

## Pendal Sustainable Balanced Fund Class R

ARSN: 637 429 237

Factsheet  
Multi-Asset Strategies  
29 February 2024

### 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

This Fund is designed for investors who want the potential for long term capital growth and income, diversification across a broad range of asset classes and exposure to companies and issuers (within the Australian and international shares, Australian and international fixed interest and part of the Alternative investments components of the Fund) that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to companies and issuers with material involvement in activities we consider to negatively impact the environment or society and are prepared to accept some variability of returns.

The Fund may also use derivatives. The Fund has a higher weighting towards growth assets than defensive assets.

Sustainable and ethical investment practices are incorporated into the Australian and international shares, Australian and international fixed interest and part of the Alternative investments components of the Fund. All other investments by the Fund are not assessed for sustainable and ethical investment practices. We actively seek exposure to securities and industries that demonstrate leading ESG and ethical practices and exclude companies not meeting the investable criteria.

The sustainability and ethical criteria employed includes factors such as:

- environmental issues
- corporate governance
- social practices
- ethical practices

The Fund applies exclusionary screens, which may be applied differently across the asset classes of the Fund. For more information on how these exclusions are applied go to section 5 of the 'Product Disclosure Statement' at [www.pendalgroup.com/PendalSustainableBalancedFundClassR-PDS](http://www.pendalgroup.com/PendalSustainableBalancedFundClassR-PDS).

Pendal actively engages with the management of the companies and issuers we invest in to manage risk, effect change and realise potential value over the long term.

The underlying investments in the Fund are primarily managed by specialist teams within Perpetual Group, including Pendal for alternatives, fixed interest and Australian equities, and a range of specialist managers within the Group for international equities. In respect of global listed property, we have outsourced to a specialist global property manager, AEW. The Perpetual Multi-Asset team also manages an active asset allocation process designed to increase portfolio returns within a defined risk budget.

### Performance<sup>1</sup>

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	2.04	2.10	2.52
3 months	7.55	7.76	8.20
6 months	5.96	6.38	7.56
1 year	9.24	10.11	14.99
2 years (p.a)	4.22	5.06	6.44
3 years (p.a)	6.87	7.73	7.18
5 years (p.a)	6.61	7.48	7.28
Since Inception (p.a)	9.24	10.11	9.66

Source: Pendal as at 29 February 2024

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: August 1984.

Past performance is not a reliable indicator of future performance.

### Asset allocation (as at 29 February 2024)

Australian shares	27.4%
International shares	33.4%
Australian property securities	2.2%
International property securities	1.8%
Australian fixed interest	8.3%
International fixed interest	8.1%
Alternative investments	13.5%
Cash	5.3%

### Investment Guidelines

Asset allocation ranges (%)	*Neutral position	Ranges		Sustainable assessments and screens applied
		Min	Max	
Australian shares	27	20	40	Yes
International shares	34	20	40	Yes
Australian fixed interest	8	0	25	Yes
International fixed interest	9	0	25	Yes
Australian property securities	2	0	10	-
International property securities	2	0	10	-
Alternative investments	14	0	20	Yes
Cash	4	0	20	-

\*Neutral positions effective from 20 December 2023.



CERTIFIED BY RIAA

The Pendal Sustainable Balanced Fund has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See [www.responsibleinvestments.com.au](http://www.responsibleinvestments.com.au) 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.

<sup>1</sup> 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.

## 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 Perpetual's Multi-Asset Strategies Team. The team has a diverse skill set, with deep experience in asset allocation and portfolio construction; and draws on the broader resources of Perpetual Group's other specialist teams around the world. During March 2024 the prior responsible investment management team, being the Pendal Multi-Asset Investments Team, merged with the Perpetual Multi-Asset Team.

## Other Information

Fund size (as at 29 February 2024)	\$894 million
Date of inception	August 1984
Minimum investment	\$25,000
Buy-sell spread <sup>2</sup> For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>	
Distribution frequency	Quarterly
APIR code	BTA0122AU

<sup>2</sup> The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

## Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee <sup>3</sup>	0.80% pa
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<sup>3</sup> This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

## 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.
- **Class risk** - The Fund has been established as a separate class of units in the Scheme. As the assets are held on trust for all investors, there is a risk that investors of one class, may be exposed to liabilities of another class of units and they could lose some or all of their investment in the Fund. There is also a risk that in the event of an insolvency, the assets of the Fund could be made available to creditors of another class of units of the Scheme.

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

## Market review

As bonds retraced on the back of the pushing out & reduction of rate cut expectations, stocks were unbothered as we saw a typical 'risk-on' month in February. Bonds were down & stocks were up with the risk-on sentiment continuing this month. Stocks ignored any macro concerns as share prices continued to rise. Meanwhile, bonds were affected by the hotter than expected January Core PCE figure and higher than expected PMIs, pushing out rate cut expectations for 2024.

The MSCI World Developed Markets index (local currency terms) gained 4.6% in February driven by strong performance in the US. The MSCI Emerging Markets index outperformed, posting a strong month, gaining 5.1%. Continuing their recent momentum, US indices rallied hard during reporting season as the S&P500 (5.2%), Nasdaq (6.1%), Dow Jones (2.2%) were all up on January. Whilst within Emerging Markets, the gains were driven by a strong rebound in Chinese stocks on the back of supportive Chinese government announcements, such as a cut to the loan prime rate. In regard to style factors, "growth" was dominant over "value". Large caps outpaced their smaller counterparts with strong gains posted by the 'Mag 5' (excludes Apple & Tesla) during the US reporting season.

Australian equities bounced around in February before ultimately rallying into month end and posting a 1.0% gain for the month (S&P/ASX 300). The top performing sectors this past month were Information Technology, Consumer Discretionary and Real Estate. The sectors that underperformed the most were Energy, Materials and Health Care.

On hotter than expected macro data released in February, US and Australian 10-year benchmark yields rose 29bps & 12bps, respectively. Credit spreads pushed notably lower. Futures unwound their rate cutting expectations from 6 cuts starting in March, to 3 cuts starting in July which is aligned with Fed guidance. These rate cuts have been removed from expectations as opposed to pushed into 2025. The Bloomberg Global Aggregate AUD (Hedged) index as a result fell -0.8%.

Commodities on aggregate sold off, with the Bloomberg Commodity Index closing the month down -1.9% driven by Natural Gas which sold off over 20%. Production cuts from OPEC & Russia boosted Energy as WTI Crude Oil rallied off support, up 3.9% on the month. The VIX remained contained, trading in a tight range and finishing at a low level of 13.4 points.

## Fund performance

The Fund underperformed its benchmark over the month driven by security selection within the various asset classes, whilst active asset allocation across the various asset classes detracted marginally.

In regard to security selection, underperformance within the Alternatives asset class was the main detractor. Driving the underperformance within Alternatives was the sustainable listed investment companies, which sold off in line with higher interest rates given their longer dated bond like cashflows. The alternatives benchmark also proved to be a difficult reference point over the month, given its substantial exposure to tech stocks which rallied over the month, whilst the Alternatives asset class by definition tends not to hold such stocks. Providing a positive offset was the Australian shares strategy, where the screens to fossil fuels added a lot of value as did stock selection within the tech sector with picks such as Nextdc and Xero.

Our active asset allocation positioning at the start of February had moved to more modest overweight to bonds whilst maintaining a neutral equity position. Despite the sell-off in bonds over the month the main driver of the slight underperformance from the active asset allocation was the relative value equity positions, and in particular the underweight position in the US equity market.

Our active asset allocation positioning at the start of March maintained the more modest overweight to bonds and neutral equity position. We maintain our concern around the lagging effects of substantial cumulative global interest rate hikes, with markets effectively pricing in perfection and substantial interest rates cuts by central banks. However, the economic data and market technicals remains supportive of risk assets, as such we view it's hard to get bearish on equities. In this current uncertain economic environment and modest investment signals, results in our cautious and patient stance for now.

## Outlook

The economic backdrop remains reasonably supportive for markets, although we remain mindful of still material risks. US inflation continues to trend in the right direction, which opens the door to rate cuts at some stage. February did see some inflation data points that were higher than expected. The message from the Fed is that the path to lower inflation is unlikely to be linear and that the overall trend remains in the right direction. At the same time, the US economy is holding up relatively well. This is important as it means the Fed can afford to sit on its hands and wait for confirmation that inflation is indeed being brought under control.

If we start to see a material deceleration in the economy, it would risk an earnings recession which could drag on equity markets, however, could also force the Fed into cutting rates sooner than they otherwise would.

At the other end of the spectrum, there is also the risk that inflation remains stubbornly high or even rebounds. This could drag on equity & bond markets, which continue to price in cuts for 2024.

Whilst we still view equity market valuations are generally close to fair in aggregate, US equities remain expensive driven by excitement around AI. Although economic conditions have been remarkably resilient in the face of rapid interest rate increases to date, the lagged impact of higher rates remains a risk. Recent positive momentum in equity markets however leads us to a neutral overall outlook on equities, and we're focusing our attention on a number of attractive relative value opportunities between markets.

For bonds, yields are broadly in line with our estimates of fair value, as attractive yield levels are offset by unattractive curve shapes. Whilst bond yields are only priced at fair value, their higher levels vs the last decade means bonds would be expected to provide their traditional "risk off" portfolio benefits in the event of an equity market downturn.

Overall, we remain cautious on the near-term outlook as we face a potential turning point in the economic and market environment. Despite some attractive relative value trades, our positioning across the funds is modest as we prefer at this point in time to be patient and wait for more attractive opportunities.

For more information please call **1300 346 821**,  
contact your key account manager or visit [pendalgroup.com](https://www.pendalgroup.com)

**PENDAL**

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PFSL is the responsible entity and issuer of units in the Pental Sustainable Balanced Fund (Fund) ARSN: 637 429 237. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting [www.pentalgroup.com](https://www.pentalgroup.com). The Target Market Determination (TMD) for the Fund is available at [www.pentalgroup.com/ddo](https://www.pentalgroup.com/ddo). You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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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.