PENDAL

Factsheet

Global Equities

October 2018

Pendal Sustainable International Share Fund

Previously known as 'BT Sustainable International Share Fund'

ARSN: 612 665 219

About the Fund

The Pendal Sustainable International Share Fund (**Fund**) is an actively managed portfolio of international shares. Investments are selected on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the MSCI World ex Australia (Standard) Index (Net Dividends) in AUD by 2% p.a. over rolling 3 year periods.

Description of the Fund

The Fund offers investors access to a diversified portfolio of international shares and seeks exposure to companies that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to companies with activities that 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 has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

As the investment manager for the Fund, AQR's investment process is based on their quantitative investment strategies and aims to add value through active stock and industry selection and investment research. AQR employs a systematic investment process to maintain a highly diversified and risk controlled portfolio.

By incorporating ESG-related factors as an input into the multi-factor stock selection approach, the portfolio is able to favour companies that score better across all factors on average.

Consistent with the Fund's focus on sustainable and ethical investments, the Fund's proxy voting policy generally supports shareholder proposals advocating ESG related activities including proposals advocating enhanced disclosure and transparency.

Investment Team

Founded in 1998, AQR Capital Management is an investment management firm employing a disciplined multi-asset, global research process. AQR's team spans a variety of backgrounds including fund management and academic finance.

Management Costs[1]

Issuer fee[2]	0.70% pa

[1] You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

[2] 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.

CERTIFIED RESPONSIBLE INVESTMENT ®
CERTIFIED BY RIAA

The Pendal Sustainable International Share 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-6.48	-6.43	-5.40
3 months	-2.83	-2.66	-0.94
6 months	1.05	1.40	4.30
1 year (pa)	4.87	5.60	9.60
2 years (pa)	13.61	14.40	15.63
Since Inception (pa)	10.84	11.64	12.86

Country allocation (as at 31 October 2018)

Belgium	0.3%
Denmark	1.5%
Finland	1.2%
France	2.7%
Germany	3.4%
Italy	1.4%
Netherlands	1.6%
Spain	0.7%
Sweden	1.1%
Switzerland	4.0%
United Kingdom	5.0%
Hong Kong	1.5%
Japan	8.0%
Canada	2.4%
USA	61.0%
Cash & other	4.2%

Top Ten Holdings (as at 31 October 2018)

Apple Ord Shs	3.4%
Microsoft Ord Shs	3.1%
Amazon Com Ord Shs	2.1%
Facebook Class A Ord Shs	1.7%
Walmart Ord Shs	1.7%
Humana Ord Shs	1.5%
Intel Corporation Ord Shs	1.5%
Valero Energy Ord Shs	1.3%
Novo Nordisk Ord Shs Class B	1.3%
Biogen Inc Ord Shs	1.1%

Other Information

Fund size (as at 31 Oct 2018)	$199 million
Date of inception	July 2016
Minimum investment	$500,000
Buy-sell spread[3]	0.10% (0.05%/0.05%)
Distribution frequency	Quarterly
APIR Code	BTA0568AU

[3] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest in the Fund, and may vary from time to time without notice.

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.
- **Security Specific risk**: The risks associated with an individual security.
- **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.

Please read the Fund's Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Global equity markets experienced a long anticipated reversal of fortunes in October as the sustained positive sentiment holding markets afloat this year gave way to a number of causes for concern. US online mega-retailer, Amazon, spooked investors after issuing a caution on expectations for its festive season trading volumes. Alphabet added to the concerns after reporting its advertising revenue was lower than expected. These came amid some disappointing earnings results from the technology sector. Adding the concerns of continued US monetary tightening and the Sino-US trade tensions was enough to send markets into a correction mode.

The broader US stock market was tempered somewhat by a favourable earnings season, with more than 80% of companies exceeding market earnings expectations. The Energy, Consumer Discretionary and Industrials were the weakest sectors over the month, while investors shifted support towards the less economically sensitive sectors like Consumer Staples, which was the only sector with a positive return for the month. Data on the economy continued to indicate solid expansion. US economic growth expanded at an annual rate of 3.5% in the third quarter, lower than the 4.2% rate of the prior quarter, albeit still robust. Expansion was supported by strength in consumer spending, which accounts for around two-thirds of economic growth. For the month of October, the S&P500 declined by 6.9% while the NASDAQ lost 9.2% of value.

European markets were almost uniformly lower, in concert with developments in the US although regional factors dominated sentiment. Italy was again in the spotlight after the European Union rejected its latest budget proposal. Subsequent reports emerged that Italy would target lower budget deficits for 2019 and 2020, although ratings agency Moody's proceeded to announce a downgrade to Italy's sovereign debt rating to Baa3 – one notch above junk bond status. Elsewhere, markets were impacted by lower oil prices and growing uncertainty over the shape and form of Brexit as the target date draws near. Italy (-8.0%) led the region lower for October, followed by France (-7.3%) and Germany (-6.5%) and Spain (-5.3%), while losses were limited for Switzerland (-0.7%). The UK (-5.1%) was also decidedly lower.

Asian equity markets were not immune to the weakness across the developed world, with prospects for regional trade under the microscope thanks to the newly installed tariff regime. China's economic growth also eased to 6.5%, signalling a slowing of expansion, while weakness in technology stocks offshore transpired to weakness among Asia's technology sector. China's Shanghai Composite index ended the month 7.8% lower, while Korea (-11.6%), Taiwan (-10.9%), Hong Kong (-10.1%), Japan (-9.1%) and Singapore (-7.1%) all succumbed to weakness.

The Australian dollar resumed its weakening trend to end the month 2.1% lower against the US dollar. It was however 0.5% stronger against the euro and relatively unchanged against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 10.8% to close at US$65 per barrel, while Gold rose by 1.9% to just over US$1200.

Fund performance

The Fund underperformed the benchmark over October 2018 due to negative performance in North America and Europe, while Asia performed in line with regional benchmarks over the month.

Underperformance in the US was due to negative performance in our momentum and investor sentiment signals outweighing positive performance in our valuation and management signalling factors. The underperformance in Canada was similar to that in the US with the exception of positive performance in valuation. The underperformance in Europe was due to negative performance in our momentum and stability signals outweighing positive performance in our valuation and earnings quality factors.

From a stock & industry attribution perspective, both active industry tilts and intra-industry stock selection detracted from performance over the month. At a sector level, underweight positions to Consumer Staples and Utilities and an overweight position to Consumer Discretionary were the largest detractors from active returns while an overweight position to Healthcare and an underweight position in Industrials contributed positively. Within sectors, stock selection in Health Care and Materials drove underperformance which outweighed positive performance from stock selection in Financials and Information Technology.

At a stock level, the largest detractors to active returns over the month came from overweight positions in; Valero Energy Corporation, an US headquartered international manufacturer and marketer of transportation fuels; Covestro AG, a German adhesive manufacturing company; Southwest Airlines Co., a major US discount airline; Michael Kors Holdings Ltd., an American fashion company and Abiomed, a manufacturer of medical implant devices headquartered in the US

The largest contributors to active returns came from an overweight position in Walmart Inc., an American multinational retail corporation and underweight positions in; Netflix Inc., a US headquartered global entertainment company; DowDuPont Inc., an American Company formed after the merger of Dow Chemical and DuPont, it is the world's largest chemical company in terms of sales; Merck & Company, Inc., an American pharmaceutical company and one of the largest in the world; Visa Inc., an American multinational financial services corporation headquartered in Foster City, California, United States.

Entering November, the largest sector tilts are overweights in Health Care and Consumer Discretionary and underweights in Financials and Consumer Staples.

Strategy and outlook

Moving into November the largest sector tilts are overweights in Health Care and Consumer Discretionary and underweights in Financials and Consumer Staples.

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