PENDAL

Factsheet

Multi-Asset Strategies

March 2020

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 RESPONSIBLE INVESTMENT®
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)	Total Returns (pre-fee)	Benchmark Return
1 month	-11.91	-11.85	-10.09
3 months	-13.03	-12.85	-11.02
6 months	-11.21	-10.83	-9.77
1 year (pa)	-5.92	-5.09	-3.22
2 years (pa)	-0.50	0.38	3.06
3 years (pa)	1.10	2.00	3.72
5 years (pa)	1.93	2.84	4.13

Asset allocation (as at 31 March 2020)

Australian shares	30.3%
International shares	33.6%
Australian fixed interest	7.5%
International fixed interest	5.0%
Australian property securities	3.2%
International property securities	1.1%
Alternative investments	18.8%
Cash	0.5%

Investment Guidelines

Asset allocation ranges (%)	Neutral position	Ranges Min	Ranges 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 Mar 2020)	$544 million
Date of inception	August 1984
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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

[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 equities market incurred a large selloff in March (S&P/ASX 300 Accumulation, -20.8%) amid the escalation of Covid-19 cases globally and the associated economic slowdown. The index was at one stage down by -29.3%; however it recouped some lost ground in the latter half of the month, following a significant government package to support people and the economy. The Job Keeper announcement was the most significant development for Australian equities, which helped underpin the domestic market's recovery from its lows. Lower correlations within the market suggest that investors are allocating capital more rationally, as opposed to the "sell everything" mentality earlier. Most of the 12 GICS sectors recorded a double-digit loss, with Energy (-37.6%), Real Estate (-35.6%) and Financials (-27.7%) being the worst hit; whereas Health Care (-5.6%), Utilities (-6.7%) and Consumer Staples (-3.5%) fared better than the rest. The energy sector is finding itself under pressure in terms of both supply and demand which has seen a sharp fall in the oil price.

COVID-19 uncertainty saw continued global equity market sell offs and a sharp rise in the VIX for the month of March. As the VIX rose to its highest peak since 1987, the MSCI World Ex Australia (Net Return) in AUD returned a negative -8.32%, despite the AUD depreciating 5.9% in the month relative to the USD. Among global DM sectors, Energy, Financials and REITs underperformed, while Health Care, Consumer Staples and IT outperformed. In China, the February Caixin manufacturing PMI was well below expectations at 40.3 (consensus: 46.0, previous: 51.1) while Industrial Production YTD fell -13.5% y/y, below expectations of -3.0%. In US dollar terms, the FTSE 100 index fell -15.9%, Nikkei 225 index dropped -9.8% and the DAX devalued 17.1%.

Driving markets lower has been the large scale disruption to the global economy from COVID-19. We have seen a number of restrictions placed on the economy such as full lockdowns in a number of European countries, enhanced physical distancing measures in many other developed economies, and travel bans implemented by a wide range of countries (such as the restriction on travel from Europe to the United States). The number of confirmed global cases has increased from 86,013 (February 29) to 854,039 (March 31), driving market sentiment even lower.

To counteract the economic impacts of COVID-19, central banks eased aggressively including the Fed, BOE, BOJ, ECB, BOC, RBA, RBNZ, Norges Bank and Bank of Mexico. Supporting the central banks has been global governments undertaking significant fiscal expansions. On March 27, US President Donald Trump signed a $2 trillion stimulus package. Globally, a trend has been the establishment of wage subsidies to minimise rises in unemployment caused by the economic downturn, such as in Australia, UK, New Zealand, Netherlands, Denmark and South Korea.

Looking to April, global uncertainty continues as while the growth of new daily cases outside of China decelerated in the last few days of March (driven primarily by Europe), new US cases are rising and currently make up almost 50% of new cases. How and when global markets recover, will depend largely on the combination of infection and recovery growth rates, and the continued size and effectiveness of government intervention.

Fund performance

Our active positioning entered March fairly neutral. The portfolio was positioned with small overweights in equities, a net neutral position in bonds and long gold..

In equities, over the course of March as markets became cheaper (factoring into account reduced earnings over the current and coming years) we added modest long positions in UK FTSE 100, Japan Topix and US MidCap 400 index futures. We also added a long position in the futures of EURO STOXX 50 dividends paid in the calendar year 2024. This is a relatively rare opportunity across the range of markets we monitor, for which we judged the return potential to be several multiples of both the potential downside and mark-to-market risks of the exposure, warranting a fairly assertive risk allocation.

In fixed income, the combination of a very large but short-lived sell-off in Australian 10-year bonds and an update to our assessment of the neutral real monetary policy rate in light of the RBA's policy announcement on March 19th led to a modest change in our assessment of fair value for Australian bonds, specifically that they were less expensive than previously. The sum of these changes leaves the portfolio modestly overweight Australian 10-year bond futures and net square in all other bond markets with the trend-driven long positions offset by valuation-based shorts.

In alternatives, the long gold position saw an eventful month. Initially risk-aversion saw prices rise to their highest since 2012, however indiscriminate selling of all liquid asset classes as investors deleveraged and/or raised cash, saw the gold price slump nearly 15% after which it rallied sharply to finish more or less unchanged on the month.

Our active positioning at the start of April is quite well-diversified. The portfolio is positioned with overweights in several equity markets, a slightly long position in Australian 10-year bonds and long gold.

Market outlook

Market uncertainty is being driven, ultimately, by that fact that no-one knows how long containment measures are likely to last or the scale of the damage that will be inflicted upon the economy.

Each week brings better clarity on two key inputs, the first is the spread of infection. There are signs that the curves – the daily percentage increase in new confirmed cases – are flattening in Europe. The US remains the largest source of new infections, although the spread is quite uneven. In Australia, at this point, the percentage of new case growth has dropped from above 20% in March to below 5% today.

The key point is that containment measures appear to be working. Risk remains; and questions over whether secondary outbreaks occur when measures are lifted. Nevertheless, particularly in the domestic context, this gives the government a degree of control over how and when measures are rolled back.

The second key input is the scale of policy measure to help alleviate the structural damage to the economy and help underpin a rebound. This has been unprecedented. In Australia, the total fiscal support is now above 10% of GDP.

It is important to remember that the economic impact will still be very negative. At this point the technical unemployment rate could still reach 10% - but without Job Keeper that could have been nearer to 15%. There is also the question of how the economy looks once we start to roll back measures.

Nevertheless, this package helps reduce the worst-case scenario in terms of unemployment and structural damage to the economy, better positioning it for a rebound. It also signals the government's intent to do whatever it takes.

There are clear signals that we have gone through a liquidation phase of indiscriminate selling. This partly reflects the liquidity of equities and people selling what they can. It also reflects the impact of passive investment. Now the market is appearing to be in a more rational phase – correlations within the market have fallen, suggesting that investors are being more discerning.

National Australia Bank Limited (NAB)

NAB is one of Australia's 'big 4 banks', predominately serving retail and business customers in Australia and New Zealand after largely exiting the UK market in recent years.

NAB has successfully integrated environmental considerations into its product offerings with notable strengths in agribusiness and 'green consumer' relative to peers. Its $70b environmental financing target (by 2025) includes a target for green home loans, bringing its green offerings to this strategically important market. It has also released a green term deposit available via its digital channel UBank. At the time of writing, NAB is the only major Australian bank to have publicly set an exit date for thermal coal and has made a commitment not to fund oil and gas projects impacting the Arctic National Wildlife Refuge area and any similar Antarctic Refuge. Exposure data demonstrates a decarbonisation of its lending book, especially from coal.

Senior executive turnover suggests continued cultural renewal as the company seeks to reset its focus on customer centricity post the Hayne Royal Commission. While employee engagement at 54% lags peers, disclosures are transparent with respect to areas of strengths as well as work underway to address areas of weakness. 74% of employees report that NAB provides an inclusive workplace. Its social impact strategy places strong emphasis on the most vulnerable in society as evidenced by its early participation in the microfinance and micro loans space, including via its long-standing partnership with Good Shepherd which provides no and low interest loans to those who might otherwise be excluded from mainstream finance. In FY19, the bank provided $38.4m in capital for microfinance loans to 34,215 customers.

NIB Holdings Limited (NHF)

NIB Holdings (NIB) provides private health and medical insurance in Australia and New Zealand, for both residents and international students and workers, and distributes travel insurance products. Key ESG issues relate to management of human capital to execute portfolio growth and customer service strategies, and reputation management (noting brand sensitivities in the health insurance sector) and heightened scrutiny of business practices following the Hayne Royal Commission.

NIB icreased its focus on human capital management in 2019 with improved public disclosure of the company's employee development program, diversity and inclusion and health and wellbeing initiatives, and flexible work opportunities for employees. Customer service performance, as represented by comprehensive NPS data reporting, continues to improve year on year. However, NIB faces Federal court action brought by the ACCC for failing to notify its patients of changes in coverage.

Regnan notes improved identification and attention to cyber security and data privacy risks (particularly important given the customer health data entrusted to NIB), with the establishment of a dedicated function responsible for cybersecurity, IT governance, and risk.

Acknowledging the impacts of climate change on health, NIB began addressing climate change risk in 2019, starting with a carbon footprinting exercise with aims of becoming carbon neutral. The company also conducted its first climate change scenario analysis in line with TCFD. NIB discloses that the analysis has allowed the company to scope and assess the climate related risks for the business (for example the impact of natural disasters) and how it transitions to a low carbon environment. Two scenarios were analyzed (low and high - RCP8.5 and RCP2.6), with risks identified and publicly disclosed. Subsequently, NIB has identified ways it can improve management of climate risks, including incorporating climate-related risk into the risk management framework, and enhancing screening of its investment portfolio.

[#] 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 **pendalgroup.com**

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