

#### About the Fund

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

#### Investment Return Objective

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

#### Description of Fund

For Australian and international shares and Australian and international fixed interest, the Fund uses an active security selection process that combines sustainable and ethical criteria with Pendal's financial analysis. We actively seek exposure to securities and industries that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to companies with activities or behaviour we consider to negatively impact the environment or society.

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

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

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

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

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

#### Benchmark

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

#### Investment Team

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



CERTIFIED BY RIAA

The Pendal Sustainable Balanced Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See [www.responsibleinvestment.org](http://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<sup>1</sup>

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.08	0.15	0.06
3 months	0.50	0.73	0.68
6 months	4.77	5.25	5.29
1 year (pa)	10.61	11.61	13.54
2 years (pa)	5.56	6.51	8.88
3 years (pa)	7.77	8.74	9.91
5 years (pa)	6.44	7.40	8.38

#### Asset allocation (as at 31 October 2019)

Australian shares	35.3%
International shares	29.3%
Australian fixed interest	10.2%
International fixed interest	5.0%
Australian property securities	3.0%
International property securities	1.0%
Alternative investments	15.9%
Cash	0.3%

#### Investment Guidelines

Asset allocation ranges (%)	Neutral position	Ranges	
		Min	Max
Australian shares	34	28	48
International shares	26	12	32
Australian fixed interest	12	5	32
International fixed interest	5	0	20
Australian property securities	3	0	10
International property securities	1	0	10
Alternative investments	15	0	20
Cash	4	0	10

#### Other Information

Fund size (as at 31 Oct 2019)	\$690 million
Date of inception	August 1984
Minimum investment	\$500,000
Buy-sell spread <sup>2</sup>	0.28% (0.14%/0.14%)
Distribution frequency	Quarterly
APIR code	BTA0122AU

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

#### Management Costs<sup>3</sup>

Issuer fee <sup>4</sup>	0.90% pa
Estimated indirect costs <sup>5</sup>	0.05% pa

<sup>3</sup> You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

<sup>4</sup> 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.

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

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

## Risks

An investment in the Fund involves risk, including:

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

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

## Markets review

Australian equities, as measured by the S&P/ASX 300 Accumulation index (-0.4%) gave back some of the September gains this month. The meaningful rotation from Value to Growth last month quickly reverted, with the MSCI Australia IMI Value Total Return index underperforming its Growth counterpart by 3.1% this month, as the big banks and miners pulled back. Industrials (-0.1%) recorded marginal losses; whereas Resources (-1.6%) were the main detractors.

Six of the 11 GICS sectors finished the month in the black; although poor performance from Communication Services (-1.4%), Information Technology (-3.2%), Consumer Staples (-2.2%), Materials (-1.8%) and Financials (-2.9%) more than offset the gains.

Most offshore equity markets registered gains in October, supported by positive sentiment on a number of fronts. Not least of all was the third cut to official interest rates this year by the US Federal Reserve (Fed), which spurred the US equity market to rise to a record high on the day. Hopes of a deal on the US-China trade impasse added to investor sentiment, while the other prevailing impasse — Britain's Brexit campaign — was somewhat overlooked as attention focused on signs of global growth. The UK equity market was the notable exception to the gains, along with the lesser followed Chile, Turkey and Saudi Arabian share markets, which declined on country-specific issues. The MSCI World (A\$) TR Index ended the month with a 2.8% return, with contributions from the US (+2.0%), Europe (+1.0%) and Japan (+5.4%).

The Australian dollar strengthened against the US dollar by 2%, reflecting the flow-on effect of rate cuts. The local unit was 2.3% stronger against the euro but declined 3% higher against the British pound. Gold (+2.8%) enjoyed renewed support while the recent rise in crude oil consolidated for little movement this month, closing around the US\$54 per barrel mark.

Australian bond yields retraced higher during the month alongside a steepening of the curve. Global sentiment and repositioning were again key factors behind the move, which has followed in the wake of a strong run for bonds over most of the calendar year. Attitudes towards geopolitical risks improved, particularly trade tensions and Brexit. Meanwhile, central banks were perceived as putting a pause on further easing. This included the Reserve Bank, after it delivered a 25bp reduction at the start of October. In supporting its decision, the RBA noted greater uncertainty over the global outlook as well as a continued spare capacity in the domestic economy. Data-wise, the unemployment rate dropped by 0.1% back to 5.2%. Meanwhile the trimmed mean CPI measure remained static at 0.4% for the third quarter. This kept the annual rate at 1.6%, still well-below the RBA's target band. For market movements, the Australian 3 and 10 year yields rose 8bps and

13bps respectively to 0.81% and 1.15%, leading to a steepening in the curve. At the very front-end, 3 month BBSW was pulled lower with the cut in the cash rate by -2bps to 0.93%.

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## Fund performance

The Fund's return for October reflected the contribution mainly from exposure to global listed equities (+0.6%). Australian (+1.2%) and global listed property (+1.8%) markets benefited from investors shifting towards higher yield offerings. Australian and global fixed interest detracted from performance this month.

Performance relative to the benchmark broadly reflected the application of our active asset allocation processes. Our active decisions saw the Fund retain an overweight exposure to Australian and overseas shares, and an underweight exposure to Australian fixed interest.

A small contribution from our positioning in equities was largely driven by our medium-term valuation models which favour Korean and Japanese equities over US large caps. Our trend models initiated new long positions in the US (S&P-500) and Germany (Dax) at the end of the month, increasing the portfolio's total equity exposure.

In relation to fixed income, a small detraction occurred due to our shorter-term trend models remaining long, as they have generally been for some time, but during the month we incorporated additional medium-term valuation-driven insights to the active asset allocation process and also increased diversification to include two new bond markets - UK and Canada. From a valuation perspective, fixed income is very expensive so the total overweight position driven by the trend signal is offset by underweights from the valuation models. Some bond markets are more expensive than others and so the net positioning is slightly underweight in Australian and US 10-year bonds, offset by overweights to Germany, UK and Canada.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian and international equities. Within the Australian equity strategy, overweight positions in CSL, Xero and Ramsay Health Care contributed to performance, while overweight positions in Evolution Mining and Sandfire Resources, together with holding no exposure to Sydney Airport, and Brambles detracted from performance.

The Core Alternatives strategy delivered a total return (before fees) of -0.83% versus a cash return of 0.08%. Within our Alternatives core portfolio the Global Macro, Event Driven and Opportunistic strategies delivered gains, while the Managed Futures, Dedicated Short Bias and Fixed Income Relative Value strategies detracted from the sector's return.

Within our active positioning in alternatives, positive returns from the long gold position were offset by small negative returns from Copper. At the end of October the copper position was closed as the curve-basis valuation model turned positive, offsetting the negative position from our trend model. Our equity volatility (VIX) model was defensively positioned at the start of October, providing some cushion to the elevated equity market volatility experienced

during the first week of the month. Our market sentiment indicator then switched states from identifying market participants as being risk averse to neutral on 10 October, changing our positioning to the strategy of earning volatility carry. Market sentiment then quickly moved into risk-seeking mode, driving strong positive returns over the remainder of the month.

Our active positioning for the month of November can be described as moderately risk-on, with overweight positioning in equities, a net neutral position in bonds (although with the relative positioning discussed above), long gold and long volatility carry.

### **Strategy and outlook**

Market moves in October served to highlight the fickle nature of market sentiment and uncertainty that is bearing on capital markets. With the Fed capitulating to a third cut to interest rates, the ECB holding a tenuous line on its policy actions, and our own RBA on an easing bias (with indications from its latest committee meeting minutes suggesting a fine line was drawn between holding or cutting rates), the overarching theme of 'lower and for longer than initially intended' is likely to remain factored into the market's pricing of risk assets.

This impact was evident with the performance of listed property assets this month, with investors seemingly being pushed into higher risk assets on expectations of a higher yield beyond the traditionally defensive asset classes of term deposits and bonds. This is likely to persist for some time which will act to support equity markets. Equally, this trend is likely to unduly impact asset values in certain market segments, warranting a degree of caution.

In keeping with the theme that has prevailed through most of the year, asset values have been and quite likely will continue to be unduly influenced by macro factors like geopolitical rhetoric and the many questions over economic policy regime. In spite of the present uncertainties, our analysis of longer term relationships between asset classes and the systematic application of asset allocation decisions can provide confidence in the longer term investment outcomes for clients invested in well diversified and actively managed portfolios. We continue to employ this active approach to modelling scenarios and assessing market technical factors to identify opportunities and limit risks for our investors to achieve their targeted investment outcomes.

### **Regnan Sustainability Snapshots\***

#### **Mirvac Group (MGR)**

Mirvac Group is a real estate investment, development, and management company, with operations almost exclusively in Australia. Development activities span a number of sectors, including residential, office, retail, and industrial.

Mirvac has released its plan to achieve net positive carbon emissions by 2030 which includes measures to maximise energy efficiency and develop all-electric buildings powered by 100 per cent renewable energy. The company has built its first 'House with No Bills' and continues to pursue higher NABERS energy ratings across its office portfolio, where it will benefit from increased demand for sustainable office spaces. Mirvac's portfolio has two 6 Star, two 5.5 Star and seven 5 Star 'NABERS' energy buildings, with four 6 Star 'Green Star Performance' buildings. Mirvac has reduced its water intensity by 23 per cent since 2014, raised construction recycling rates to 96 per cent, and currently recycles 69 per cent of all waste from the office, industrial and retail portfolios.

In FY19, Mirvac used the Social Return on Investment (SROI) framework to estimate that for every dollar the company invested in twenty-seven of its existing residential projects, \$1.79 of social and economic value was created for local communities. Gender diversity continues to be a strong area of performance for Mirvac. The company has a 50:50 gender split on its board, has closed the gender pay gap on like-for-like roles to zero, and is working towards a goal of at least 40 per cent of women in senior management roles by 2022.

Safety focus and metrics have been broadened to include a critical incident frequency rate (CIFR), enabling Mirvac to identify and examine critical incidents and near misses, and further drive a preventative safety culture. Mirvac's CIFR in FY19 was 0.91 and lost time injury frequency rate (LTIFR) reduced to 1.02 – a record low for the company. Performance against human capital metrics also remains sound, with engagement maintained at 90% in FY19 – in line with leading peers.

#### **Macquarie Group Ltd (MQG)**

Macquarie is a provider of financial services, including banking, financial, advisory, investment and funds management services.

The company augmented its disclosure on climate change this year, publishing its first report aligned to the Task Force on Climate-related Financial Disclosures (TCFD). The report discloses limited, non-material impacts to the company's equity and lending portfolios across oil, gas, coal and power generation sectors, under the International Energy Agency's sustainable development and business-as-usual scenarios. Acquisition of the Green Investment Bank in the UK and well-developed capabilities under Macquarie Infrastructure and Real Assets (MIRA) positions MQG to capture short-medium term opportunities emerging through climate change regulation and clean energy development. The company invested or arranged ~\$7.9 billion into renewable energy projects in FY19. It is proactively pursuing this thematic through a dedicated renewable energy investments team, specialised ESG products and carbon trading.

Macquarie's human capital management strategies are proactive and comprehensive. Reward structures support return generation and attraction and retention of staff. Senior talent retention is material to the company, and it demonstrates a focus on talent retention with positive performance metrics. For example, 47% of director level staff have been with MQG for over 10 years and the average tenure of key management personnel is 24 years. Human capital management strategies and performance are afforded active board oversight and linked to executive at-risk remuneration. Attracting and retaining women, especially at the graduate level, remains an acknowledged issue. Initiatives include internal focus groups within the bank to understand the drivers of attracting and retaining women at MQG and an extensive suite of internal programs developed with the aim of fostering an inclusive and diverse workplace. Metrics are trending upwards with improvements in the proportion of female representation at division head, senior executive, and workforce levels, in addition to stable representation at the executive committee level. The company has begun to institute programs to cultivate cognitive diversity.

Recent controversies (Macquarie Securities was fined by ASIC for sending incorrect or incomplete trading instructions, allegations of artificially inflating the price of the Cleveland Mining Group and misselling of financial products in Australia) have highlighted deficiencies in supervision of staff and record keeping. Efforts to improve conduct culture include the introduction of training and culture induction for new employees on MQG's "what we stand for" principles: opportunity, accountability and integrity. However, compliance failures reinforce concerns about the ongoing cultural tension between risk and return given the company's culture of innovation and entrepreneurial drive.

<sup>#</sup>The information in the Sustainability Snapshots is provided by Regnan Governance Research and Engagement Pty Limited (ABN 93 125 320 041). It should not be relied upon in making a decision to invest or a decision in relation to an existing investment. The information relates only to Regnan's assessment, based on its research and the information available to it, of the performance of the company in relation to environmental and social issues and should **not** be regarded as a recommendation or statement of opinion by Regnan on:

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

For more information please call **1800 813 886**,  
contact your key account manager or visit [pandalgroup.com](http://pandalgroup.com)

**PENDAL**

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