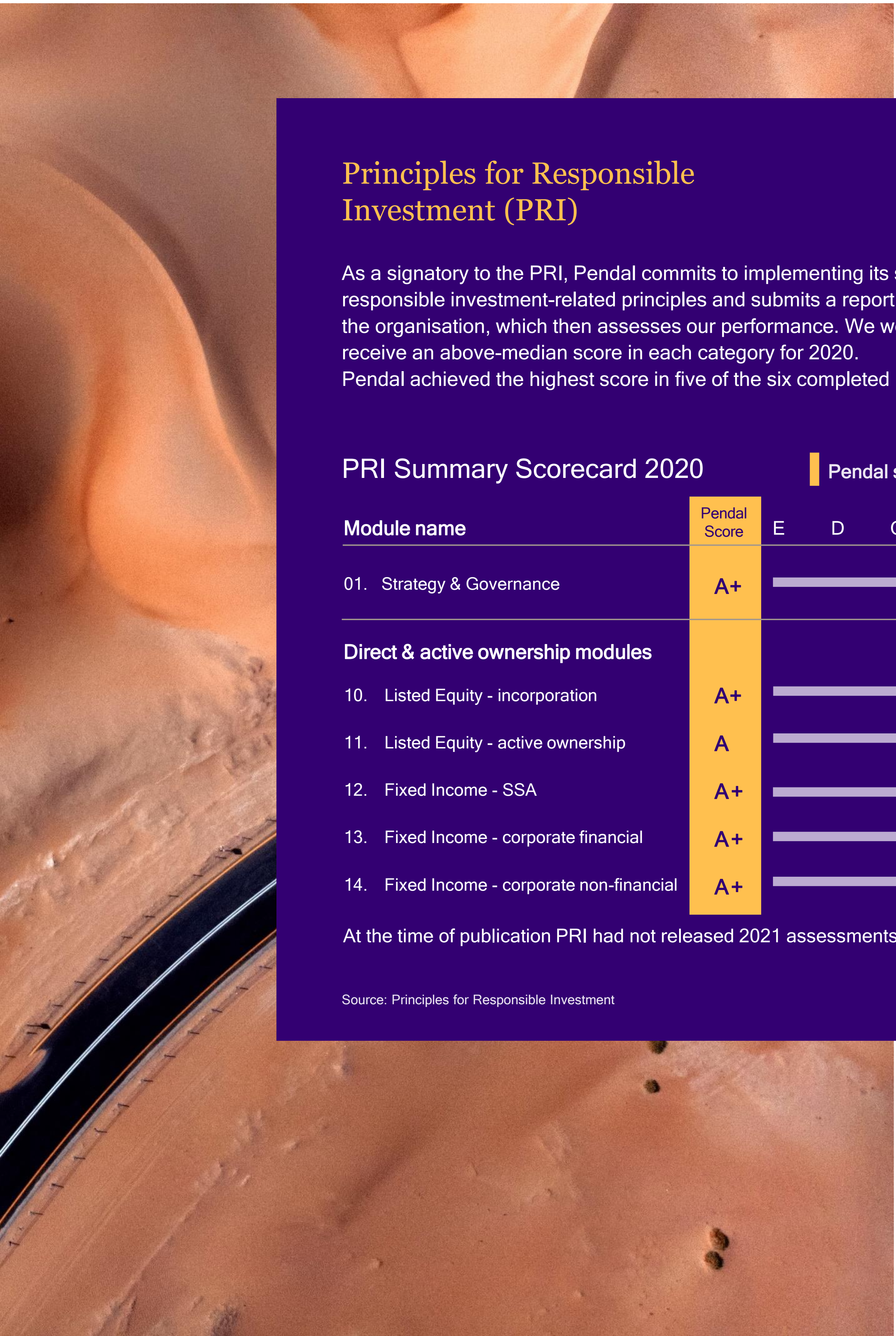
For financial investors, participating in "long" exposures to this asset category has the effect of, at the margin, increasing the cost of hedging carbon emissions and indirectly encouraging the move to green energy sources, while at the same time generating strong returns from an active approach to the allocation.

This year we significantly improved our ability to track the emissions and emissions per unit of revenue of the underlying assets in our multi-asset portfolios to better monitor and manage the portfolio's exposure to risks associated with the transition to a low-carbon economy.

No changes to long-term strategic asset allocations of the portfolios were needed over the year. This followed a meaningful upgrade in the importance of ESG factors in determining the long-term positioning of the portfolios in 2020 – particularly the impact of climate change on companies and the economy.

The team continued to integrate sustainable strategies into portfolios, including in our "unscreened" diversified funds. These now include exposure to sustainable strategies in domestic and international fixed interest, international equities and alternatives.

It has become clear there is no "give up" in returns for allocating to sustainable strategies. Indeed, incorporating these strategies in "unscreened" portfolios can enhance the risk/return outcome for our investors, while also improving externalities from our clients' investments.



Principles for Responsible Investment (PRI)

As a signatory to the PRI, Pendal commits to implementing its six responsible investment-related principles and submits a report annually to the organisation, which then assesses our performance. We were pleased to receive an above-median score in each category for 2020.
Pendal achieved the highest score in five of the six completed modules.

PRI Summary Scorecard 2020

Pendal score | Median score

Module name	Pendal Score
01. Strategy & Governance	A+
Direct & active ownership modules	
10. Listed Equity - incorporation	A+
11. Listed Equity - active ownership	A
12. Fixed Income - SSA	A+
13. Fixed Income - corporate financial	A+
14. Fixed Income - corporate non-financial	A+

At the time of publication PRI had not released 2021 assessments.

Source: Principles for Responsible Investment

Sustainable and impact investment products

During the year we continued to develop and evolve our suite of sustainable and impact offerings. These products provide solutions that meet the needs of the growing number of clients interested in investing in a manner consistent with their values or interest in sustainability.

Pendal Sustainable Australian Share Fund: marking 20 years since inception

The investment specialists who manage our dedicated-sustainability offerings on behalf of our clients are an essential part of Pendal's 35-year heritage in responsible investing.

Rajinder Singh is the portfolio manager (PM) for the Pendal Sustainable Australian Share Fund, which marked a 20-year milestone since its inception in 2021. Rajinder has been PM for more than two-thirds of that time.

From its ethical and faith-based exclusionary screening origins, RI has matured into a multi-faceted investment spectrum spanning ESG risk management, sustainability-themed approaches, as well as impact investing solutions targeting positive environmental or social outcomes alongside financial performance.

To Rajinder, sustainable investing is about truly understanding that value creation is a broader concept than simply how an investment performs financially. Sustainability involves questions about how a company creates value in its role in society – not just for shareholders.

While good returns for shareholders remain core, value is a much more mature concept. For example, does a company provide safe working conditions for its employees? Does it create something that adds value for its customers? Is it behaving like a good corporate citizen?

These are things that matter for the broader community. They also matter deeply for shareholders because each in some way indicates whether a company will be around for the long term.

With accounting systems and balance sheets still not able to capture these factors effectively, the discipline of sustainable investment steps in. "We're fortunate to have a large, well-resourced team doing bottom-up stock analysis," says Rajinder.

> "We understand the companies and we know what they are doing. We own companies that have improving franchises and increasing workforce engagement – and we know these are drivers of great outcomes. We also know companies that have high employee turnover or are constantly facing regulatory issues are not going to have great returns in the longer run. We know this intuitively when we analyse companies. But RI puts an ESG or sustainability framework around it. That discipline helps us understand the value drivers even better – those critical to a company's performance today as well as the drivers that are emerging as potentially material factors in the future."
>
> – Rajinder Singh, portfolio manager, Pendal Sustainable Australian Share Fund

Similar to 2020, 2021 has seen strong demand from clients and broader stakeholders for solutions that go beyond investment products that 'do no harm' to the community and its future, to investments that actively strive to make society better.

Pendal directly participated in this momentum with wins in wholesale and institutional channels across multiple asset classes, consistent with broader growth in the responsible investment sector.

Pendal Australia's funds under management (FUM) in dedicated responsible investment (RI) strategies grew by more than $2 billion in 2021 with total RI FUM of $5.28 billion at December 31, 2021.

2021 also saw strong support for our RI products from research houses.

Lonsec initiated a sustainability report on Pendal Horizon Fund. The fund received the highest score of "five bees".

Lonsec and Zenith initiated coverage of the Regnan Global Equity Impact Solutions Fund with *Approved* and *Recommended* ratings respectively.

The institutional channel saw strong support as client portfolios increasingly reflected responsible investing considerations.

Pendal Sustainable Australian Share strategy enjoyed inflows of about $200 million in total from two Super clients. A long-standing institutional client dating back to the mid-2000s continued its responsible investing journey with Pendal, allocating for the first time to a dedicated Pendal RI Strategy, the Pendal Sustainable Balanced Fund.

Responsible Investment strategies continued their momentum in the wholesale and high net wealth channels with several platform additions and Approved Product List (APL) inclusions for the:

- **Pendal Sustainable Australian Share Fund**
- **Pendal Sustainable Australian Fixed Interest Fund**
- **Regnan Credit Impact Trust**
- **Pendal Sustainable Balanced and Conservative Funds,** and
- **Regnan Global Equity Impact Solutions Fund**

During the year, Pendal and Regnan worked with an asset consultant to launch a series of RI managed portfolios to meet adviser demand for an investment solution to better cater to a client's values and beliefs. After multiple discussions with several asset consultants they decided to partner with Pendal and Regnan due to our strong credentials and background in ESG.

Also in 2021 Pendal launched the Pendal Sustainable Multi-Asset Managed Portfolios on an adviser platform. This was in response to similar Sustainable Multi Asset portfolios on another adviser group's platform which Pendal launched in 2020.

A key benefit of the model portfolios – when compared to similar RI investment options in industry superannuation funds and other fund managers – is the competitive pricing of our portfolios. Pricing is a growing concern in the adviser market for lower-balance clients who are struggling to find cost effective RI and ESG solutions.

Pendal is proud to again be acknowledged as a “Responsible Investment Leader” in the Responsible Investment Association Australasia (RIAA)’s 2021 **Responsible Investment Benchmark Report.**

Responsible investment leaders are assessed as demonstrating a “commitment to responsible investing; the explicit consideration of environmental, social and governance (ESG) factors in investment decision making, strong and collaborative stewardship; and transparency in reporting activity, including the societal and environmental outcomes being achieved”.

In 2021 two more of our funds received RIAA certification status: Pendal Global Select Fund and Regnan Global Equity Impact Solutions Fund. There are now 11 Pendal Group funds offered in Australia with RIAA certification status .

As part of our continued commitment to build out our dedicated-RI offerings, during 2021 we launched the Regnan Sustainable Water and Waste Fund through our JOHCM business in the UK.

The new investment team brings a breadth of experience that can be shared across the group.

Responsible Investment Benchmark Report link

Impact outcomes

Our two core fixed income products, which invest in use-of-proceeds sustainability and impact bonds, are able to track the positive outcomes generated from these investments. Use-of-proceeds bonds, such as green bonds or social bonds, typically commit to reporting annually on the positive environmental or social impacts associated with the underlying sustainability-related projects. We manage an impact database, which collates relevant impact data from issuer reports so we can determine our direct contribution to real-world outcomes.

Social and environmental outcomes from Pendal investments

within the **Pendal Sustainable Australian Fixed Interest Fund** and **Regnan Credit Impact and Sustainability Fund**

Environmental

Low Carbon

39,284 tCO_2e
GHG Emission Avoided p.a.

Equivalent to **17,273** cars taken off the road p.a.

195 hectares
of forest restored

Equivalent to **110** Melbourne Cricket Ground-sized stadiums

Renewable Energy

66,082 MWh/year
Renewable energy generated

Equivalent to annual electricity use of **14,378** Australian households

20 megawatts
Installed capacity

Equivalent to **0.8%** of renewable energy capacity installed in Australia in 2018

Green Building

2,282 m^2
Buildings constructed

Low Carbon Transport

252,806 trips
for passengers supported p.a.

Sustainable farmland

8 hectares
Land conserved

Water

645,355,642 litres
Water capacity secured

Equivalent to water use of **10,914** Melbourne residents p.a.

1,333,374 litres
Wastewater treated p.a.

7,235,127 litres
Water usage saved p.a.

Social

Social quality

10,367 people
with access to Information and Communication technology in third world remote regions*

635 small-scale farmers
reached for improved agricultural technology*

11,131 underprivileged students
receiving education*

248 jobs
created through supporting education & renewable energy plants*

498 teachers trained*

192 youth
in at-risk youth training programs*

The outcomes displayed above are based on projections provided by the issuers of bond securities (Issuers) held by the Regnan Credit Impact Trust and the Pendal Sustainable Australian Fixed Interest Fund (the Funds) as at 31 December 2020. The information provided is indicative only, and should not be relied upon solely when making an investment decision or recommendation in relation to the Funds. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the information provided to us by the Issuers may be inaccurate or may not take into account known or unknown risks and uncertainties. The actual results may differ from the projections and subsequent changes in circumstances may occur at any time that impact the accuracy of the results. Past performance is not a reliable of future performance.

Financial inclusion

481
social / affordable housing*

1,525 loans
made to female-owned micro, small and medium enterprise with little access to formal sources of financing*

4,333 micro-loans
made to financially-underserved entrepreneurs from underdeveloped nations*

*Contribution is based on forecast numbers provided by the issuer

Research house ratings for our dedicated responsible investment products

Fund	Zenith	Lonsec	Morningstar
Pendal Horizon Fund (Pendal Ethical Share Fund)	Zenith RECOMMENDED	Recommended Lonsec Research	MORNINGSTAR Bronze™
Pendal Sustainable Australian Fixed Interest Fund	Zenith RECOMMENDED	Recommended Lonsec Research	
Pendal Sustainable Balanced Fund	Zenith RECOMMENDED	Recommended Lonsec Research	
Pendal Sustainable Conservative Fund	Zenith RECOMMENDED	Recommended Lonsec Research	
Pendal Sustainable Australian Share Fund	Zenith RECOMMENDED		
Pendal Global Select Fund	Zenith RECOMMENDED		
Pendal Sustainable Future Australian Shares Portfolio	Zenith RECOMMENDED		
Regnan Global Equity Impact Solutions Fund	Zenith RECOMMENDED		

[1]See more on RIAA's Responsible Investment Certification program at https://responsibleinvestment.org/ri-certification/

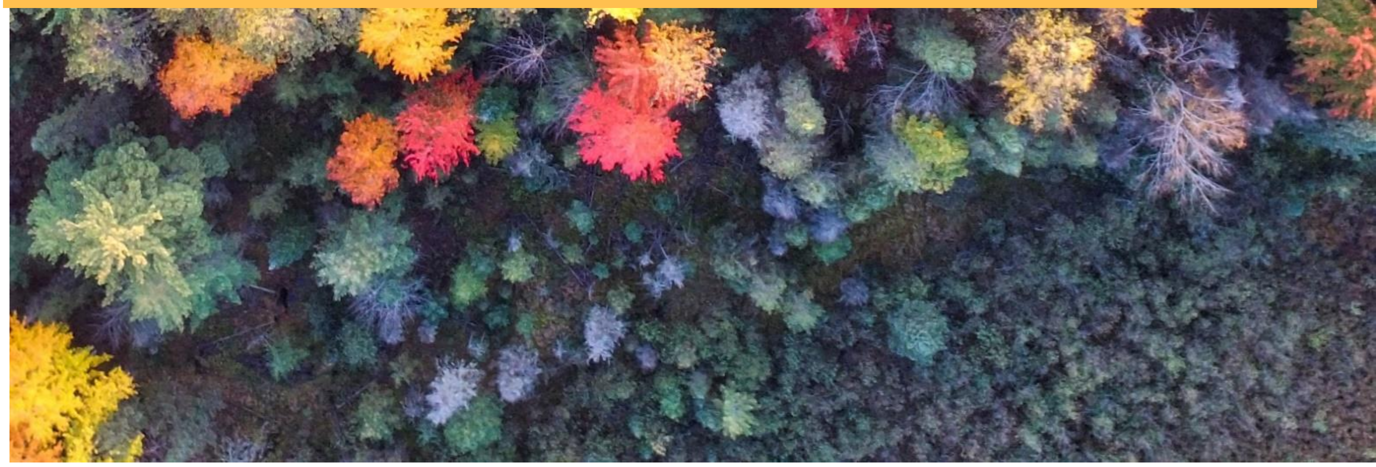
Proxy Voting

We regard the exercise of proxy voting as an important aspect of investment decision-making and stewardship responsibilities. We place great emphasis on exercising clients' ownership rights and responsibilities to ensure companies are managed in the best interests of their long term investors.

We vote on a case-by-case basis following an assessment of the matter at hand and after taking into consideration the likely effect on the portfolio or fund, drawing on relevant internal and external research as needed, as well as relevant insights from engagement.

Information on the proxy voting activity for all of Pendal Australia's Australian and global equity holdings during 2021 is set out below. As active managers, our investment teams endeavour to engage with companies in relation to proxy matters to support informed voting decisions. We also publish our proxy voting records on the Pendal website.

Proxy voting for 2021	Total	For	Against	Abstain	Other[1]
Number of resolutions	4,326	3,960	307	11	427
Percentage of total	-	84.2%	6.5%	0.2	9.1%



[1] Other' includes Management Say on Pay (MSOP) proposals and where Pendal did not vote on a proposal due to administrative and other reasons, including where a shareholding was divested prior to the voting cut-off date.

* Please note individual funds may place differing votes on the same resolution resulting in a total of 4,705 votes across the four categories. Percentages are based on the total votes and not the unique resolutions.

ESG resolutions

The 2021 proxy season saw a growing number of (and support for) shareholder requisitioned resolutions put to annual general meetings of listed companies. The vast majority were climate focused.

Proxy voting has always been a means for shareholders to communicate with companies. But the trend of ESG resolutions proposed by shareholders – rather than management – has changed the dynamics around the vote.

As highlighted in 2020, shareholders are increasingly voting in support of these ESG resolutions, communicating to the company and their own stakeholders that these are investor priorities.

A notable development in 2021 were cases where company management supported shareholder-requisitioned resolutions.

It is worthwhile noting that a vote in favour of a shareholder-requisitioned resolution is not necessarily an indication of dissatisfaction with a company. It could be signalling that a shareholder wishes to welcome company efforts to date and to encourage continued progress.

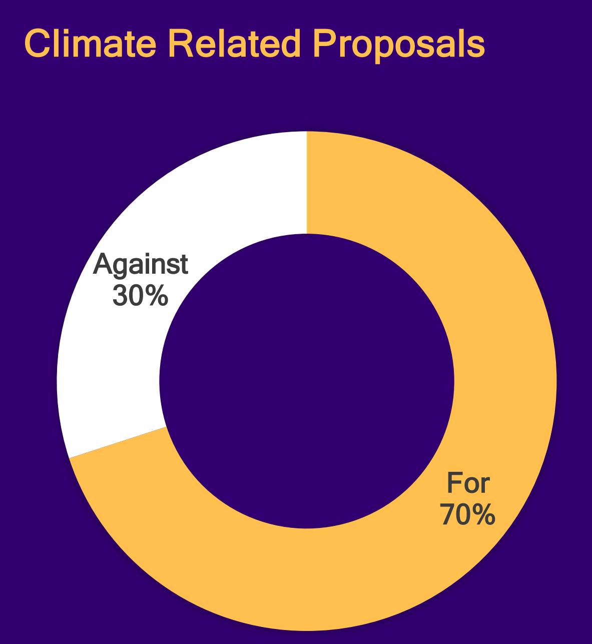
However, such proposals can at times be overly prescriptive and elements may not be in the interest of the company or long-term shareholders.

This results in some investors declining to support a resolution, even though they may want the company to address an overarching issue such as human rights, diversity or climate-related transition planning.

In 2021 we supported a number of climate-related shareholder resolutions. But we did not support climate-related resolutions put to Oil Search, Santos and Woodside due to concerns with the structure. We believed this position was particularly valid given all three companies committed to introducing **'Say on Climate'** proposals (see box on page 7 for more detail) at their 2022 AGMs.

Overall, **we voted for 70% of climate related proposals in 2021.** Even where we did not vote in favour of a climate-related resolution in 2021 (for reasons largely as outlined above) we typically engaged with the company to share our views directly as part of our ongoing discussions.

This ensures our vote is not misconstrued as support for climate approaches in their entirety.



This case-by-case approach reinforces the need for proxy voting to be complemented by engagement – to communicate investor expectations directly to companies, especially when messages sent via voting can be misinterpreted.

Our Australian Equities team nearly always engages around voting decisions and we engage on our global holdings wherever possible.

During the year, we supported a number of shareholder resolutions that focused on environmental or social matters.

Examples include:

Australia

- We voted in favour of climate-related shareholder resolutions put forward at Rio Tinto and QBE Insurance Group. We did not hold AGL Energy Limited shares during the period and so did not vote on their climate-related resolution.
- We voted for climate transition planning disclosure resolutions at ANZ, Commonwealth Bank of Australia and Westpac, signalling our support for continued development of their efforts to improve disclosure on the path to net zero by 2050.
- We supported a BHP Ltd 'Say on Climate' resolution on the 'Approval of the Climate Transition Action Plan' as well as a climate-related lobbying resolution requesting the company strengthen its review of industry associations to ensure alignment with the Paris Agreement's goals.
- We voted for the Fortescue Metals Group resolution to 'Approve Support for Improvement to WA Cultural Heritage Protection Law'.
- During the 2021 proxy season we observed an increase in remuneration (REM) report strike rates across the ASX. Westpac received a "first strike" with a 30% vote against its REM report. As the case study on the next page highlights, in some cases we voted against a REM report as a tool to signal broader concern regarding matters such as board structure, including skills, diversity and tenure.

Case study

Australian equities demonstrates shareholder escalation in practice

At every company the board performs an important role in setting the strategic agenda, upholding good governance and delivering accountable corporate performance in accordance with the organisation’s values and objectives.

Our experience investing in a wide range of companies over the long term suggests boards need a broad mix of skills, knowledge, experience and a willingness to hold management to account.

We believe diversity, in particular cognitive and experiential diversity, can be delivered through greater gender and cultural diversity.

Such a breadth of perspective enables companies to challenge themselves, adapt to changing circumstances, identify emerging opportunities and anticipate and pre-empt potential risks.

As part of our ongoing engagement program, Pendal’s Australian equities team engaged with the board of an ASX-listed industrial company on matters relating to board governance and structure in particular, board composition (diversity and skill set), director tenure and independence, capital management and management remuneration structure.

Initial discussions in 2020 were constructive, demonstrating a willingness to respond to our concerns.

The company indicated it supported our call for an acceleration of the board renewal plan to address matters of tenure and diversity as well as a review of their remuneration structure and capital allocation framework.

However, progress in 2021 was limited and in some instances lacked transparency. (For example the company did not disclose details around the process, oversight or the findings of a capital management review).

Our team’s engagement activity continued in 2021, including up to the AGM, in which we reiterated our concerns.

Based on these discussions we decided to escalate our actions by voting against director elections and the REM plan. Finally, later in 2021 we decided to exit the position after further discussions with the company indicated no change was likely to be forthcoming in our desired time horizon.

We continue to monitor the situation including through ongoing engagement directly with the board and management.

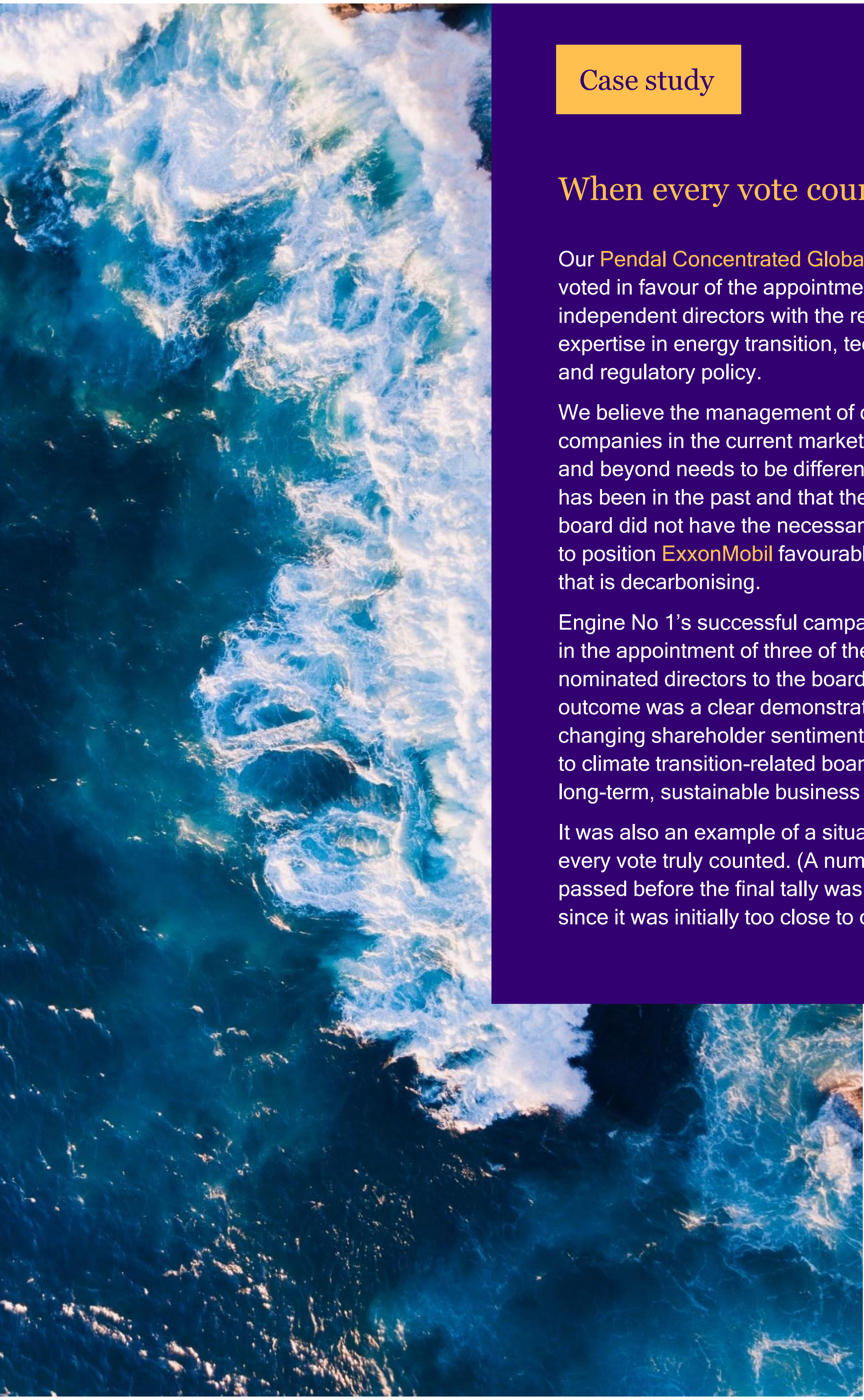
Globally

- We supported a vote for an independent Chair at Facebook. While we acknowledge the success of the founder, CEO and Chair in building a global social media company, we believe the current Board structure does not best facilitate the longer term strategic decision-making required by a company that is being forced to navigate a number of social and technology inflections. We also voted for a shareholder proposal requesting Facebook provide additional disclosure regarding potential online child sexual exploitation. This reflects our position that additional information on such risks would support shareholder assessment on how well the company is managing related risks.

- We supported a vote asking Wells Fargo to provide additional disclosure about employee incentive compensation programs. Previous schemes led to excessive risk taking and we believe more information about current schemes would be useful for shareholders in assessing potential future financial and reputational risks.

- We supported a resolution put forward by activist fund Engine No. 1 by voting against ExxonMobil management and in favour of four independent directors with experience in climate transition plans and renewable energy.

- Also on ExxonMobil, we voted against management and supported shareholder calls for a report on political contributions and a vote for a report on lobbying payments. Whilst we acknowledge that political lobbying is a widespread practice amongst corporates, previous allegations against the company have suggested their lobbying efforts have stymied progress on climate related policy, despite public positioning by the company for climate related regulation. As shareholders assessing the risks for the company both from an energy transition and reputational perspective we believe more transparency is warranted.



Case study

When every vote counts!

Our Pendal Concentrated Global Share team voted in favour of the appointment of four independent directors with the requisite expertise in energy transition, technology, and regulatory policy.

We believe the management of oil and gas companies in the current market environment and beyond needs to be different to what it has been in the past and that the previous board did not have the necessary credentials to position ExxonMobil favourably for a world that is decarbonising.

Engine No 1's successful campaign resulted in the appointment of three of the four nominated directors to the board. The outcome was a clear demonstration of changing shareholder sentiment with respect to climate transition-related board skills and long-term, sustainable business strategy.

It was also an example of a situation where every vote truly counted. (A number of days passed before the final tally was announced since it was initially too close to call).

Advocacy

Advocacy is an important part of Pendal's active approach to responsible investment and stewardship. We undertake advocacy activities not only to raise awareness of specific ESG matters or responsible investment in general, but more importantly as a means to address systemic ESG issues. Our activities include participation in industry bodies and initiatives, providing educational materials for finance sector participants, and public commentary such as via speaking events or thought pieces.

Our membership of and active participation in a range of industry bodies and initiatives enables us to collaborate with other investors in order to encourage greater uptake of responsible investment practices and to support the management of ESG risks and opportunities. In addition to publishing relevant research and facilitating collaboration, often these bodies advocate on our behalf on public policy matters and other industry consultations.

Continued and new industry participation in 2021 included:

- Pendal Australia CEO and members of Regnan's contribution to the **Australian Sustainable Finance Initiative (ASFI)** as it developed a sustainable finance roadmap for Australia.
- Ongoing support of the **Investor Group on Climate Change (IGCC)** with Pendal joining the 'Climate Change League 2030', a 10-year initiative of the IGCC to reduce Australia's greenhouse gas emissions by a further 230 million tonnes. Regnan also developed and hosted a masterclass series developed for IGCC members across Australia and sessions helping investors prepare for the introduction of mandatory TCFD reporting in New Zealand.
- Active support for **Climate Action 100+**, an investor-led global initiative to ensure the world's largest greenhouse gas emitters take necessary action on climate change. Recent support included our work on the 'Say on Climate' campaign in Australia.
- Climate Action 100+, collaborating with other investors to engage an Australian oil and gas company, and participation in the Oil and Gas Working Group.
- **Responsible Investment Association Australasia (RIAA),** including on its human rights and natural capital working groups. Pendal submitted to the RIAA consultation regarding proposed sustainability ratings for its certified products. Among other things, Pendal strongly recommended greater attention on the quality of the application of stated investment strategies in the assessment of whether a product is 'true to label' and a greater recognition of the role of stewardship, rather than undue emphasis on portfolio holdings, when considering 'real world outcomes' in public equities portfolios.
- Pendal Australia continued support of the **40:40 Vision**, a gender diversity initiative led by HESTA targeting improved rates of female representation in the c-suite as a listed entity as well as through active participation in a Steering Committee and Investor Working Group, of which several employees are members. Regnan also presented the findings of its DEI thematic research in a session for company signatories.
- Pendal Australia CEO as Chair of the **Impact Investing Australia** Board.

During the financial year various advocacy activities across the group focused on thought leadership, education and awareness raising in regards to responsible investment and specific ESG matters.

Highlights included:

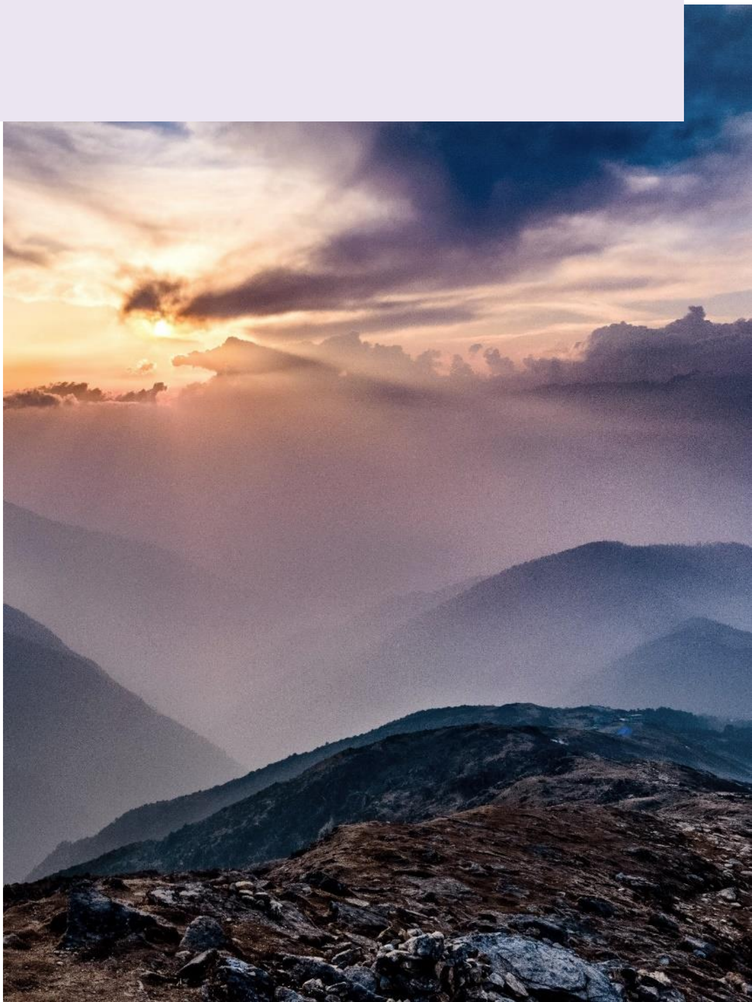
- Regnan provided a submission to the **Climate Disclosure Standard Board's (CDSB)** draft water accounting guidance. Regnan suggested the guidance adopt a cascading approach to disclosure, dependent on the materiality of water to the business, as well as additional reporting on water intensity at a product/service/business line level.
- Pendal Australia and Regnan participated in a series of educative webinars on responsible investment for financial advisers. The forums sought to support advisory groups understanding on ESG topics and concepts and capacity building around product quality assessments.
- Publication of a number of blogs and thought pieces on topics such as diversity, equity and inclusion (DEI), climate change, modern slavery, biodiversity, impact bonds and ESG implications from the COVID-19 pandemic. These can be found on the Pendal website.
- Speaking engagements at events such as the RIAA Annual Responsible Investment conference), Asia Investor Group on Climate Change, Women's Global Leadership Summit, Lonsec Symposium Webinar Series, Sustainable Finance Forum and various industry ESG conferences across APAC region.

Regnan and Pendal Australia's RI team further supported best practice across Pendal and the finance industry at large in 2021.

For example, Regnan developed a series of ESG guidance notes for investment teams and clients on how to prioritise efforts on meaningful and constructive change when engaging with companies.

Investment teams benefited from additional sessions which explored a number of ESG topics in more detail including modern slavery, governance considerations and DEI.

A complete list of our industry associations and partnerships is available here.



Key ESG issues

Climate change

We acknowledge climate change presents significant challenges for humanity and the planet, with consequences for physical and financial assets. Responding to climate-related risks and opportunities requires ongoing attention so we can evolve our approach in line with improving scientific understanding and a tightening regulatory environment as the world transitions to a low carbon economy.

Given the nature of our business, emissions from our operations are not material. Even so, in 2021 we partnered with an independent consultancy specialising in carbon-reduction projects to review our process of calculating and managing Pendal's green-house gas (GHG) emissions from operating activities and assist us in purchasing quality carbon credits to offset our emissions.

Pendal Group became carbon neutral from FY20 and will continue to maintain carbon-neutral status.

"During the year we commenced work on a group-level Net Zero ambition and decarbonisation strategy which seeks to align our funds under management with the objectives of the Paris Agreement. This strategy will be part of our broader Climate Change Action Plan which we plan to share with our stakeholders in 2022."

Our investment teams have been increasingly using a range of sources, including ESG research covering climate risks, to form a view of companies' exposure to and management of climate-related risks and opportunities. These include physical risks and those arising from the transition to a low-carbon economy.

Where these are financially material, they are factored into each asset class's investment decision-making processes and are raised in engagement.

In 2021 Pendal's Responsible Investments team and Regnan continued their collaboration with the publication of the second of a two-part guide for financial advisers and investment professionals. The guide explains the impact of climate change on business and investing. These reports are available on our website.

As an active investment manager our analysts discuss climate-related risks and opportunities in meetings with company managers. We use this information to assess when, where and how real and financial assets may be affected. This includes issues of business resilience to climate-related risks and calls for greater investor-useful disclosure.

210 engagements

held on climate change.

In FY21, Pendal Australia and Regnan undertook 210 engagements with companies on the subject of climate change.

Pendal Group also joined collaborative engagement initiatives on climate change. For example, we are a signatory and investor participant in the Climate Action 100+ initiative.

Case study

Engagement on climate change in the insurance sector

The issue of climate-related catastrophe exposure is a critical area for engagement with the insurance sector. A rising number of incidents and increased severity has raised material risks around the cost of reinsurance.

Our objective is to ensure insurance companies understand the rising risks and how to manage them. We want to see this in measures such as the disclosure of long-term modelling of the effects of climate change on a granular basis – by geography and peril type – which can help dimension the impact on pricing and the availability of reinsurance.

This can help insurers better manage their exposure through a combination of business mix, perils allowance and reinsurance cover. This is an area of ongoing focus of our engagement with the sector. There is some disclosure of longer-term modelling in the sector, but it tends to be case studies rather than comprehensive. We believe insurers are in the process of rebasing expectations around the cost of reinsurance and the perils allowance they will need to provide. We will continue to focus on this issue as a key area of engagement with the sector.

Looking ahead, we will continue to enhance our understanding of how transition and physical risks and opportunities may impact the investments made on behalf of our clients. We will seek more information and action from companies and issuers with respect to their own climate risk management, especially in sectors identified as high risk.

We will continue to expand the investment solutions and services provided to clients who seek strategies that align with their needs and ambitions around the management of climate-related issues in their investments. In some cases this will entail delivering clients' own targets (such as 'net zero' targets) and will involve working collaboratively to establish and achieve these objectives. A number of our investment teams are building out existing strategies to allocate capital to sectors that will support the transition and adaptation needed.

Emissions intensity of select strategies vs their respective benchmarks

Our dedicated RI and Regnan strategies which actively avoid exposure to fossil fuels significantly outperform their benchmarks in terms of emissions intensity.

51.8% lower	41.3% lower	51.2% lower	11.5% lower
Pendal Horizon Fund (former Pendal Ethical Share Fund)	Pendal Sustainable Australian Share Fund	Pendal Sustainable Future Australian Shares Portfolio	Regnan Global Equities Impacts Solutions Fund

Some of our core strategies are also less carbon intensive than their benchmarks

39.0% lower	90.9% lower	0.8% lower
Pendal Global Select Fund	Pendal MicroCap Opportunities Fund	Pendal Concentrated Global Share Fund

Note: Weighted Average Carbon Intensity, calculated using ISS carbon data. Figures are indicative and at times based off estimated not reported emissions.

Further information on our position on climate change both in relation to our operations and investments can be found in Pendal Group Climate Statement find it on our website **here**.

Human rights and modern slavery

Modern slavery is a form of human rights abuse estimated to affect 40 million people globally.[1]

Regulation to address modern slavery is now in place in a number of jurisdictions globally, including Australia.

We welcome these regulations and broader efforts to eliminate modern slavery around the world.

Not only will this benefit vulnerable people, but we believe it will enhance our ability to manage risks within both our business and the investments made on behalf of our clients.

Pendal Group is required to comply with the Australian Modern Slavery Act. Our first annual Modern Slavery Statement was published in 2021.

Pendal's Australian investment teams have been building capabilities to better identify our potential contribution to (and measures we can take to avoid complicity in) modern slavery through our investments.

Pendal's engagement with issuers not only seeks to address these risks but also support our compliance with the Australian Act.

[1] Anti-slavery International, https://www.antislavery.org/slavery-today/modern-slavery/

Case study

Engagement on modern slavery in the cotton industry

In 2021 we engaged with companies operating in a number of jurisdictions with potential links to high-risk regions for cotton growing and manufacturing. This included **China's Xinjiang province which has been the subject of allegations of modern slavery and other human rights abuses**, resulting in import bans in a number of markets.

Teams from Pendal and Regnan engaged on this issue, working in collaboration to share insights and best practice. Drawing on insights developed as part of our own in-house research, and in discussions with a number of human rights experts and peer organisations, our engagement typically sought:

- Evidence of awareness and effective oversight from the board, including adequate consideration of regulatory risk given the announcement of import bans in the US and Canada and emerging regulation in other jurisdictions.
- The publishing of factory lists to provide assurances that company supply chains have been mapped and can be effectively monitored. This information also assists in our own assessment of modern slavery risk and provides an additional avenue by which concerns can be identified and raised by a range of actors, including NGOs and civil society, to support enhanced detection and prompt action.
- Adequate controls to monitor ESG risks, including modern slavery, within supply chains – both from manufacturers and growers.
- DNA testing of cotton to confirm its origin where financially practicable.
- Participation in collaborative initiatives within the sector.
- Enhanced disclosure of activities already underway, including in smaller companies where reporting has been less extensive.
- Consideration of alternate textiles, including raw substitutes as well as the use of recycled materials.

This engagement has secured:

- Greater board awareness of shareholder interest in this issue, including expectations that investigations will extend beyond tier 1 suppliers.
- Clear acknowledgement of the need to expand stakeholder mapping to tier 2, 3 and 4 suppliers.
- Public confirmation of plans to consolidate suppliers to support more effective oversight.
- Greater board visibility of the resources and expertise available in organisations engaged to support risk management efforts.

continued...

Despite this progress there was one instance where we were not able to secure the necessary comfort that our concerns would be addressed after engaging with the company. **Given the elevated levels of risk and the low likelihood of success from continued engagement we made the decision to sell the stock.** Consistent with our governance model for the management of modern slavery risk this issue, and ultimately the decision to divest, was overseen by the Global Chief Risk Officer.

We are reviewing our procedures to better log such instances and share the insights gathered across our investment teams globally. We have completed a number of training sessions to raise awareness of the specifics of this issue and will seek to further formalise this process to achieve greater consistency and manage risk across the group. This includes exploring whether the expansion of existing exclusions should include companies with unacceptable levels of modern slavery risk and where engagement is deemed to be unlikely to achieve meaningful change.

Enhancements in 2021 included:

- Wider application of our proprietary assessment tool to assess modern slavery risk within our Australian equities holdings to include the small caps universe and to support more detailed reporting for Australian clients who need to meet obligations under the Act.
- Development of a high-level assessment tool across our global equities portfolios to support human rights-related company and country risk assessments, as well as controversy monitoring services which help alert us to potential incidents.
- Continuation of mandatory training for all staff to raise awareness of modern slavery and communicate expectations to employees of the role they play in assisting Pendal to manage modern slavery risks across the business and within investments.
- Pendal has commenced a work program reviewing our procedures to better log instances of elevated modern slavery risks and how we can better share the insights gathered across our investment teams globally.

Pendal Australia investment teams include modern slavery as a topic of specific focus in engagements, in particular with those companies identified as higher risk.

Regnan has been engaging on behalf of its clients, including Pendal, on this topic since 2018. In 2021 Pendal and Regnan held a total of 17 engagements on modern slavery.

As an asset manager we encourage investee companies to provide comprehensive reporting on modern slavery to support risk assessment. However we believe investee companies and issuers should approach the legislation as more than a disclosure exercise. We wish to see companies demonstrate an active approach that seeks to address issues of modern slavery. We look for sound consideration of the risks modern slavery might present to their business, robust due diligence processes, the development of adequate feedback, remediation policies and grievance mechanisms.

17 engagements

held on modern slavery

Additional information on the group's approach to managing human rights risks within the business and our investments can be found on our website here.

Looking ahead

As always Pendal Group continues to evolve our responsible investment practices in response to the changing investment landscape and stakeholder expectations. In the year ahead, beyond our ongoing ESG integration and stewardship activities, key focus areas include:

- Embedding new climate change and modern slavery risk tools and oversight practices across our investment processes.
- Further develop our ambition and approach to Net Zero and climate-resilience, including setting and implementing strategies for a phased approach to the decarbonisation of our funds and our business in line with the needs and expectations of our stakeholders.
- Reviewing exclusionary screens across our Sustainable Series funds to ensure they continue to meet client needs.
- Undertaking dedicated engagements in support of the priorities of Pendal's dedicated sustainable investment funds.
- Improving client reporting in relation to responsible investment.
- Continue to review the impact of benchmarks selected under the Your Future, Your Super performance test on sustainable strategies available in superannuation funds.
- Continue to enhance our approach to Diversity, Equity and Inclusion (DEI), both in our investment and stewardship practices as well as by implementing Pendal Group's DEI strategy locally across our business.

We look forward to another year of progress and updating our stakeholders in our next report.

We invite our stakeholders to share with their Pendal contact any feedback they have on our disclosures so we can incorporate it into future reporting.

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Pendal Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 is the responsible entity or trustee and issuer of units in the Pendal Horizon Fund (ARSN: 096 328 219), Pendal Sustainable Australian Fixed Interest Fund (ARSN: 612 664 730), Regnan Global Equity Impact Solutions Fund (ARSN: 645 981 853), Pendal Multi-Asset Target Return Fund (ARSN: 623 987 968), Pendal Sustainable Australian Share Fund (ARSN: 097 661 857), Pendal Sustainable Balanced Fund (ARSN: 637 429 237), Pendal Sustainable Conservative Fund (ARSN: 090 651 924), Regnan Credit Impact Trust (ARSN: 638 304 220), Pendal Concentrated Global Share Fund (ARSN: 613 608 085), Pendal MidCap Fund (ARSN: 130 466 581), Pendal Focus Australian Share Fund (ARSN: 113 232 812), Pendal Australian Long/Short Fund (ARSN: 121 948 810), Pendal Australian Share Trust (ARSN: 089 939 453), Pendal Geared Imputation Trust (ARSN: 102 970 356), Pendal Imputation Trust (ARSN: 094 645 468), Pendal MicroCap Opportunities Fund (ARSN: 118 585 354), Pendal Property Trust (ARSN: 089 935 339), Pendal Global Select Fund (ARSN: 651 789 678)and Pendal Asian Share Fund (ARSN: 087 593 468), each a “**Fund**”, and collectively, the “**Funds**”. A product disclosure statement (**PDS**) or Information Memorandum (**IM**) is available for each Fund and can be obtained by calling 1300 346 821 or visiting www.pendalgroup.com. You should obtain and consider the PDS or IM for the relevant Fund before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in any of the Funds is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

Performance figures referred to in this annual report are calculated in accordance with the Financial Services Council (FSC) standards. Performance data (post-fee) assumes reinvestment of distributions and is calculated using exit prices, net of management costs. Performance data (pre-fee) is calculated by adding back management costs to the post-fee performance. Past performance is not a reliable indicator of future performance.

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