PENDAL

Factsheet

Equity Strategies

January 2021

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	-1.30	-1.23	0.31
3 months	11.60	11.84	11.89
6 months	14.31	14.79	12.99
1 year (pa)	-2.10	-1.27	-3.11
2 years (pa)	11.16	12.11	9.93
3 years (pa)	6.66	7.57	7.00
5 years (pa)	8.83	9.76	10.03

Sector Allocation (as at 31 January 2021)

Energy	1.9%
Materials	22.9%
Industrials	11.2%
Consumer Discretionary	3.6%
Consumer Staples	2.4%
Health Care	10.9%
Information Technology	3.4%
Telecommunication Services	7.3%
Financials ex Property Trusts	27.0%
Property Trusts	5.6%
Cash & other	3.8%

Top 10 Holdings (as at 31 January 2021)

BHP Billiton Limited	8.4%
Commonwealth Bank of Australia Ltd	8.1%
CSL Limited	7.7%
ANZ Banking Group Limited	4.7%
National Australia Bank Limited	4.7%
Westpac Banking Corporation	4.1%
Qantas Airways Limited	3.6%
Macquarie Group Limited	3.4%
Xero Limited	3.4%
Telstra Corporation Limited	3.2%

Other Information

Fund size (as at 31 Jan 2021)	$349 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.

CERTIFIED RESPONSIBLE INVESTMENT 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

Global equity markets fell in January. The recent positive sentiment around vaccines wobbled, with concerns over mutated strains and worries over production issues. This was exacerbated by some selling by hedge funds forced to de-lever in response a squeeze on some heavily shorted stocks. This dragged on the US market, whilst dampening market sentiment around the world. Against this backdrop, the S&P/ASX 300 Accumulation index finished the month flat (+0.3%), as a result of a large unwind in cyclical stocks over the last week of the month. Industrials (+0.6%) also gradually outperformed their Resources (-0.6%) counterpart.

On the Covid/vaccine front in particular, there was a lot of new data to digest. The Novavax vaccine trial data showed efficacy as good as Moderna's, with better tolerance and has a great ability to quickly ramp up production. The 65% jump in Novavax stock reflected how well the trial was received. Australia has signed up for 51m doses of this vaccine.

Trials in the UK and South Africa showed that efficacy fell from 96% for the original strain, to 86% for the UK variant and 49% for the South African version (60% for patients without HIV). Their plan is to develop a booster to deal with this, likely to be available in Q3. The other point is that this partial immunity still gives protection against severe infections - even with the South African strain.

Lastly, Johnson and Johnson vaccine was more disappointing. Overall efficacy is around 66%; 72% for the original strain, down to 57% for the South African variant. Importantly, while it may be less effective than other vaccines at stopping infection, it is still very effective in preventing severe infections. As such, it will play a role in alleviating pressure on health care systems and reducing mortality. The company is also running two-dose trials which may lead to improved results. It is important in that it is a key part of the European supply and can be rolled out more easily.

There was some divergence in sector performance over the month, with Real Estate (-4.3%), Industrials (-3.1%), Health Care (-1.7%) and Materials (-1.0%) finishing the period in the red; whilst Financials (+2.3%), Consumer Discretionary (+4.8%), Consumer Staples (+2.0%) and Communication Services (+2.6%) recorded some gains.

Turning to company specifics, the market saw a few updates prior to February reporting season. Atlas Arteria (ALX, -2.6%) delivered a well-received update on traffic numbers for its French asset, APRR. Traffic was down -25% year-on-year for December – however this was half the effect of the 51% year-on-year fall of the previous lockdown. And heavy vehicle traffic, which provides a higher proportionate share of tolls, was only down -2%.

BlueScope Steel (BSL, -5.1%) also announced an upgrade on improved earnings and margins. The latter is particularly strong in the US, where mothballed steel capacity is yet to be brought back on line. Nevertheless, broader weakness in the materials sector dragged the stock down.

Fund performance

The Fund underperformed the benchmark over the month of January.

Contributors

Overweight JB Hi-Fi

JB Hi-Fi continued to outperform during January. Whilst we continue to like the fundamentals and the quality of JBH's franchise business, its recent performance has pushed up stock valuation which we remain conscious of. The business has been a key beneficiary of the Federal government's programmes to offset the negative effects of Covid 19.

Overweight Nine Entertainment

Nine Entertainment benefitted from growing confidence that there would be a media deal in Australia leading to higher revenue for their news content. Advertising also remains strong, as companies look to leverage their brands to the optimism surrounding a roll back in restrictions and re-opening economy. This saw the stock outperform during January.

Detractors

Overweight Xero

Xero (XRO, -11.5%) was caught in the crosshairs of some hedge fund deleveraging during the month, after a year of strong outperformance. It is one of our preferred growth names, which we believe will be a beneficiary of digitisation of the economy and low interest rates. Despite some near-term headwinds on expected SME churn and failure rates, we believe that the structural shift to the cloud will be further accelerated as a result of COVID and that the relationship between accountants, SMEs and software has never been more important.

Overweight Qantas

Travel stocks responded negatively to the latest slew of vaccine data; in particular with concerns over mutated strains and worries over production issues. This saw Qantas (QAN, -7.2%) fall over the month. The key question is whether the lower efficacy to the South Africa variant and the manufacturing issues in EU will delay economic re-opening. In our view, whilst this is likely to cause a small delay – maybe 1-2 months - and may limit the level of international travel for longer; fundamentally, it does not prevent us from reaching herd immunity or diminishing the more serious effects of Covid.

Outlook

There are signs of excess in pockets of the market. It is showing up in the performance of concept stocks like Tesla, in IPOs, in renewable energy ETFs, in bitcoin – and in January, the surge in retail money designed to squeeze the shorts in certain stocks. This is likely a consequence of the combination of stimulus cheques, lockdowns, the Northern hemisphere winter and a lack of other spending options.

However in our view it does not necessarily signal that the market as whole is in froth territory. Valuations in growth stocks remain well above historical highs – but that is not the case for other parts of the market, or for markets in aggregate.

We are also mindful of the degree to which fiscal and monetary policy setting underpin equity markets. A Democrat administration in the US looks set to inject a massive stimulus package into the economy – at the point where vaccination programmes should start taking effect, paving the way for a reopening. This is likely to drive economic momentum and earnings growth.

At the same time, central banks are being extraordinarily accommodative. Rates are flagged to stay low until inflation and employment milestones are reached – which could still be some years away. They have also been quick to hose down any speculation over tapering – mindful of the 2016 taper tantrum. This abundant liquidity is supporting markets and increasing the relative attraction of equities.

In combination, we think it reduces the risk of a material drawdown – and could very well support further equity markets gains in 2021.

The key proximate risk is around vaccines. Optimism over vaccinations is a key facet of recent market strength. Any disappointment around vaccine efficiency could hurt sentiment. Mutated strains of Covid are key to watch in this regard. At the moment, while vaccine efficacy is lower against the South African variant, in particular, they still work to reduce severity and mortality.

Nominal bond rates continue to rise, driven largely by inflation expectations on the back of stimulus packages. Higher nominal yields are good for financials, while higher break-even rates (ie inflation expectations) are generally good for cyclicals. At the same time real rates, which are historically correlated with growth, look to have troughed for the moment.

This is driving a shift in market leadership from growth to cyclicals and financials - although it is not seeing a material sell down in growth. We are mindful of the material risks and maintain our balanced portfolio construction – however within this context we have recently been increasing the cyclical and financial exposure in the portfolio.

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

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