PENDAL

Factsheet

Multi-Asset Strategies

September 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.22	-0.16	-0.21
3 months	1.26	1.44	0.97
6 months	5.25	5.62	4.68
1 year (pa)	0.08	0.79	0.88
2 years (pa)	2.80	3.61	4.26
3 years (pa)	3.05	3.90	4.64
5 years (pa)	3.35	4.24	4.67

Asset allocation (as at 30 September 2020)

Australian shares	9.4%
International shares	12.5%
Australian fixed interest	17.6%
International fixed interest	17.1%
Australian property securities	3.5%
International property securities	1.5%
Alternative investments	15.5%
Cash	23.0%

Investment Guidelines

Asset allocation ranges (%)	Neutral Position	Ranges Min	Ranges 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 30 Sep 2020)	$326 million
Date of inception	September 1989
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	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]	0.74% 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 equities market lost momentum during the last month of the quarter. The S&P/ASX 300 Accumulation index dropped by -3.6% in September; making its performance over the quarter flat (-0.1%). Resources (-5.2%) underperformed Industrials (-3.2%) as miners and energy companies retreated.

While the Covid situation in Australia continues to improve, deteriorating case numbers and softer macro data overseas weighed on the local market. The US equity market also reflected growing concerns on a number of fronts; including the lost momentum in further stimulus, and uncertainties around the upcoming US election.

In terms of sector performance, all 11 GICS sectors finished the month in the red, with the exception of Healthcare (+0.8%). CSL (+0.9%) managed to hold its ground this monthly after retreating from the recent highs previously during reporting season; and it was the largest contributor to the sector. Some of the other sectors that recorded losses but outperformed the headline index included Industrials (-0.3%), Real Estate (-1.3%), Communication Services (-2.1%), and Consumer Discretionary (-2.4%). In contrast, Energy (-10.7%) continued to underperform after the oil price further slid over the month, as markets tempered expectations of the rebound in demand. The impact of aircraft fuel is playing a role in this, however diesel demand has also been weaker than many would have expected by this point. Elsewhere, Consumer Staples (-6.6%), Information Technology (-6.4%) and Financials (-6.1%) also pulled back in September.

Following five consecutive months of gains, global equity markets had a weak month as the global macro horizon darkens under the looming US election, US fiscal cliff, Brexit, and COVID-19 second wave fears. The MSCI World dropped 3.4% – the largest monthly decline since March. Value outperformed Growth by 130bp, which marked the first month the former has prevailed since Sep-19. Australian investors benefitted from a large fall of 3.6% in the Australian dollar vs the US dollar, signalling an end to the significant rally this year. This saw the MSCI World ex Australia (Net Dividends) Standard in AUD earning a slightly negative return of -0.26%.

EM outperformed DM during the month by 1.8%, driven by gains to Turkey (+5.2%). September was also a strong month for Europe where the DAX fell just 1.4% and the FTSE 100 declined by 1.6% in local currency terms. Discretionary, Staples and Healthcare sectors drove the outperformance in Europe. Globally, the Energy sector languished dropping 11.8%, followed by Communication Services (-6.0%) and Financials (-5.2%). In the US, the S&P 500 (-4.2%) marginally outperformed the Nasdaq (-5.6%) in US dollar terms while in Asia Japan had a stronger month with the Nikkei up 1.9% in US dollar terms.

Fund performance

The Fund outperformed (pre-fee) the benchmark over the month of September.

Active positioning contributed negatively to returns in September. Portfolios started the month positioned with overweights in a range of under-valued equity markets plus overweights to S&P-500 and STOXX® Europe 600 ESG-X in equity trend-following, partially offset by an underweight in Dow Jones and meaningfully protected via options. Fixed income positions are mostly relative value in nature, with a small short bias. In alternatives we held a long position in copper and a small short position in VIX.

In equities, our active positioning driven by valuation insights held overweight positions in India's Nifty 50 and Mexico's Bolsa, a long position in the futures of EURO STOXX 50 dividends paid in the calendar year 2024 and FTSE 100 dividends paid in the calendar year 2023 and overweights to both global and Australian listed property, all of which screened amongst the most under-valued markets in the universe which we monitor. On the other side we hold a short position in Dow Jones as US large cap equities trade materially expensive. These mostly overweight positions are meaningfully hedged by an option strategy to protect against possible downside in Australian equities which consists of buying a put spread, funded by selling an out-of-the money call option, all with an expiry in December: beyond the US presidential election and the associated event risk. Attractive features of this hedging strategy are that the net premium cost was approximately zero and that the strike price of the sold call option is where we expect to be reducing exposure to Australian equities on a valuation basis. During the month we took profit on our overweight to Indian equites as they had risen some 15% since added to the portfolio and had reached our measure of fair value. Our trend-following process held overweights to STOXX® Europe 600 ESG-X and S&P-500 during September and added a new short position in Australian equities at the end of the month.

In fixed income, the portfolio was slightly short with a modest overweights in Australian and Canadian 10-year bonds more than offset by underweights in German Bunds, US 10-year Notes and UK Gilts. We maintained the Australian "curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures).

In alternatives, the portfolio was long copper and added a long position in gold at the end of the month. In VIX the portfolio started and ended the month with short positions, but was briefly long during the middle of the month as our market stress indicator and equity market pricing flagged the potential for a volatility spike, moving the portfolio to a more defensive stance for a time.

Our active positioning at the start of October remains risk-on. The portfolio is positioned with overweights in a range of under-valued equity markets plus overweights to S&P-500 and STOXX® Europe 600 ESG-X in equity trend-following, partially offset by an underweights in Dow Jones and ASX-200 while being meaningfully protected via options. Fixed income positions are mostly relative value in nature, with a small short bias. In alternatives we hold long positions in copper and gold with a small short position in VIX.

Market outlook

The Australian Federal budget was stimulatory, as expected. On balance, the size of the total package was probably a touch larger than consensus was looking for. The scale of measures, which will drive the budget deficit close to 12%, demonstrates the willingness of policy makers to underpin the economy.

This is a material shift in mindset away from the fiscal prudence and balanced budgets that Western governments have generally adopted over the last three to four decades. It is an important factor at play in the determining the ultimate economic impact of Covid 19 and the speed of the recovery.

Both government and central bank rhetoric – in Australia and in many countries overseas – is emphasizing the determination to limit the structural economic and social damage from the virus and shutdowns. The outcome is likely to be loose monetary policy for some time – alongside large scale stimulus from the government.

At this point the constraint on fiscal stimulus is either rampant inflation of loss of confidence in government credit. Neither issue is in play at the moment. Over time, we think there is a chance of a period of negative real interest rates, as inflation expectations rise while nominal rates are kept low. This is one factor in the portfolio's exposure to gold miners – as real assets such as gold, commodities and property tend to do well in period of negative real rates.

We remain mindful of the resurgence of Covid cases in the US and, more recently, in Europe. The second wave in the US has thus far not stalled the economic recovery and the hospitalization and mortality rates remain far below the levels of the first wave. Likewise, in Europe, there has not been any material impact on economic activity so far.

In the US, the rate of the rebound is slowing as household income falls. However at this point it seems that accrued savings from the previous months – when the savings rate spiked – is helping offset the effect of previous support rolling off.

The impasse over the next stimulus package remains and it appears increasingly unlikely that an agreement will be reached prior to the Presidential election, with Senate Republicans focused instead on nomination of a new Supreme Court Justice. At this point the notion of a Democrat sweep of the White House and Senate – supported by current bookmaker odds – and therefore a larger package post-election is doing enough to calm market fears on this front.

Regnan Sustainability Snapshots[#]

Stockland Corporation Ltd (SGP)

SGP develops and manages residential communities, retirement villages, retail centres, office buildings, and logistics and business parks in Australia.

Driven by a suite of initiatives to meet emissions reduction targets across the portfolio, SGP remains well positioned to meet consumer expectations for sustainable and energy efficient buildings, affording both competitive benefits and operating cost reductions. For commercial properties (office, retail and logistics, and business parks), carbon intensity has improved 32% against the FY17 baseline, and in FY20, NABERS energy ratings for office and retail portfolios averaged 4.82 and 4.72 stars respectively. For residential properties delivered in FY20, SGP achieved a 46% reduction in carbon emissions against compliance standards. It is also evident that climate resilience is a key priority. In FY20, all assets located in bushfire catchment areas (59 in total) underwent a Bushfire Preparedness Review and SGP completed six climate resilience assessments across retirement, residential and retail, focusing on high priority assets. Governance of climate resilience has strengthened with risk assessments (62 in FY20) migrated into a group-wide tool which is aligned with the Enterprise Risk Framework.

A program to strengthen the Group culture has been a key focus in FY20, supported by regular employee engagement, including focused surveys during Covid-19. The pandemic accelerated and amplified the focus on flexible work arrangements and implementation of wellbeing initiatives. An engagement score of 82% (four points higher than the Australian national norm), a Wellbeing Index score of 75% (6% above Australian norm), 99.2% gender pay equity ratio and employee turnover falling to 12.1% (from 16.3% in FY19) appear to indicate that the Group's efforts have been successful. SGP's first Modern Slavery Statement sets a good foundation. Key activities include: providing awareness training for employees in supply-chain facing roles, conducting due diligence on high risk, high spend suppliers (including cleaning contractors during the pandemic), and engaging over 450 suppliers on human rights issues. SGP reports that its response to Covid-19 has been guided by advice from the Federal and State governments and the WHO, including adopting specific controls across the high risk retirement village portfolio, for example, closure of communal facilities such as swimming pools.

QBE Insurance Group Ltd (QBE)

QBE Insurance Group (QBE) is a provider of general insurance and reinsurance services in Australia, the Pacific, Asia, the Americas and Europe.

QBE's social performance remains on a par with expectations for the Australian insurance sector. Regnan sees positive human capital management developments through the application of the seven 'QBE DNA' cultural elements, which support execution of strategic priorities, including 'Talent and Culture', 'Brilliant Basics' and 'Customer Focus'. Continued attention to attraction and retention of talent via sector leading engagement and development programs is evident, with improvements in key metrics (both 'engagement' and 'enablement') in 2019. For example, last year QBE introduced a new performance management system ME@QBE, which the company says provides continual feedback on employee contribution and ongoing personal and professional development support, aligned with QBE's strategic priorities. Additional initiatives include a group diversity committee and programs on flexible working, training (sector leading 'Leadership' and 'Underwriting' Academies) and removing unconscious bias from recruitment. Through developments such as an AR hub and a digital learning platform, investors are beginning to see evidence of efforts to build digital skills and capacity across the organisation to assist QBE in meeting technological challenges, both from new online competitors (market disrupters), and a range of market developments such as autonomous vehicles, machine learning and automation.

QBE faces heightened exposure to risks related to conduct and compliance culture post the Royal Commission and high profile cases of misconduct and compliance breaches. Regnan notes greater attention to ethical conduct in risk management and company statements, acknowledging the importance of ethical conduct for business performance and delivery of strategy via employee engagement and the satisfaction of customers and other stakeholders. QBE's approach to managing cyber security risks appears well advanced, with a growing cyber security team reporting to the Global Chief Information Security Officer and board oversight from the Operations and Technology Committee.

The effect of climate change on the business is QBE's most material environmental issue, largely through an increase in claims from extreme weather events. QBE acknowledges the potential for multiple global impacts and the company's risk management framework is robust. Modelling of extreme weather impacts is regularly updated with the latest scientific evidence (allowing adjustments to premium-pricing, re-insurance cover, and withdrawal from markets where necessary). QBE maintains it has low exposure to climate risk in its investment portfolio, and annual TCFD disclosure shows progress on scenario analysis in recent iterations. While maintaining carbon neutrality, the group has a renewable electricity use target of 100% by 2025, currently 63%.

QBE's foray into impact investment, 'Premiums4Good', had $663m invested at December 2019, with a target of $2bn by 2025.

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**