PENDAL

Factsheet

Equity Strategies

October 2020

Pendal Sustainable Australian Share Fund

ARSN: 097 661 857

About the Fund

The Pendal Sustainable Australian Share Fund (**Fund**) is an actively managed portfolio of Australian shares. 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, costs and taxes) that exceeds the S&P/ASX 200 (TR) Index over the medium to long term, whilst maximising the portfolio's focus on sustainability. The recommended investment timeframe is five years or more.

Description of Fund

This Fund is designed for investors who want the potential for long-term capital growth and tax effective income, diversification across a broad range of Australian companies and industries.

The Fund uses an active stock selection process that combines sustainable and ethical criteria with Pendal's financial analysis. The Fund actively seeks exposure to companies that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices and avoiding exposure to companies with activities we consider to negatively impact the environment or society.

Pendal's investment process for Australian shares is based on our core investment style and aims to add value through active stock selection and fundamental company research. Pendal's core investment style is to select stocks based on our assessment of their long term worth and ability to outperform the market, without being restricted by a growth or value bias. Our fundamental company research focuses on valuation, risk factors (financial and non-financial), franchise and management quality.

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

- the 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 has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.
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.

Investment Team

The Fund is managed by Rajinder Singh in Pendal's Australian Equity team who has more than 18 years' industry experience.

Management Costs[1]

Issuer fee[2]	0.85% pa

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

[2] 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.

Risks

An investment in the Fund involves risk, including:

- **Market risk**: The risk that factors affecting one or more countries that can influence the direction and volatility of an overall market, as opposed to security-specific risks.
- **Security specific risk**: The risks associated with an individual security.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.94	2.01	1.93
3 months	2.43	2.64	0.98
6 months	9.07	9.54	8.67
1 year (pa)	-5.84	-5.03	-8.15
2 years (pa)	5.27	6.17	4.67
3 years (pa)	3.83	4.72	4.09
5 years (pa)	6.16	7.07	6.80

Sector Allocation (as at 31 October 2020)

Energy	2.0%
Materials	21.1%
Industrials	12.4%
Consumer Discretionary	4.6%
Consumer Staples	2.8%
Health Care	12.9%
Information Technology	3.6%
Telecommunication Services	6.8%
Financials ex Property Trusts	23.3%
Property Trusts	8.4%
Cash & other	2.1%

Top 10 Holdings (as at 31 October 2020)

CSL Limited	9.5%
BHP Billiton Limited	8.2%
Commonwealth Bank of Australia Ltd	8.0%
ANZ Banking Group Limited	4.5%
National Australia Bank Limited	4.1%
Xero Limited	3.6%
Macquarie Group Limited	3.5%
Goodman Group	3.5%
Qantas Airways Limited	3.3%
Nine Entertainment Co Ltd	3.0%

Other Information

Fund size (as at 31 Oct 2020)	$312 million
Date of inception	October 2001
Minimum investment	$25,000
Buy-sell spread[3] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Half-yearly
APIR code	WFS0285AU

[3] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

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CERTIFIED BY RIAA

The Pendal Sustainable Australian Share 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.

Market review

The S&P/ASX 300 Accumulation index gained +1.9% over October; although -4% was wiped off the market during the last week of the month. Resources (-1.2%) continued to underperform Industrials (+2.7%) as performance miners and energy companies remained lackluster.

The continued surge in new Covid cases in the US and Europe led to the start of lockdowns in the latter. Meanwhile Pfizer announced that the interim results of its vaccine trial would be delayed. In the US there were some speculation that the election may be tighter than people expected a few weeks ago, while results season has been a touch disappointing thus far. The key issue is how the combination of the pandemic, US election and policy responses will impact on the potential for rotation within the market. The market is at historical extremes when it comes to the outperformance of growth over value and also on the latter's valuation premium.

Domestically, the Australian Federal budget was stimulatory, as expected. On balance, the scale of injection 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. The shift in mindset away from fiscal prudence and balance budgets is material and suggests that there is more the government can do if required.

Turning to sector performance, there were five sectors finishing the month in the red, led by Industrials (-3.5%). The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names. Transurban (TCL, -4.6%), Sydney Airport (SYD, -7.0%) and Atlas Arteria (ALX, -7.1%) were amongst the largest performance detractors within their sector. The acceleration in Covid cases and the newly declared lock-down in France also weighed on investor sentiment for ALX.

Elsewhere, Materials (-1.1%) and Energy (-1.0%) both pulled back, as some of the sector heavyweights such as BHP (-5.1%), Rio Tinto (RIO, -2.0%), Origin Energy (ORG. -7.0%) and Santos (STO -3.1%) all recorded losses. Partially offsetting some of these losses, markets approved of the intended merger of gold miners Northern Star (NST, +8.9%) and Saracen (SAR, +9.1%). The resulting company will be a clear number two in Australia behind Newcrest (NCM, -6.4%). Ampol (ALD, +8.3%) also outperformed following its announcement of a review of its refining operations, potentially with a view to closing the Lytton refinery in Brisbane. The notion that this would do more to encourage government support for remaining refining capacity in Australia also benefited Viva Energy (VEA, +7.2%).

On the other end of spectrum, Financials (+6.3%), Information Technology (+8.6%) and Consumer Staples (+4.6%) were the best performing sectors. Within Financials, the market had the first bank result from ANZ (ANZ, +9.2%) which was mixed. The good news was the bad and doubtful debts (BDD) provisions were lower, which helped drive a better capital position. However margins were softer and the cost outlook was a bit higher due to the need for investment in technology. Pre-provision profit forecasts were cut by 3-4%. There is a silver lining in that the company acknowledges the outlook for BDDs looks better than feared. This could lead to EPS and DPS upgrade in future years which saw the other "Big Four" also outperformed from +4.8% (NAB) to +8.5% (CBA).

Fund performance

The Fund outperformed its benchmark over the month of October.

Contributors

Overweight Nine Entertainment

Domestic cyclicals outperformed, as optimism over easing border restrictions continued to support expectation for earnings recovery. This saw Nine Entertainment (NEC, +19.2%) contribute the most to the fund's outperformance over the month. In addition, the latest SMI data also pointed to the ongoing improvement in TV markets.

Overweight Xero

The latest Australian Federal budget underpinned several growth stocks over the month, including our preferred growth exposure, Xero (XRO, +9.3%). The company will also benefit from the measures to help accelerate investment and stop small businesses from going under.

Detractors

Overweight Atlas Arteria

The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names, including French toll road operator Atlas Arteria (ALX, -7.1%). In addition, the market remains cautious over the acceleration of Covid cases and the newly declared lock-down in France.

Does not hold Afterpay

The latest Australian Federal budget underpinned several growth stocks over the month, which saw market darling Afterpay (APT) record another double-digit gain of 20.9%; and not owning that weighed on our relative performance. That said, our preferred growth exposure, Xero (XRO, +9.3%) also benefited from the measures to help accelerate investment and stop business going under.

Strategy and outlook

The "Blue wave" did not emerge in the US election. While the Democrats seem set to take the White House, they underperformed expectations in both Houses. Their majority in the House of Representatives was reduced, while the Senate also looks set to retain a republican Majority. The Democrats have done worse than expected in the House of Representative, losing nine seats thus far. They should retain a majority, albeit smaller.

The prospect of divided government means lower likely stimulus, but also less chance for some of the more contentious policy changes such as higher taxes. Without the control of Congress Biden is likely to plump for a more centrist cabinet, potentially taking some of the more left wing agenda off the table. It is also notable that Biden has a strong relationship with Republican Senate Leader McConnell, which may be constructive for some degree of cooperation. All in all, the outcome has been broadly welcomed by markets.

Covid cases continue to deteriorate throughout Europe and the US, with increased test positivity indicating the momentum continues to rise.

Total US hospitalisations are up to 50k, versus the previous peak of 60K. In this instance they are spread wider geographically and there are no signs of strain on the system as yet. However this remains a key factor to watch.

Several European countries have reinstated lock downs. However the market seems to be taking a relatively sanguine view at this point and appears to be looking through this wave of Covid on a combination of:

- a better understanding of the virus,
- better healthcare system preparation,
- a view that lockdowns work within a reasonable time frame,
- that policy stands ready to plug the economic gap,
- that liquidity is so prevalent it means any sell-off is quickly supported,
- optimism on positive vaccine developments.

The prospect of further trade friction with China remains a risk to Australian equities. There has been speculation of additional measures on some goods – for example of low grade iron ore. At this point Beijing may be happy to have these additional threats in conversation without acting on them, but this is an issue which must be watched.

That said, we are mindful that there are several positives lining up which can support the market into the year's end. These include:

1. Supportive global markets
2. Fiscal stimulus from the budget flowing through
3. Melbourne re-opening, perhaps more quickly now than hoped
4. Borders re-opening
5. Pent-up demand, with more people than usual staying in Australia over Christmas
6. More stimulus from the RBA
7. Cautious positioning from investors
8. The potential for M&A activity.

As a result we remain reasonably constructive on markets near term. However we retain our balanced portfolio construction, rather than making a binary call on the outcome of the health and economic issues. This reflects the still heightened uncertainty prevailing in the macroeconomic environment.

Regnan Sustainability Snapshots[#]

OZ Minerals Ltd (OZL)

OZ Minerals is a copper-focused international mining company with three operating assets: Prominent Hill and Carrapateena in Australia, and Carajas in Brazil, as well as various exploration and development projects throughout Australia and Latin America.

Oversight of safety management is undertaken by the board sustainability committee. OZL's safety policy is applicable across its operations, including contractors who make up a large portion of operational and project development work. The company's TRIFR rates improved from 7.52 in 2018 to 6.27 in 2019, which includes unaudited figures from Brazil. We note that a sub-contractor fatality occurred at the Carrapateena operations, an incident involving a helicopter crash whilst installing power lines at the site. In 2020, the company aims to embed a refreshed critical risk management program at its key Prominent Hill operations.

OZL discloses sound community relations practices, however investors would benefit from more granular detail on these processes. Regnan notes positively the company's continued focus on implementation of integration plans for Brazilian operations.

The company has exposure to physical impacts of climate change. Governance includes a board sustainability committee with explicit oversight of OZL's operational response to climate change. Further enhancements have been made this year, which include progress on TCFD, where the company has established a roadmap for future disclosure; the release of a formal climate change statement expressing support for the Paris agreement; and plans to formally integrate climate risk management and TCFD within the company strategy and governance framework. This should contribute to long term business resilience through improved risk identification.

Costa Group Holdings Ltd (CGC)

Costa Group is a horticulture company primarily engaged in the growing of mushrooms, blueberries, raspberries, glasshouse grown tomatoes, citrus and other fruits.

Disclosure of climate change mitigation and adaptation plans has improved year on year. CGC's 'protected' crops operate under controlled conditions and are therefore less impacted by acute and chronic impacts of climate change. Innovative and technology enabled harvest management further enhances business resilience to physical impacts of climate change. Energy efficiency efforts, including chilling efficiency in growing rooms, and water efficiency efforts, including reviewing irrigation practices across avocado farms, are evident.

Over the years the company has reduced reliance on third-party hire firms to recruit seasonal workers, increasing visibility and control over labour conditions and arrangements. Work health and safety performance has improved including on lost time injury frequency rate (LTIFR) and total recordable injury frequency rate (TRIFR) from 2.53 to 2.42 y/y and 19.22 to 17.02 respectively.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**

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[#] 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.