PENDAL

Pendal Sustainable Australian Share Fund

ARSN: 097 661 857

Factsheet

Equity Strategies

April 2019

About the Fund

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

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the S&P/ASX 200 Accumulation Index over the medium to long term, whilst maximising the portfolio's focus on sustainability. The recommended investment timeframe is five years or more.

Description of Fund

This Fund is designed for investors who want the potential for long-term capital growth and tax effective income, diversification across a broad range of Australian companies and industries.

The Fund uses an active stock selection process that combines sustainable and ethical criteria with Pendal's financial analysis. The Fund actively seeks exposure to companies that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices and avoiding exposure to companies with activities we consider to negatively impact the environment or society.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, risk factors (financial and non-financial), franchise and management quality.

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

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

Investment Team

The Fund is managed by Rajinder Singh in Pendal's Australian Equity team who has more than 17 years' industry experience.

Management Costs[1]

Issuer fee[2]	0.85% pa

[1] You should refer to the latest Product Disclosure Statement 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.

Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks.
- **Security specific risk**: The risks associated with an individual security.

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

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.52	1.60	2.37
3 months	9.36	9.59	9.29
6 months	9.46	9.92	10.87
1 year (pa)	7.58	8.50	10.41
2 years (pa)	5.38	6.29	7.90
3 years (pa)	9.60	10.54	11.10
5 years (pa)	6.47	7.38	7.52

Sector Allocation (as at 30 April 2019)

Energy	5.6%
Materials	21.4%
Industrials	10.5%
Consumer Discretionary	4.6%
Consumer Staples	0.9%
Health Care	11.3%
Information Technology	2.1%
Telecommunication Services	6.1%
Financials ex Property Trusts	29.8%
Property Trusts	5.4%
Cash & other	2.3%

Top 10 Holdings (as at 30 April 2019)

CSL Limited	8.4%
BHP Billiton Limited	8.3%
ANZ Banking Group Limited	8.0%
Westpac Banking Corporation	7.8%
Telstra Corporation Limited	4.5%
Qantas Airways Limited	3.9%
Amcor Limited	3.7%
Insurance Group Australia	3.7%
Rio Tinto Limited	3.5%
Transurban Group	3.4%

Other Information

Fund size (as at 30 Apr 2019)	$351 million
Date of inception	October 2001
Minimum investment	$25,000
Buy-sell spread[3]	0.50% (0.25%/0.25%)
Distribution frequency	Half-yearly
APIR code	WFS0285AU

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

CERTIFIED BY RIAA

The Pendal Sustainable Australian 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.

Market review

The strong performance of the Australian market extended in April, with the S&P/ASX 300 Accumulation Index advancing by 2.5% over the month. We saw a general rotation between Materials (-2.1%) and Financials (+4.4%), particularly from miners (-3.9%) to the banks (+4.4%). As a result, Industrials (+3.8%) outperformed, whereas Resources (-2.5%) were the laggard.

In addition to the news that Brazil's major diversified miner, Vale, would restart production, Chinese officials issued some cautionary signals on stimulus, perhaps in response to a surging domestic equity market. This in turn caused the iron ore price to fall below its recent highs. This weighed on mining stocks in the second half of the month, although the iron ore price was still up by 9% over the month. Both BHP (-2.8%) and Rio Tinto (RIO, -2.6%) retraced in that regard; whereas the pull back by base metals, led by Aluminium (-6.7%) weighed on the likes of South32 (S32, -10.5%) and Alumina (AC, -7.4%). Gold miners, such as Newcrest Mining (NCM, -2.0%), Evolution Mining (EVN, -12.8%) and Northern Star Resources (NST, -8.5%) also finished the month lower.

The reasonably large reaction from the miners could be driven by a desire among some investors to bank some profits from the miners and reduce shorts and underweights in the banks. The market has been heavily underweight the banks. However, the prospect of rate cuts has strengthened based on consensus expectations which have firmed following the latest weak print of Australia's inflation data, which could ease funding pressures and bring some margin relief for the banks, depending on the proportion of any official cuts they pass through to borrowers. This may have prompted some investors to reduce their negative stance towards banks. The big four finished the month with gains in the range of +0.3% (NAB) to +6.1% (WBC). Macquarie Group (MQG, +4.1%) also outperformed.

Elsewhere, Consumer Staples (+7.3%) was one of the best-performing sectors over the month. It was led by a rebound of the supermarkets — both Woolworths (WOW, +4.8%) and Coles (COL, +6.4%) registered gains. Coles provided its latest trading updates at month end. Key highlights include a 2.2% rise in third-quarter supermarket like-for-like sales, compared with 1.5% for the previous quarter. The rise was mainly driven by higher fresh food inflation and bigger basket sizes due to the Stikeez collectable. Deflation for packaged grocery remained stable at -1%. A surge in some of the growth market darlings, such as A2 Milk (A2M, +17.2%) and Treasury Wine (TWE, +15.2%) also supported the sector. These names were propelled higher through a broad sense that the 'liquidity tap' has been opened a half-twist, considering subdued inflation in the US and Australia is driving expected interest rates lower.

Information Technology (+7.4%) also recorded a strong month in April, with Afterpay Touch (APT, +22.1%), Xero (XRO, +11.9%) and Computershare (CPU, +4.4%) being the largest contributors. The buy-now-pay-later service provider continues to experience solid growth in transaction volumes as more retailers adopt its system. The market is giving Management a benefit of the doubt that they will retain a sustainable margin, despite the likelihood of increased competition. Meanwhile, Wisetech (WTC, -3.2%) gave back some of its March gains and was the largest detractor for the sector.

Fund performance

The Fund underperformed its benchmark over the month of April.

Contributors

Overweight, Westpac Banking Corporation

We have seen half-yearly updates from three of the Big Four banks in recent weeks, which reinforced the challenges to their core businesses from muted credit growth and increased costs. However there is a sense that the market has been very short banks. Some mixed messages from the Chinese government on stimulus over the month may have provided the opportunity to cover large shorts and underweights in the banks via a rotation away from miners. As such, an overweight to WBC helped on portfolio performance. ANZ remains our preferred bank given its cost out initiatives as well as the strong capital position.

Overweight, Xero

Growth stocks, such as Xero, took a leg higher in April as sentiment shifted towards an expectation of lower interest rates. We struggle to justify the valuations paid for many of these stocks, however we have conviction in Xero's ability to establish market share in overseas markets such as the UK, which can underpin its valuation multiple.

Detractors

Overweight, Evolution Mining

Gold stocks got hit in April as investor sentiment remained buoyant. Evolution Mining retraced amongst its peers after releasing a somewhat downbeat quarterly production report. Due to weather impacts at Ernest Henry and Mt. Calton, production came in lower as expected; whereas Mungari and Cracow were also softer. All-in sustaining costs of A$925/oz were 5% lower than the previous quarter, but exceeded the FY19 guidance at current run-rate. Management maintained cost guidance for the full year nevertheless.

Overweight, Qantas

It was another month where the share price of Qantas (QAN, -0.9%) was dragged down by higher global oil prices, in the absence of any new company-specific news. Global oil prices edged higher in April, with global Brent finishing the month 6.4% higher at US$72.90/bbt, and WTI trading at US$63.84/bbt: the US government announced that they are ending waivers on their Iranian oil export sanctions, which previously allowed some countries to continue importing crude oil from Iran. Some investors remain sceptical at this stage on whether QAN will be able to cope with the additional fuel costs. The company is scheduled to provide its 3Q19 trading update in early May.

Strategy and outlook

A key feature of the market has been the snap back in performance of the banks versus the resource companies over the last month. The positions in miners such as BHP Billiton (BHP) dragged on returns, as did our underweight in the banks.

This highlights the degree of reversion in market leadership, considering the stark difference in fortunes over the past year. Banks are still largely under water on a 12-month view as the Royal Commission dragged out bundles of dirty laundry at the same time that credit growth has begun to slow. Meanwhile, the mining majors have made high teen returns, while Fortescue Metals has risen by over 50% as the iron ore price has held up far better than the market anticipated.

In this vein, there is a sense that perhaps the market has reached an extreme in terms of negative sentiment and short positions on the banks, suggesting perhaps that some investors are reducing underweights and covering shorts.

However, we think it is still hard to build a case to rotate the portfolio from resources into banks. The most recent updates from ANZ and National Australia Bank confirmed revenue trends remain weak in their core lending businesses. Cost pressures continue to mount, not least from increased compliance and remediation, with only ANZ taking action to try and attack costs in an absolute sense. On capital, the potential for equity raisings at some of the banks has returned, with proposals that additional capital will need to be held against the system's New Zealand subsidiaries.

All in all it is not an attractive picture – and one that paints the possibility of earnings going backwards in the next few halves. Given this, we do not see any compelling valuation argument for being overweight the banks.

Conversely, we believe the resource sector still offers opportunity. The iron ore price remains above US$90 a tonne, while consensus expectations continue to imply an US$80 level. As a result, the sector is one of the few in the Australian market which are likely to see earnings upgrades. Management remain relatively disciplined and a material portion of cash flow is finding its way back to shareholders via dividends and buybacks.

Regnan Sustainability Snapshots#

Janus Henderson Group PLC (JHG)

Janus Henderson Group is a global asset manager specialising in active investment across all asset classes.

Management of human capital is positive and aligned with strategy, which we see as supportive of the integration of Janus Capital and Henderson Group. Integration efforts are focused on development of a common culture. Initiatives of note include research and idea exchanges between the merged groups, and the transatlantic analyst exchange program. People and culture, including human capital integration, features in the executive remuneration plan, and oversight of human capital management is also evident at board level. However, we note the company's attention to human capital management disclosure has declined post-merger.

Exposure to misconduct and unethical behaviour in the industry is elevated given legacy issues, with industry participants having engaged in insider trading and front running, and, more recently, the Hayne Royal Commission into misconduct in the financial services industry. JHG's code of conduct is comprehensive, and new employees are given conduct-specific training during induction. However, the company's approach to whistleblowing lags sector peers, lacking a standalone policy.

JHG identifies climate change as a 'mega trend' and recognises that integration of climate risks in investment processes is an increasing client requirement, noting greater asset owner focus on portfolio decarbonisation and stranded assets. JHG uses carbon emissions data to inform its ESG investment risk reports and is developing a framework to integrate ESG concerns into fixed income offerings. The company has also joined Climate Action 100+, a global investor initiative that works to ensure that the world's largest corporate greenhouse gas emitters are taking "necessary action on climate change".

Suncorp Group Ltd

Suncorp Group provides banking and wealth, as well as general, and workers' compensation insurance products and services across Australia and New Zealand. The group's brands include AAMI, GIO, Suncorp, Vero, Apia and Shannons. Suncorp sold its life insurance business in 2018.

SUN was subject to a number of specific concerns raised at the hearings of the Hayne Royal Commission, including shortcomings in the handling of insurance claims, accusations of mis-selling financial advice prior to 2015, inappropriate lending practices, and failure to act in the best interests of its retail super fund members. In recent company disclosure, SUN notes that it is a participant in the ABA's Better Banking Initiative; is a signatory to the current Banking Code of Practice, and is committed to implementing the revised Code by 1st July 2019; and is working through 'Advanced Accreditation' with APRA. Conduct controls also improved in 2018, including the introduction of a 'customer advocate', at-risk remuneration links to conduct, and the provision of evidence of annual staff training on the code of conduct, which SUN claims was completed by 99% of employees in 2018.

Regnan sees evidence that human capital initiatives have succeeded in improving customer satisfaction and net promoter scores, although performance on human capital metrics was mixed in 2018 after steady improvements in previous years. Workforce diversity, inclusivity and engagement are central to SUN's strategy and Regnan sees evidence that an ongoing focus on training and development, as well as a market-leading flexible work offering, remain effective. Gender diversity has steadily increased since 2013, with women now effectively holding half of senior leadership roles.

The group is exposed to the physical risks of climate change particularly within the general insurance business. We note SUN's approach to climate risk identification and management has improved significantly with the introduction of a wholistic, company-wide 'climate change action plan' (CCAP), which includes a strategic undertaking to meet the requirements of the Task Force on Climate-related Financial Disclosures (TCFD). We see high level recognition that climate change is a material issue, with the board and senior leadership team approving the CCAP in March 2018.

Climate risk assessment is integral to CCAP, which sets out numerous steps and practices undertaken to identify and assess risks and opportunities for SUN and its customers from climate change. Management of climate change risks (e.g. natural hazards), insurance affordability and reducing GHG emissions, are integrated into multi-disciplinary company-wide strategy, business planning and the risk management framework.

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

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ii. the prospects of the company; or
iii. the company's suitability or attractiveness from an investment perspective.