

Pendal Sustainable Balanced Fund

ARSN: 637 429 237

Factsheet

Multi-Asset Strategies

November 2020

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 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.

Performance¹

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	7.20	7.27	5.99
3 months	5.60	5.81	4.93
6 months	9.07	9.50	8.68
1 year (pa)	2.25	3.08	2.85
2 years (pa)	8.68	9.61	9.88
3 years (pa)	4.81	5.72	7.06
5 years (pa)	6.12	7.05	7.93

Asset allocation (as at 30 November 2020)

Australian shares	30.1%
International shares	31.7%
Australian fixed interest	3.8%
International fixed interest	4.0%
Australian property securities	4.1%
International property securities	2.0%
Alternative investments	16.1%
Cash	8.2%

Investment Guidelines

Asset allocation ranges (%)	Neutral position	Ranges	
		Min	Max
Australian shares	26	20	40
International shares	34	20	40
Australian fixed interest	8	0	25
International fixed interest	7	0	25
Australian property securities	3	0	10
International property securities	2	0	10
Alternative investments	15	0	20
Cash	5	0	20

Other Information

Fund size (as at 30 Nov 2020)	\$681 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 Costs³

Issuer fee ⁴	0.84% 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 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 program 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.

Against the backdrop of a contested US presidential election and a still rampant COVID-19, multiple equity markets have delivered record monthly returns and stand at-or-near record highs with the MSCI World ex Australia (AUD) climbing 7.43%. In USD terms,

DM (6.7%) outperformed EM (2.2%) in the month of November. Iron ore prices saw continued strength in November and the copper-gold ratio surged. The AUD was buoyed by the rallying iron ore and appreciated 4.93% over the month against the US Dollar, softening the strong November returns for Australian investors.

With US presidential election uncertainty falling from previous months and rising hopes of a COVID-19 vaccine, US markets rose in November with the S&P 500 (USD) (10.75%), NASDAQ (USA) (11.80%) & Dow Jones (USA) (11.84%) all riding double digit growth. France's ability to flatten its curve has seen a 20.12% rise in the CAC 40 in November. Elsewhere in Europe, the German DAX (15.01%) and UK FT 100 (12.35%) also performed strongly. Across Asia, the Hang Seng (9.27%) and the Nikkei (15.04%) rose.

Fund performance

The Fund outperformed the benchmark over the month of November.

Active positioning contributed very strongly to returns in November. Portfolios started the month tilted risk-on but slightly less so than the prior month. The portfolio was positioned with overweights in a range of under-valued equity markets, long volatility carry, underweight STOXX® Europe 600 ESG-X in equity trend-following while being meaningfully protected via options. Fixed income positions were relative value in nature. In commodities, we held long positions in copper and gold.

In equities, our active positioning driven by valuation insights held overweights in 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. The portfolio was long volatility carry through VIX futures. On the other side we held a short position in S&P-500, netting off against the trend-based S&P overweight, as this index is the most expensive of all US large cap equities. The option hedge, open since July, was closed at close to zero cost as it was nearing expiry and having provided very useful protection over the period during which it was held.

After a weak start to the month, equities in many countries rose strongly on good news related to COVID vaccines with some markets jumping more than 20% in the days following the news. Among these were the Italian FTSE MIB and French CAC 40 indices, which moved to expensive valuations on a broad range of measures, and accordingly we initiated underweight positions in these markets following their sharp rises.

Our trend-following process held overweights to S&P-500 and an underweight to STOXX® Europe 600 ESG-X during November. At the end of the month, the underweight STOXX® Europe 600 ESG-X was closed.

In fixed income, the portfolio was directionally neutral with modest overweights in Australian and Canadian 10-year bonds offset by underweights in German Bunds, US 10-year Notes and UK Gilts. We added to the Australian "3s-10s curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures) as the spread widened, having taking partial profit on the position the prior month. The Australian 10s-20s curve flattener was held unchanged.

In commodities, the portfolio was long copper, which rose very strongly, and gold.

Our active positioning at the start of December remains risk-on but less so than the prior month, continuing the recent trend in our positioning as selected markets reach expensive extremes. The portfolio is positioned with overweights in a range of under-valued equity markets, underweights in expensive equity markets, and long volatility carry. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper and gold.

Market 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.

As we look to the final month of CY20, we remain positive given the combination of stimulus, negative real rates, vaccine roll-out, growth momentum, and earnings upgrades. COVID cases in the US remain a risk. However, European restrictions are taking swift effect – with far less economic impact than previously. Coupled with a vaccine upon the horizon, the market seems to be looking through near term COVID risks to focus on a more positive 2021.

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

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 personalised 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.

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- 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

PENDAL

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Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.