PENDAL

Factsheet

Multi-Asset Strategies

January 2020

Pendal Sustainable Conservative Fund

ARSN: 090 651 924

About the Fund

The Pendal Sustainable Conservative 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 real return over inflation over the medium term to meet the objectives of conservative investors including tax exempt entities whilst screening for investments which meet the Fund's sustainable guidelines. The suggested investment timeframe is three 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.

Fixed interest securities issued by Government related entities are generally considered to meet the Fund's sustainable and ethical investment guidelines.

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 asset allocation 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-Conservative-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 Conservative 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	1.59	1.65	1.83
3 months	2.01	2.19	2.07
6 months	2.50	2.88	2.74
1 year (pa)	8.74	9.63	9.52
2 years (pa)	4.20	5.10	6.47
3 years (pa)	4.67	5.58	6.00
5 years (pa)	3.48	4.39	4.80

Asset allocation (as at 31 January 2020)

Australian shares	11.2%
International shares	11.4%
Australian fixed interest	17.9%
International fixed interest	19.0%
Australian property securities	3.0%
International property securities	1.0%
Alternative investments	14.7%
Cash	21.8%

Investment Guidelines

Asset allocation ranges (%)	Neutral	Ranges	
	Position	Min	Max
Australian shares	10	0	20
International shares	10	0	20
Australian fixed interest	18	10	40
International fixed interest	18	10	40
Australian property securities	3	0	10
International property securities	1	0	10
Alternative investments	15	0	20
Cash	25	0	40

Other Information

Fund size (as at 31 Jan 2020)	$351 million
Date of inception	September 1989
Minimum investment	$25,000
Buy-sell spread[2]	0.18% (0.09%/0.09%)
Distribution frequency	Quarterly
APIR code	RFA0811AU

[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]	0.70% 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 staged a strong start to 2020, with the S&P/ASX 300 Accumulation index gaining +4.9% in January. However with Resources up only +0.65% and Financials (+4.7%) somewhat in-line with the market, the gains were concentrated in narrow part of the market – particularly Health Care (+12.0%), Information Technology (+10.2%) and Consumer Staples (+7.8%).

This rotation away from cyclicals - and towards bond-sensitive defensive and growth stocks – is a reversal of the prevailing theme of the last quarter and reflects a cautious turn in investor sentiment in recent weeks. Coronavirus has played a role in this, but even prior to this uncertainty there had been some weaker signals on global growth. People are now looking for further monetary easing to support the global economy, with a further 50bps of rate cuts currently priced into the bond market.

Global equity markets started the year off well with the first few weeks of January delivering positive returns, however fears of the potential economic impact of the coronavirus saw markets turn negative very quickly. Australian investors benefitted from a large fall of 4.7% in the Australian dollar vs the US dollar which saw the MSCI World ex Australia (Net Dividends) Standard in AUD return a positive 4.35%.

Driving global markets higher was the US market and especially the Nasdaq which rose 2% in local currency terms, whilst the broader S&P 500 fell 0.16%. Within the market key sectors driving returns were the Technology (7.3%) and Utilities (7.6%).

European markets also fell with the German DAX market falling 2% and the UK FTSE market falling 3.5%. Asian markets were hardest hit being the highest impact from economic impacts of the virus with the Hang Seng (6.7%), Kospi (-3.6%) and Nikkei (-1.9%). However the fall in the Australian dollar vs the Yen (-5%) and Hong Kong dollar (-5%) helped cushion these returns for Australian investors.

Whilst the fear of the unknown impact of the coronavirus continues into February the markets can now focus on company earnings season in the US to get an insight into how strong the earnings outlook is given all the uncertainty and are the companies on track relative to the high share prices currently.

Australian bond yields fell and the curve flattened in the first month of 2020. This was echoed across global bond markets as safe-haven flows drove yields lower in the second half of January. A risk-on environment earlier in the period was spurred by a "phase one" US-China trade agreement, however this was eroded towards month-end as fears over the Novel coronavirus spread. The domestic market was also impacted by worries over the bushfire season which fed the potential for a more dovish RBA.

On market movements, the Australian 3 and 10 year yield fell 30bps and 41bps to 0.63% and 0.97% respectively. The fall in 3 month BBSW was more modest with a 4bps drop to 0.88%. The risk-off shift in the second half of the month and weaker commodity prices put pressure on the AUD, which fell 4.7% versus its US counterpart. The US 2 year and 10 year yield fell 26bps and 41bps to 1.32% and 1.51% respectively.

Fund performance

The Fund underperformed the benchmark over the month of January.

Our active positioning entered the month of January risk-on, reflecting the economic recovery underway following the easing of trade tensions. Markets, commodities in particular, were caught off-guard by the negative news flow associated by the coronavirus outbreak in China, resulting in sharp falls in many commodities which in turn drove a negative return contribution from our active positions this month.

Our trend-following models retained overweight positions in US, German and Australian equities which collectively added value during the month despite the market impact of the coronavirus outbreak. Our medium-term valuation-based models remain (increasingly) negative on US large caps (S&P-500) and positive Japanese equities. The valuation-based overweight to Korean equities was closed out in early January when the market price reached our measure of fair value having risen approximately 11% since our entry into the position in November 2018. The net positioning in S&P-500 remains 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 with the combined P&L close to neutral. On a valuation basis, Australia and the US are our least-favoured bond markets.

In alternatives, the positive return from long gold was partially offset by a small negative from VIX volatility carry. The coronavirus impacts were strongly felt in both copper and oil markets due to the unexpected drop in industrial activity in China which is a large consumer of both. The fund was positioned long in both of these commodities accounting for the negative active return in January. At the end of January both our trend and futures curve valuation models turned negative for copper closing out the long position and initiating a new short while in Brent Crude the futures curve valuation model turned negative, offsetting the long trend signal resulting in flat positioning for February.

Our active positioning for the month of February is fairly neutral, consistent with a less risk-seeking signal generated by our cross-market sentiment indicator than seen in recent months. The portfolio is positioned with modest overweights in equities, a net neutral position in bonds, long gold and short copper.

Market outlook

The coronavirus has quickly replaced trade at the nexus of uncertainty over the outlook for Chinese economic growth. The rate at which infection rates are developing - and whether it is slowing – is a key factor in trying to gauge the length and scale of the ultimate impact from coronavirus. Nearer term, the focus will be on how China returns to work following the extended Lunar new year holiday. We will be keeping a close watch on this over the coming weeks.

Within China manufacturing may start to ramp up faster than construction, as the latter relies more on migrant labour which may be impacted by travel restrictions. The market is working through the implications for commodity demand. There are also questions over the impact on regional and global supply chains.

The outlook for China is just one factor the market must think through as we enter reporting season. Across the Pacific, data from the US provided a brighter counterpoint to concerns over China as monthly employment came in much stronger than expected. We believe that the US economy remains in reasonable shape. This is important because the effects of any Chinese demand shock will take place against a US economy which has some momentum, rather than one hovering at stall speed.

Regnan Sustainability Snapshots#

Alumina Limited (AWC)

Alumina Limited invests in bauxite mining, alumina refining and selected aluminium smelting operations through its 40% ownership of Alcoa World Alumina & Chemicals (AWAC).

While AWC does not have operational control of the assets in which it is a joint-venture partner, the company influences sustainability practices through governance and joint venture agreements. In 2018, AWC reviewed its approach to climate change, sustainability and governance. Climate change is identified as a material issue. AWC has issued a Climate Change Position Statement in which it recognises current climate change science and is working towards aligning disclosures to the recommendations of the TCFD.

AWAC continues to investigate best options to decrease GHG intensity, such as process and technology improvements and low or zero carbon energy sources. As a result of ongoing efforts, GHG intensity (tonnes GHG per tonne of production) has dropped from 20.70 in 2014 to 17.22 in 2018. Climate change risk is assessed in AWC's Risk Management Framework. To minimise the potential impact of changing climate conditions, additional considerations are included into the design criteria for new facilities and expansions. As an emissions intensive business, AWC is exposed to regulatory measures to reduce emissions. Financial modelling is used to quantitatively assess the economic impact of enacted and proposed cap and trade systems and other climate policy measures.

A new workplace health and safety framework was introduced in 2018 that has resulted in an overhaul of safety standards which should reduce the risk of injury and improve safety. There was a slight improvement in the year-on-year lost workday rate to 0.203 in 2018, however this remains above the historical recorded low of 0.160 in 2015.

Commonwealth Bank of Australia Limited (CBA)

Commonwealth Bank provides a range of financial services including retail, business and institutional banking, insurance and wealth management. Its key markets are in Australia and New Zealand with institutional and corporate banking services also available in Asia, Europe and North America. Post the Hayne Royal Commission, and public and regulatory scrutiny of the bank's culture following breaches of anti-money laundering law, CBA has streamlined its business with a greater focus on its core capabilities in retail, business and institutional banking.

A key component of its response to an APRA report on cultural failings has been the Better Risk Outcomes Program (BROP) to enhance risk management, building capabilities in risk systems, data and reporting. Implementation has included the addition of dedicated resources for values based training, changes to governance and risk management processes, and improvements to conduct controls including the introduction of senior committees for misconduct and non-financial risk, changes to remuneration and enhanced policy frameworks. We expect extended time frames will be required to embed substantive cultural change.

Strong capabilities in digital are being supported by additional investment and partnerships with fintech providers, including into new markets for the bank, such as 'buy now pay later'.

CBA continues to evidence greater strategic awareness of climate change risks and opportunities. Scenario analysis has been completed for transition risks in business lending and physical risks in agricultural and mortgage lending. There is evidence of decarbonisation of the lending book and targets for the financing of low carbon activities are broadly in line with peers. There is evidence that the board has been active in reviewing the analysis undertaken as well as in the ongoing oversight of portfolio level carbon and broader ESG exposures within business lending.

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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