PENDAL

Factsheet

Multi-Asset Strategies

December 2019

Pendal Sustainable Balanced Fund

ARSN: 637 429 237

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 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[1]

(%)	Total Returns (post-fee)	(pre-fee)	Benchmark Return
1 month	-0.48	-0.41	-1.01
3 months	2.10	2.32	1.41
6 months	4.23	4.69	3.89
1 year (pa)	16.20	17.23	17.37
2 years (pa)	5.55	6.49	8.51
3 years (pa)	7.00	7.96	8.69
5 years (pa)	6.32	7.28	8.14

Asset allocation (as at 31 December 2019)

Australian shares	31.0%
International shares	33.2%
Australian fixed interest	6.4%
International fixed interest	6.5%
Australian property securities	3.0%
International property securities	1.0%
Alternative investments	17.6%
Cash	1.3%

Investment Guidelines

Asset allocation ranges (%)	Neutral position	Ranges Min	Max
Australian shares	30	20	40
International shares	30	20	40
Australian fixed interest	8	0	25
International fixed interest	5	0	25
Australian property securities	3	0	10
International property securities	1	0	10
Alternative investments	15	0	20
Cash	8	0	20

Other Information

Fund size (as at 31 Dec 2019)	$691 million
Date of inception	August 1984
Minimum investment	$25,000
Buy-sell spread[2]	0.28% (0.14%/0.14%)
Distribution frequency	Quarterly
APIR code	BTA0122AU

[2] 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[3]

Issuer fee[4]	0.80% pa
Estimated indirect costs[5]	0.05% pa

[3] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[4] 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.

[5] 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.

[1] 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.
- **Interest rate risk:** The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **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 Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

The Australian equity market delivered a strong returns in 2019, with the S&P/ASX 300 Accumulation index gaining +23.8%. This was despite a -2.0% pull back in December, as several earnings downgrades weighed on investor sentiment. Aggregate index earnings declined over the year, despite an expansion in the resource sector. As such, the year's gains were driven by a valuation re-rating, helped in turn by lower interest rates and bond yields.

Materials (+1.8%) was the best performing sector, bolstered by gains in the miners as the risks around trade diminished. BHP (BHP) was up 1.8%, Rio Tinto (RIO) +3.6% while Fortescue Mining (FMG) rose +9.9%. Outside of the miners, packaging company Amcor (AMC, +2.1%) also held up well, helped by a recent trends towards better volumes in North American beverages and lower plastic resin prices. Utilities (+0.8%) was the only other sector to remain above water for the month. Several of the more defensive sectors underperformed. REITs fell -4.5%, while Consumer Staples (-7.8%) fell the furthest. Communication Services sector fell -5.5%.

Global equity markets made gains in USD terms, but this was offset by a weaker Australian dollar, which saw a -0.86% return for the MSCI World ex Australia in AUD, and taking the calendar year to date returns to 27.97%. Hong Kong was among the best performing markets in local currency terms, while the US also continued its strong run. The S&P 500 was up 3.02% in local terms whilst the Nasdaq was up 3.54%, helped by an improvement in sentiment as China and the US agreed to a first phase trade deal.

A thumping victory by Boris Johnson' Conservative party in the UK election has helped reduce some of the uncertainty surrounding Brexit, with the FTSE 100 gaining 2.67% in local terms. The Japanese Nikkei ended the month up 1.56%.

Australian bond yields rose and the curve steepened during the final month of 2019. Similar but smaller moves were seen offshore as a Sino-US trade agreement saw safe-haven demand for bonds dissipate. The more pronounced lift in domestic yields was likely driven by shifting expectations towards the RBA. The central bank left its policy rate unchanged at 0.75% during December and noted the economy may be reaching a "gentle turning point". The Australian 3 and 10 year yields rose by a sizeable 28bps and 34bps to 0.93% and 1.39%. At the very front-end, 90 day BBSW increased a more modest 4bps to 0.92%.

Global bond yields rose at the long-end and the curve steepened during the final month of 2019. This was tied to a Sino-US trade agreement that saw safe-haven demand for bonds dissipate. The "phase one" deal saw tariffs slated for December suspended, the rollback of some existing tariffs, as well as the suspension of future increases. On market movements, the US 2 year fell -4bps to 1.57% and the 10 year rose 14bps to 1.92%.

Fund performance

The Fund outperformed its benchmark over the month of December.

Our active positioning entered the month of December moderately risk-on, resulting in a positive contribution to fund returns over the month, quarter and calendar year.

Our trend-following models held overweight positions in US, German and Australian equities. Our medium-term valuation-based models remain (increasingly) negative on US large caps (S&P-500) while our overweight positions in Korean and Japanese equities appear to be moving closer to fair value. The net positioning in S&P-500 is slightly long at this point as the trend overweight is a little larger than the valuation underweight.

In fixed income the trend-following overweights remain offset by the valuation-based underweight positions. On a valuation basis, Australia remains our least-favoured market followed by the US.

In alternatives, the positive return from long gold offset the small negative from short copper. VIX volatility carry continued to add value while the long position in Brent Crude was the largest overall contributor for the month earning positive returns from price appreciation as well as a favourable term structure. At the end of December both our trend and futures curve valuation models turned positive for copper closing out the short position and initiating a new long.

Our active positioning for the month of January remains risk-on, consistent with the risk-seeking signal generated by our cross-market sentiment indicator, with overweight positioning in equities, a net neutral position in bonds, long gold, copper and Brent crude and long equity volatility carry.

Outlook

With no meeting held in January the main data releases that will shape expectations at the Reserve Bank's February meeting will be the fourth quarter inflation and the monthly labour market numbers. Market pricing for further easing pared back following the better employment growth numbers although the composition was quite weak, with jobs growth predominantly due to gains in part time employment. The GDP data was also concerning with the annual change in household consumption rising by only 1.2%, its lowest level in over 10 years. Despite tax and interest rate cuts, household spending is not responding. The improvement in established housing markets may see confidence increase although residential dwelling investment is expected to detract from growth in the nearer term, a symptom of the rapid pace of construction previously and also the decline in prices witnessed up until more recent times.

Global risks in the near term remain tilted to the downside although global manufacturing has shown some recent signs of stabilisation and easing by other central banks should support global growth. Further monetary policy easing is likely at some point, particularly if other central banks cut interest rates further. The Reserve Bank does not want to see an appreciating currency in the current environment.

Regnan Sustainability Snapshots#

CSL Limited (CSL)

CSL develops and delivers biopharmaceutical products including plasma therapies (plasma products and recombinants) through its CSL Behring arm, and non-plasma biotherapeutic products (vaccines, anti-venom, and influenza related products) through its Seqirus arm. CSL Behring also includes intellectual property licensing and royalty income. The company serves patients in over 60 countries and has manufacturing facilities in Australia, the US, the UK, China, Switzerland and Germany.

CSL continues to show leadership in identifying and mitigating material risks, including those related to product quality and safety, human capital management, and ethics and conduct. Product safety, especially during clinical trial phases, is key to company success. The company has a ‘Global Clinical Safety and Pharmacovigilance’ function that provides robust processes for monitoring the safety of clinical participants and patients. Additionally, the management of product safety and regulatory compliance in multiple jurisdictions is facilitated by the company’s ‘Environment, Health, Safety and Sustainability (EHS2) Strategic Plan’.

Employee safety performance deteriorated slightly in FY19. However, the company has been proactive in acknowledging this and has reportedly established additional safety improvement initiatives. CSL has a strong history of employee satisfaction which should help to support expansion efforts including headcount growth associated with the addition of new plasma collection centres in the US. Various programs to attract and retain key talent are also in place and should aid in the execution of R&D strategy.

CSL’s environmental management systems are closely integrated with production management. CSL recognises climate change as the ‘pre-eminent global challenge’, and while it does not see material negative impact from climate change, the company has identified opportunities. These include leveraging its role as a leading biopharmaceutical company to address increased incidence of infectious diseases that are forecast as a result of climate change. The company reports several wastewater contamination infringements but appears to be working closely with the appropriate environment authorities on contamination remediation.

JB Hi-Fi Limited (JBH)

JB Hi-Fi is engaged in the retailing of home consumer products, primarily consumer electronics products and services.

Human capital management plans are supportive of company strategy to keep pace with competitive threats from online retailers, including senior management appointments across digital strategy and supply chains and investments into building IT systems and supply chain logistics. Gender diversity is seen as a strategic opportunity and source of competitive advantage. However, while the company’s gender objectives are advanced, performance has room to improve - year on year performance on area managers and senior managers fell in FY19.

The company is in the process of developing and implementing a Group Ethical Sourcing Policy, with a view to submitting an annual Modern Slavery statement by 2020. Additionally, the company has become a member of the Responsible Business Alliance.

The company has undertaken to develop a sustainability framework which is planned for release in 2020. Other environmental initiatives include promotion of energy efficient products and recycling of all e-waste from store and support operations.

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**,
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