PENDAL

Factsheet

Equity Strategies

November 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)	(pre-fee)	Benchmark Return
1 month	11.06	11.14	10.21
3 months	9.64	9.87	8.22
6 months	15.48	15.98	14.76
1 year (pa)	0.70	1.57	-1.98
2 years (pa)	12.51	13.48	11.12
3 years (pa)	7.18	8.10	6.94
5 years (pa)	8.25	9.17	9.05

Sector Allocation (as at 30 November 2020)

Energy	2.0%
Materials	20.6%
Industrials	13.4%
Consumer Discretionary	3.9%
Consumer Staples	2.5%
Health Care	12.6%
Information Technology	3.8%
Telecommunication Services	7.4%
Financials ex Property Trusts	25.4%
Property Trusts	8.0%
Cash & other	0.4%

Top 10 Holdings (as at 30 November 2020)

CSL Limited	9.2%
Commonwealth Bank of Australia Ltd	8.3%
BHP Billiton Limited	7.9%
ANZ Banking Group Limited	5.2%
National Australia Bank Limited	4.7%
Macquarie Group Limited	3.9%
Xero Limited	3.8%
Qantas Airways Limited	3.8%
Telstra Corporation Limited	3.4%
Goodman Group	3.3%

Other Information

Fund size (as at 30 Nov 2020)	$342 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 +10.2% over November – the best monthly return achieved since 1988. Resources (+10.7%) rebounded strongly during the month and marginally outperformed Industrials (+10.1%); as confidence in the economic recovery continued to drive commodity price gains. Copper was up +11.7% for the month and is well above pre-Covid level. Brent Crude also gained +29% for the month. Demand remains a key difference between copper and oil – as the lack of air travel continues to weigh on the latter. In contrast, gold (-4.9%) continued to sell-off as need for safe haven has reduced for now.

Covid cases in the US remain a risk. However European restrictions are taking swift effect – with far less economic impact than previously. Coupled with vaccine upon the horizon, the market seems to be looking through near term Covid risks to focus on a more positive 2021.

On the vaccine front questions emerged over the quality of the most recent AstraZeneca trials, which appear to have a small sample size and a skew in terms of age profile. This may lead to a delay in approval as more data on different trial groups is collected. This is a material issue in terms of the vaccination plans for countries outside the US. The latter's plan is skewed more towards Pfizer and Moderna. However in places like the EU, UK and Australia the AstraZeneca vaccine formed a much larger proportion of the proposed plan. In Australia, in particular, this places far more significance on the Novavax trials. Ultimately, this could see a vaccination programme rolled out faster in the US than in other parts of the world, with implications for relative rates of economic growth.

Turning to sector performance, Energy (+28.2%) was the best performing sector on the back of the stronger oil price; followed by Financials (+16.1%), Communication Services (+14.4%), Real Estate (+13.2%) and Industrials (+12.0%). The big four banks all performed strongly during November, ranging from +14.3% (WBC) to +24.8% (NAB), as their latest updates got well received by the market. The outlook remains unconvincing - revenue trends remain challenged, credit growth - while stabilising - is still low, margins remain under pressure and any tangible benefit from cost out is an FY22 story. However, they remain propped up by the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Without BDD deterioration it is hard to see the sector underperform materially.

In terms of more stock-specific news, Telstra (TLS) gained +14.6% following the AGM update, where management clarified that the return-on-invested-capital (ROIC) target was 8%, up from the "above 7%" range outlined at their result. This is important as it removes much of the doubt around the dividend sustainability. They also outlined a restructuring which will provide better scope for splitting out parts of the business, allowing monetisation of the value in areas such as infrastructure assets.

Elsewhere, Xero (XRO, +20.3%) delivered a good result. New subscriber growth softened in the US and UK, in line with expectations given the challenges in attracting new customers during the Covid period. However, there was stronger than expected subscriber growth in Australia – and particularly in New Zealand – which was surprising given that these are already heavily penetrated markets. This may suggest a further post-Covid shift in mentality towards the importance of online cloud-based accounting. There were also constructive signals around the development of the broader platform and ancillary services.

In contrast, Treasury Wines (TWE, -6.3%) took a hit over the month and dragged on Consumer Staples (-0.7%). The company went into a trading halt as its stock price fell on the news of Chinese tariffs on Australian wine. With interim tariffs in the region of 170% on its Chinese imports, this is a huge blow to TWE. Exports to China and HK accounted for 38% of Group EBIT in FY19, with material implications for wine supply more broadly.

Fund performance

The Fund outperformed its benchmark over the month of November.

Contributors

Overweight Qantas (QAN)

Travel stocks responded to expectations of further domestic re-opening, which saw our key position Qantas (QAN, +28.4%) outperform. With the national airliner set to ramp up domestic capacity in the near-term, and we see more upside from its current price levels.

Not Held Woolworths (WOW)

Supermarket giant Woolworths (WOW, -3.1%) pulled back amongst the market defensives as investors turned risk-on over the month. This is in spite of the company reporting a good set of sales numbers for 1Q21. We do not hold WOW and this helped on the portfolio's relative performance. We retain exposure to the supermarket sector via the position in Metcash and its IGA franchise. This provides exposure to a defensive earnings stream, coupled with company-specific factors such as improvements in market share on the back of improved store formats and an increase in neighbourhood-style convenience shopping.

Detractors

Overweight Saracen Minerals (SAR)

Gold continues to sell-off amid the rise of the long-term bond yields, as investor's need for safe haven reduces for now. This saw gold miners, including Saracen Minerals (SAR, -16.5%) pull back during the month.

Overweight Evolution Mining (EVN)

Gold continues to sell-off amid the rise of the long-term bond yields, as investor's need for safe haven reduces for now. This saw gold miners, including Evolution Mining (EVN, -10.3%) pull back during the month.

Strategy and outlook

The S&P/ASX 300 gained 10.23% in November – its best monthly return since March 1988. It was also a good month for the Fund, which outperformed.

While improved sentiment toward US politics and vaccines drove markets, the move was supercharged by two surprises. First, contrary to consensus expectations, there was no "Blue Wave" of change in US politics. The Presidential race was very close and the Senate looks set to remain in Republican hands, leaving the US with a far more moderate – and market friendly – government than many expected.

Second, on the vaccine front, the ~95% efficacy rates reported by Modern and Pfizer were far higher than most expected.

These positive surprises – and the several, more negative ones which occurred through 2020 - emphasise the importance we place on building a robust portfolio. This has been the bedrock of the Fund's performance this year. Our approach has been to have different types of stocks in the portfolio – positions that could perform under a number of different scenarios. We then use our insight into companies to choose the best stocks to own. These were the companies where we saw relatively limited downside, but the potential for large upside gains.

The Fund's performance in the market's plunge was driven by the defensive holdings such as Telstra (TLS), by its high quality growth names such as CSL (CSL), and by the portfolio insurance provided by gold miners (eg Evolution (EVN)).

Performance in November has been driven by a different part of the portfolio; the cyclical, recovery-linked exposures such as Qantas (QAN) and Monadelphous (MND).

At times this year the Fund's growth exposure has worked well – names such as CSL and Xero (XRO). At other times it was the policy beneficiaries such as Fortescue Mining (FMG), JB Hi-Fi (JBH) and Atlas Arteria (ALX).

We have also done well as the market recognised the value offered in long-term winner such as Nine Entertainment (NEC).

The recent strong run may mean we are in for a period of consolidation – although not necessary any sort of material pullback.

Looking forward, risks remain. The surge in Covid in the Northern Hemisphere has led to lockdowns – with perhaps more coming – and is having an impact on real-time economic activity. There is a great deal of complexity around the vaccines – how soon and widespread will they be used? How quickly will we return to normal? Geopolitical risk – particularly around the relationship between China and Australia – is higher than usual.

Nevertheless, the world is in a better place than many feared in March. The economic rebound has been strong, helped by a surge in monetary and fiscal policy support. In The US, strong industrial production is helping offset weaker activity in services. Vaccines are on the horizon. The world is getting better at living with the virus and mitigating its economic damage.

The risk of prolonged recession has receded. Policy-makers remains in the mindset of "whatever it takes" – with the policy settings supporting both the economy and markets.

The upshot is that we believe our balanced approach remains as valid now as it did earlier in the year.

Regnan Sustainability Snapshots#

Atlas Arteria Group (ALX)

Atlas Arteria Group (ALX) is an Australian based global toll road developer, operator and investor, with assets in France, Germany and USA.

ALX is adapting to a low carbon future by undertaking measures to reduce its direct emissions of its largest asset, minority owned French toll road operator APRR, including onsite solar and LED lighting. Additionally, APRR continues to support customers to reduce their carbon footprints through initiatives such as parking for carpooling and carpooling routes, and electric charging stations. In an acknowledgment of past climate impacts on Dulles Greenway when traffic volumes were partially impacted by record rainfall in the corridor, the company has committed to implement an improved approach for use of salts and other chemicals in road management.

Customer, employee and contractor safety are key priorities for the company. A key safety initiative recently introduced at APRR is safety software that informs employees of safety hazards and accidents on motorways. However, despite contractual provisions to ensure contractors adopt safe work practices, a contractor died working on an APRR motorway widening project. The company reports that the worker was employed by a sub-contractor, and as such was under the control and responsibility of that business. ALX is investigating the root cause of the fatality to prevent similar incidents in the future. While employee lost time injuries (LTIFR) remains stable, investor oversight of road user safety will be improved with the planned disclosure of customer accident and injury rates.

Charter Hall Group

Charter Hall Group (CHC) is an integrated property group involved in investment management, and property development, leasing, and management. CHC invests across all major property segments including office, industrial, retail, and social infrastructure.

CHC continued to achieve improvements in building energy and GHG performance across portfolio segments in FY20, which are important to portfolio resilience to increasing demand for sustainable buildings. The average NABERS rating for the office segment improved to 4.81 (from 4.77 in FY19), but still lags leading peers in a high performing sector. Demand for sustainable office tenancies is now considered a minimum requirement in the A-grade office segment. CHC achieved a large increase in solar installations at retail and industrial & logistics developments in FY20 (by 15.8MW to 21MW), and commenced the second stage of a Power Purchase Agreement with Clean Peak Energy and Solgen to install solar PV across 16 shopping centre assets (stage one achieved 12 assets). In Regnan's view, the Group's retail portfolio NABERS rating of 4.10, which is on par with sector average, will continue to show improvement once fully implemented. CHC has disclosed a high level pathway to achieve its 2030 Group net zero target for direct control (Scope 1 and 2) GHG emissions which come from on-site fuel use (natural gas and diesel) and purchased electricity.

The Group continued to achieve year-on-year improvements in workplace culture which is important for talent attraction and retention. A key initiative for FY20 was the launch of an employee development program focused on current and future capabilities and aligned to personalized development goals and career aspirations. Improvements in human capital management practices since 2015 appear to be driving higher employee satisfaction and retention. CHC reports that employee engagement improved to 93% and voluntary employee turnover reduced to 8.2% in FY20, which places the Group as sector leaders in both measures. Human capital metrics are included in the executive remuneration, supporting continued management focus.

CHC has also progressed its response to modern slavery and protection of human rights, with notable achievements in FY20 being the creation of a grievance and remediation process, onboarding nearly half of priority suppliers onto the Group's reporting platform, and progressing industry collaboration on initiatives to address modern slavery risks.

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

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ii. the prospects of the company; or
iii. the company's suitability or attractiveness from an investment perspective.