Regnan Global Equity Impact Solutions Fund

Factsheet | As at 30 June 2021

ARSN: 645 981 853

About the Fund

Aims to generate long-term outperformance by investing in mission-driven companies that create value for investors by providing solutions for the growing unmet sustainability needs of society and the environment, using the United Nations Sustainable Development Goals (SDGs) as an investment lens.

Underpinned by the Regnan SDG taxonomy, the team has built a comprehensive proprietary framework to identify companies that provide solutions to the environmental and societal challenges facing the world.

A high conviction, diversified, global multi-cap portfolio with low portfolio turnover and a strong emphasis on driving impact through engagement.

Investment Objective

The Fund aims to provide a return (after fees but before costs and taxes) that exceeds the MSCI ACWI IMI Index in AUD over rolling 5 year periods.

Management Costs[1]

Issuer fee[2]	0.90%

[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.

Other Information

Fund size (as at 30 Jun 2021)	$184 million
Date of inception	30 November 2020
Minimum investment	$25,000
Buy-sell spread[3] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Annually
APIR code	PDL4608AU

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

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	4.63	4.72	4.35
3 months	8.76	9.02	8.73
6 months	6.77	7.29	15.82
1 year (pa)	-	-	-
Since Inception (pa)	8.62	9.23	16.09

Source: Pendal as at 30 June 2021

About Regnan

Regnan is a responsible investment leader with a long and proud heritage providing advice and insights on important environmental, social and governance issues.

For many years our pioneering analysis has changed the way investors and businesses think about value creation and their wider responsibilities to society.

Building on that expertise, Regnan has now expanded its capabilities into responsible investment funds management, backed by the considerable resources of Pendal Group.

“Regnan” is a registered trademark of Pendal Group Limited (PGL) and is a standalone responsible investment business division of PGL. The Fund is issued by Pendal Fund Services Limited ABN 13 161 249 332 AFS Licence 431426 (PFSL). PFSL has appointed J O Hambro Capital Management Limited to manage the assets of the Fund.

Quarterly fund commentary

The second quarter was punctuated by a decline in nominal yields and the eventual loss of momentum of some of the reflation trade winners, culminating with the publication of the Fed's new dot plot, that had the effect of sending short-term yields up and lowering long bond yields, flattening the yield curve as inflation expectations receded. This changed the course of the weakening dollar, sparking another rally over June. We saw repeated but short spikes up in volatility over the quarter, with the VIX yet to return to pre-Covid-19 levels.

These moving parts created a lot of noise in a market where equity risk premia, rather than underlying earnings momentum, still seems to be a more powerful driver of stock prices.

At a portfolio level we continued to see good progress on corporate earnings, with Sartorius, Orsted, Lonza, Alfen, Carl Zeiss, Umicore, Lenzing, Tomra, Agilent, Procredit, Xylem, Hella, Autolus, Hannon Armstrong and Befesa all seeing notably strong earnings momentum in absolute terms which reaffirmed our investment case and sees these businesses grow into their addressable markets.

During the reporting period sector allocation detracted but was offset by strong security selection, especially within the industrial and consumer discretionary areas which were key drivers of performance, as was the portfolio's healthcare exposure. This was partially offset by our financial names failing to keep pace with the sector. Brazilian education providers YDUQS and Afya were among the portfolio's biggest contributors; they benefitted from the improving Covid-19 backdrop in Brazil and partial recovery of the Brazilian real. Industrial water business Evoqua was the top contributor. It grinded higher after it announced solid results which beat expectations, however, guidance on future earnings was somewhat muted. Evoqua, is currently one of the largest positions in the portfolio and sits within our water theme, which is long term and perpetual by nature. We expect the business (and others like it) to benefit from infrastructure spend by governments.

Portfolio additions over the quarter included garment manufacturer Lenzing. The company produces wood-based cellulosic fibres for use in apparel. Their products use ten times less water than cotton, have a neutral carbon footprint, are highly biodegradable, and almost exclusively use chemicals that are recycled in a loop process. We also added PTC Inc to the portfolio in early May. It provides leading software solutions across the life cycle of products through computer-aided design (CAD), product life cycle management, industrial internet of things and augmented reality. Both PTC and Lenzing play to our circular economy theme.

We sold Emergent BioSolutions following an error which lead to 15m doses of Covid-19 vaccine being wasted at its CDMO unit. This event could seriously hamper the company's ability to win further business and grow its CDMO segment following the initial Covid-19 vaccination programmes in 2021 which was a key pillar of our investment thesis. We took the decisive decision to exit shortly after the news broke and prior to subsequent declines in the share price.

The main challenge for a number of our names over the year has been relative earnings momentum, whereby sectors that were hit particularly hard in 2020 by the global halt in activity have seen positive earnings revision at a faster pace. This has been driven by easy comparative year-on-year data, which has started to fade in some sectors and will continue to do so in the absence of another leg-up in commodity prices and a "re-steepening" of the yield curve that is driven by rising inflation expectations, the likelihood of which we see as still being in the balance, however, we expect that the marginal impact on equity risk premia will be somewhat less extreme as it was when equities were at more attractive valuations in the sectors that have been the biggest beneficiary of the reflation trade. This should make for a more favourable environment for the strategy in the second half of the year.

As ever, our focus remains on investing in mission-driven companies with proven solutions. We expect the portfolio companies to continue to see earnings growth as their solutions grow into their addressable markets ahead of market expectations and as they deliver real world impact through their innovative solutions to the environment and social challenges we face.

Portfolio analysis

Top 10 Holdings (as at 30 June 2021)

Stock	Impact Solution	Absolute
Evoqua Water Technologies Corp	Water pollution was estimated to represent 1.8m deaths in 2015, according to the Lancet. The solution is to implement high purity water treatment solutions and increase water re-used within industrial processes so as to reduce water withdrawals and discharges. Evoqua is the leader in sophisticated water treatment solutions and is providing service-based solutions for companies to implement better water treatment in their operations.	5.4%
Befesa SA	Secondary steel and aluminium production have a significantly lower CO2 footprint than primary production and use fewer natural resources. However, both secondary steel and aluminium production produce hazardous wastes, which are often landfilled, risking groundwater and sewage system contamination. Befesa's best-in-class recycling technology offers an alternative to landfills and its technology is able to extract and re-use the valuable metals contained within these hazardous wastes.	5.0%
Xylem Inc.	Xylem is a leading provider of water equipment and solutions that enable water reuse and conservation to mitigate water scarcity, reduce water losses and optimize water system assets to improve water affordability. Freshwater and wastewater systems in developed countries have suffered decades of underinvestment, with as much as half of water leaking in many cities. In developing countries, improved sanitation means new infrastructure. As well as being a leader in water equipment, Xylem is notably providing innovative digital solutions to enable smart management of water systems.	4.4%
PTC Inc.	Productivity growth across OECD countries was lower in the decade leading up to 2016 than it was in any other decade from 1950 (UN). While technological progress and innovation has continued, the adoption of Industry 4.0 solutions with potential to deliver significant productivity improvements remains low, particularly from small and medium sized enterprises where the costs of upgrading can be prohibitive. PTC's solutions drive digital transformation, which reduces waste and scrap in the products they design, creates efficiencies in their manufacturing processes, and optimizes the operations of their customers' processes. PTC provides global leading software solutions across the life cycle of products through computer aided design, product life cycle management, industrial IoT and augmented reality. PTC solutions increase productivity and efficiency of R&D by reducing design time by up to 30%, make manufacturing more efficient and less wasteful with up to 30% reduction in prototypes, thereby reducing costs and raw material use, and reduce the time to market by up to 57%. PTC is also improving access to Industry 4.0 solutions for smaller enterprises through the recent addition of multi-tenant SaaS based CAD (Onshape) and PLM (Arena).	4.3%
PT Bank Rakyat Indonesia (Persero) Tbk Class B	Over 200 million Indonesians live on less than $4.50 per day, without salaries or collateral. These individuals are considered too risky for loans or live in locations too remote for the reach of traditional financial services providers. Despite this, over 56 million Micro Small Medium Enterprises (MSME) contributed greater than 50% GDP. In Indonesia in particular, only about 25% of SME's have access to lending. Bank Rakyat is helping fill this gap in the Indonesian market.	4.3%
Umicore	Umicore generates most of its revenues and dedicates its R&D towards clean technologies such as emission control catalysts, materials for rechargeable batteries for electric vehicles and recycling of metals. It helps solve two supply chain bottlenecks for electric vehicles: the supply of scarce metals such as nickel and cobalt and high-nickel cathode materials.'	4.3%
Afya Limited Class A	Afya is the leading provider of undergraduate medical courses in Brazil (c10% market share). Brazil has amongst the lowest level of medical density at (2.1 physicians per 1000 inhabitants, which reduces to 1.3 excluding the capitals versus an OECD average of 3.4). While the population of Brazil is rapidly ageing the pressure on medical services will only increase. Afya is helping to address this unmet need through its plans to grow in this space with the addition of new medical seats, supported by the government's Mais Medicos (More doctors) program. There is exceptionally strong demand for medical seats with 5 applications for each seat, and occupancy rates in medical schools are therefore at or close to 100%.	4.3%

Lenzing AG	Fashion represents up to 10% global CO2 emission, 20% of waste water and 6% of global pesticide use. This is compounded by the fact that a new garment is used only about 60x, down from 120x 10 years ago, and 87% of garments are incinerated or landfilled. Wood-based cellulosic fibres from Lenzing use 10x less water than cotton, have a neutral carbon footprint (not taking into account carbon sequestration from forests), are highly biodegradable, and almost exclusively use chemicals that are recycled in a loop process. Lenzing is also developing a technology that can include 30-50% recycled cotton together with Lyocell.	4.2%
Sartorius Stedim Biotech SA	As a leader in providing single-use (SU) equipment, Stedim is significantly driving down the cost of and improving the speed of bioprocessing, helping manufacturers make biologic drugs more affordable and help to bring new, innovative therapies to market. Its products provide an enhanced safety profile, lowering the risk of cross-contamination, as well as a significantly lower environmental footprint than their stainless steel alternatives.	4.1%
Alfen NV	Alfen supports energy transition through supplying secondary substations to grid operators to upgrade the existing grid infrastructure and with the development of smart grids, needed given the rise of decentralised renewable energy. Alfen is also building out electric vehicle charging infrastructure. Through the provision of energy storage solutions, Alfen also helps address the significant issue of intermittency that comes with renewable energy sources.	4.0%
Total		**44.3%**

Significant portfolio changes over the quarter.

Stock	Buy/Sell	Impact Solution
PTC	Buy	Productivity growth across OECD countries was lower in the decade leading up to 2016 than it was in any other decade from 1950 (UN). While technological progress and innovation has continued, the adoption of Industry 4.0 solutions with potential to deliver significant productivity improvements remains low, particularly from small and medium sized enterprises where the costs of upgrading can be prohibitive. PTC's solutions drive digital transformation, which reduces waste and scrap in the products they design, creates efficiencies in their manufacturing processes, and optimizes the operations of their customers' processes. PTC provides global leading software solutions across the life cycle of products through computer aided design, product life cycle management, industrial IoT and augmented reality. PTC solutions increase productivity and efficiency of R&D by reducing design time by up to 30%, make manufacturing more efficient and less wasteful with up to 30% reduction in prototypes, thereby reducing costs and raw material use, and reduce the time to market by up to 57%. PTC is also improving access to Industry 4.0 solutions for smaller enterprises through the recent addition of multi-tenant SaaS based CAD (Onshape) and PLM (Arena).
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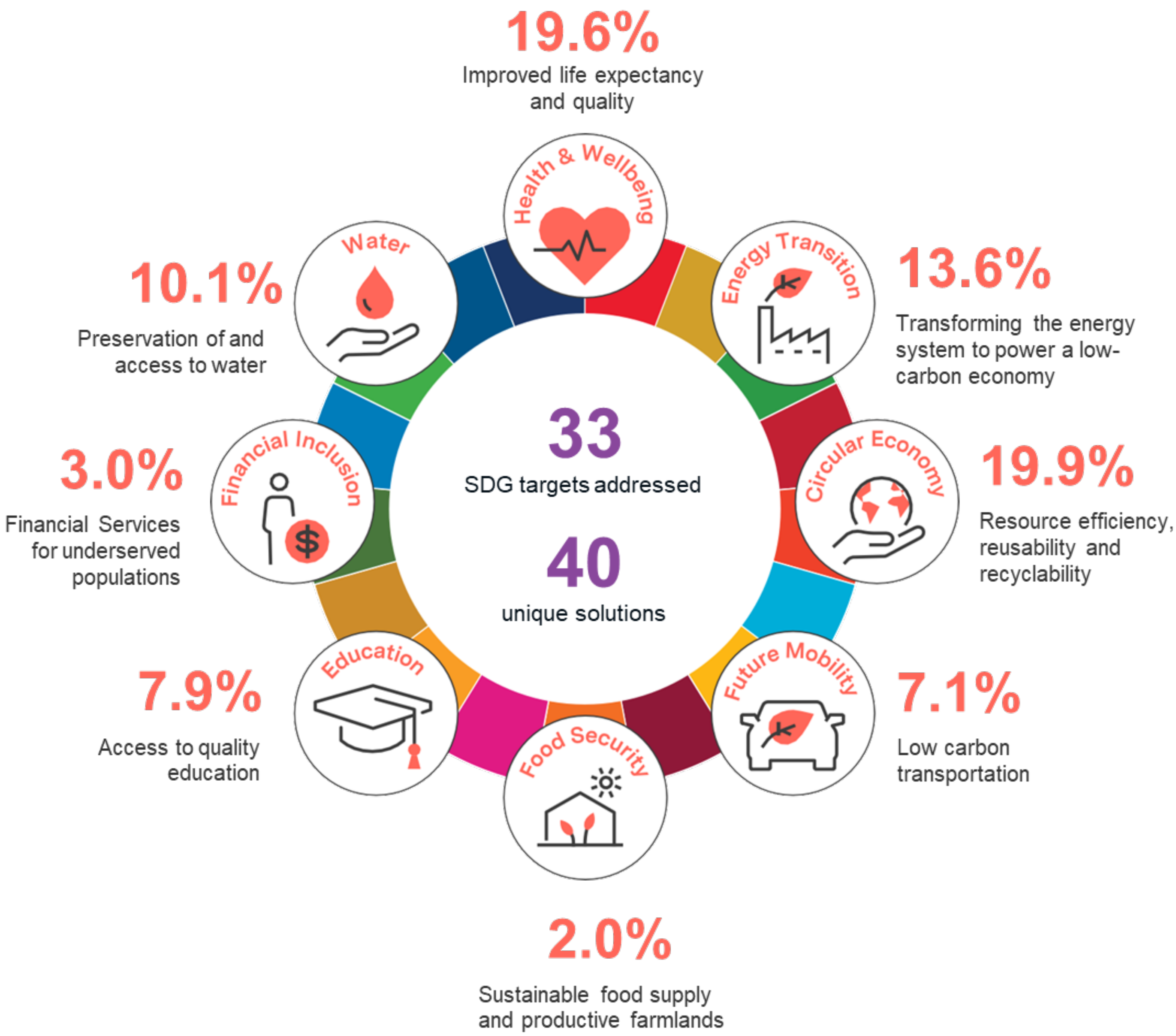
Emergent BioSolutions	Sell	Following an error which lead to 15m doses of covid-19 vaccine being wasted at its CDMO unit. This event could seriously hamper the company's ability to win further business and grow its CDMO segment post the initial covid-19 vaccination programmes in 2021. The ability to grow beyond 2021 was a key part of the investment thesis. While operational improvements may be implemented quickly, the reputational impact may be longer-lasting and reduce the company's ability to win new contracts longer-term. As a result, we decided to sell the position.

Portfolio exposure by impact theme

(As at 30 June 2021)



Source: Regnan/J O Hambro Capital Management as at 30 June 2021. Note: Thematic exposure attribution to eight impact themes based on estimates of company revenues or other relevant metrics. Cash position: 0.8%. Neutral impact (13.2%) is estimated where revenues not directly tied to any theme. Negative impact (2.8%) estimated where revenues may be detrimental to UN Sustainable Development Goals (SDG).

Portfolio analysis

Theme breakdown (as at 30 June 2021)

	Absolute
Health & Wellbeing	19.6%
Energy Transition	13.6%
Circular Economy	19.9%
Water	10.1%
Future Mobility	7.1%
Education	7.9%
Financial Inclusion	3.0%
Food Security	2.0%
Positive Impact	**83.2%**
Cash	0.8%
Neutral Impact	13.2%
Negative Impact	2.8%

Source: Pendal

Country breakdown (as at 30 June 2021)

	Absolute
Austria	4.2%
Belgium	4.3%
Denmark	5.9%
France	8.0%
Germany	17.3%
Netherlands	4.0%
Norway	3.1%
Spain	2.4%
Switzerland	1.0%
United Kingdom	3.4%
Japan	4.0%
Other Asia	4.3%
USA	33.7%
Latin America	3.7%
Cash	0.8%

Source: Pendal

Sector breakdown (as at 30 June 2021)

	Absolute
Energy	0.0%
Materials	10.3%
Industrials	28.0%
Consumer Discretionary	15.6%
Consumer Staples	0.0%
Health Care	20.5%
Information Technology	11.4%
Telecommunication Services	0.0%
Utilities	3.2%
Financials ex Property Trusts	10.2%
Cash	0.8%

Source: Pendal

Active bets (as at 30 June 2021)

Top 5	Relative
Evoqua Water Tech	5.4%
Befesa	5.0%
Xylem	4.3%
Ptc	4.3%
Bank Rakyat Indonesia	4.3%

Bottom 5	Relative
Apple	-3.0%
Microsoft Corp	-2.5%
Alphabet	-1.9%
Amazon.Com	-1.9%
Facebook A	-1.1%

Source: Pendal

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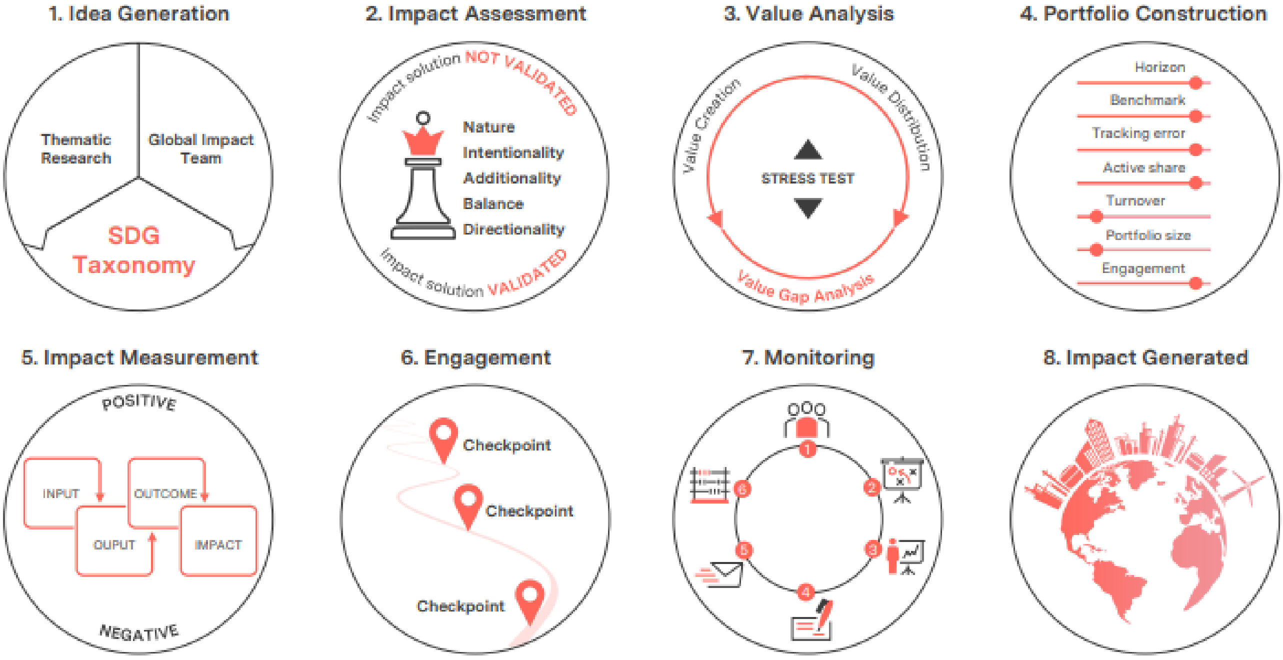
Investment process with a purpose



Meet the Regnan Global Equity Impact Solutions team

Tim Crockford
Senior Fund Manager
14 years' industry experience

Mohsin Ahmad, CFA
Fund Manager
13 years' industry experience

Maxime Le Floch, CFA
Analyst
10 years' industry experience

Maxine Wille, CFA
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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.
- **Security specific risk:** The risk associated with an individual security.
- **International investment risk:** The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Emerging markets risk:** The Fund may make investments that provide exposure to emerging markets. Emerging markets are generally considered riskier than developed markets due to factors such as lower liquidity, the potential for political unrest, the increased likelihood of sovereign intervention (including default and currency intervention), currency volatility and increased legal risk. Emerging market investments therefore may experience increased asset price volatility and face higher currency, default and liquidity risk.
- **Concentrated portfolio risk:** The Fund's investment strategy of seeking to generate high returns by investing in a concentrated portfolio of global shares may make the Fund more volatile than a diversified global share fund with a larger number of shares. This means there is a greater risk of negative returns, particularly over the short to medium term.
- **Currency risk:** Currency exchange rate fluctuation risk arising from investing across multiple countries.

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