

## Information Memorandum Pendal Sustainable Balanced Fund

Previously known as 'BT Sustainable Balanced Fund'

APIR code: BTA0122AU



Issued 25 September 2019

### About Pendal

Pendal Fund Services Limited is the trustee for the Pendal Sustainable Balanced Fund (Fund). As trustee, it is responsible for overseeing the operations of the Fund.

Pendal Institutional Limited is the investment manager of the Fund. As the investment manager, it selects and manages the assets of the Fund and may appoint other managers to manage some or all of the Fund's assets.

Pendal Institutional Limited has appointed AQR Capital Management, LLC (AQR) to manage the majority of the international shares for the Fund with the remainder managed by Pendal Institutional Limited. AEW Capital Management, L.P. (AEW) has been appointed to manage the international listed property securities for the Fund. The selected investment managers are reviewed from time to time. This process includes reviewing the investment managers based on their investment capabilities in managing environmental, social and corporate governance (ESG) factors. We may remove or add an investment manager at any time and in some cases, without notice.

Pendal Fund Services Limited and Pendal Institutional Limited are wholly owned subsidiaries of Pendal Group Limited.

Pendal Group Limited is an independent, global investment management firm focused on delivering superior investment returns for its clients through active management.

Pendal offers investors a range of Australian and international investment choices including shares, property securities, fixed income and cash strategies, as well as multi-asset and responsible investments. To complement its in-house expertise, Pendal also partners with leading global investment managers.

Pendal is a signatory to the United Nations-supported Principles for Responsible Investment (PRI). PRI is a global investor initiative that is designed to provide a framework for better integration of ESG issues into mainstream investment practices. PRI signatories undertake to consider ESG factors in their investment decision making and ownership practices.

Prior to May 2018, Pendal Group Limited was known as BT Investment Management Limited, Pendal Fund Services Limited was known as BT Investment Management (Fund Services) Limited and Pendal Institutional Limited was known as BT Investment Management (Institutional) Limited.

### Investment Return Objective and Timeframe

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.

### Investment Strategy and Fund Features

The Fund is an actively managed diversified portfolio that invests in Australian and international shares, Australian and international listed property securities, Australian and international fixed interest, cash and alternative investments. 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 Pandal's financial analysis. We actively seek exposure to securities and industries that demonstrate leading ESG and ethical practices and exclude companies or issuers not meeting the investable criteria.

The sustainable and ethical criteria employed include factors such as:

- environmental issues,
- social practices,
- corporate governance, and
- ethical practices.

The assets of the Fund are managed by Pandal together with a number of leading investment managers, such as AQR for international shares and AEW for international listed property securities. Pandal manages the asset allocation of the Fund. Pandal may implement asset allocation decisions away from the neutral position within the specified minimum and maximum ranges based on investment views.

The Fund has assets that are denominated in foreign currencies. This means that changes to the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. The international fixed interest, international property securities and international alternative investment exposures are fully hedged to the Australian dollar to the extent considered reasonably practicable. Generally, the Fund's international share exposure will not be hedged to the Australian dollar.

The Fund may use derivatives to achieve its investment objective and to gain exposure to assets and markets. Derivatives may also be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets.

#### **Sustainable and ethical assessment process**

Sustainable and ethical investment practices are currently incorporated into the Australian and international shares and Australian and international fixed interest components of the Fund. All other investments by the Fund are not assessed for sustainable and ethical investment practices.

The Fund invests in the securities that are considered to meet the Fund's sustainable and ethical criteria.

Specifically, the assessment process may consider issues such as:

#### **Environmental Management**

- Management of environmental impacts through the implementation of best practice environmental techniques, technologies and product design
- Environmental performance against a range of environmental indicators including for example, greenhouse gas emissions, energy and water use and environmental incidents
- The capacity to consult key stakeholders in relation to activities that may have significant environmental impacts
- Adoption of best practice with regards to management and disclosure of material risks and opportunities associated with climate change.

#### **Social practices**

- Equal opportunity, anti-discrimination and industrial relations policies and practices
- Staff incentives, development and training
- Employee benefits and entitlements
- Human capital management performance against a range of indicators, such as voluntary turnover and gender diversity in senior management
- Products or services that provide positive social impacts such as improved health & community well-being, disease prevention, and education
- Management of contractors and suppliers
- Workplace health and safety performance against indicators such as fatalities and lost time injury frequency rate.

#### Corporate governance and business conduct

- Codes of conduct and the extent of their integration into the company's operations
- Provision of regular and appropriate training
- Whistleblower policies and procedures
- Ethical conduct and performance of employees and officers - the extent to which companies are adopting principles in areas such as complying with the law, fair and open dealings and accepting responsibility for their actions
- Product safety and consumer protection
- Engagement practices with employees, shareholders and key community stakeholders

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 or issuer 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 and issuers we invest in to manage risk, effect change and realise potential value over the long term.

Fixed interest securities issued by Government related entities are generally considered to meet the Fund's sustainable and ethical investment guidelines.

Investments are reviewed regularly to ensure they remain within guidelines relating to sustainable and ethical considerations. If the review process identifies that an investment ceases to comply with the investment guidelines of the Fund, the investment will usually be sold as soon as reasonably practicable having regard to the interest of the investors, but this may vary on a case by case basis.

The criteria applied to the Fund's investments may exclude some industry sectors, companies or issuers from the Fund's 'investable universe'. For this reason the Fund's performance may vary when compared to other funds that do not apply sustainable screens in their investment process. This risk should be considered when deciding whether to invest in the Fund.

#### Asset Classes, Asset Allocation Ranges and Neutral Positions

Following a review of the Fund's asset allocation ranges, the ranges will change effective 6 November 2019.

Asset class <sup>1</sup>	Asset allocation ranges	
	Effective until 5 November 2019	Effective from 6 November 2019
Australian shares	28 – 48%	20 – 40%
International shares	12 – 32%	20 – 40%
Australian property securities	0 – 10%	0 – 10%
International property securities	0 – 10%	0 – 10%
Australian fixed interest	5 – 32%	0 – 25%
International fixed interest	0 – 20%	0 – 25%
Cash	0 – 10%	0 – 20%
Alternative investments	0 – 20%	0 – 20%

Details of the Fund's asset allocation neutral positions can be found at [www.pendalgroup.com/pendal-sustainable-balanced-fund](http://www.pendalgroup.com/pendal-sustainable-balanced-fund).

<sup>1</sup> The reference to the Fund investing in an asset class includes all types of investments which give exposure to that asset, directly or indirectly, including through derivatives and investment in other related funds which invest primarily in that asset class, and through any type of investment which would ordinarily be understood in financial markets to be included in that asset class. It does not preclude investment in other types of assets where we consider it appropriate to do so in the interests of investors.

## 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 [www.pendalgroup.com/pendal-sustainable-balanced-fund](http://www.pendalgroup.com/pendal-sustainable-balanced-fund).

## Fund Information Summary

Date of inception	Minimum investment	Management cost	Buy-sell spread	Distribution frequency	APIR Code
August 1984	\$500,000	0.90% pa	0.28%	Quarterly	BTA0122AU

## Structure of the Fund

The Fund has been established as an unregistered Australian unit trust.

## Risks of Investing in the Pental Sustainable Balanced Fund

Investing in the Fund exposes investors to the following specific risks:

Type of risk	Explained
Market risk	The risk that the market price of an asset will fluctuate as a result of factors such as economic conditions, government regulations, market sentiment, local and international political events and environmental and technological issues. Market risk may have different impacts on each type of asset, investment style and investor.
International investments risk	International investments may be affected by movements in foreign currency exchange rates, interest rates, political and economic uncertainties, lower regulatory supervision and more volatile, less liquid markets compared with Australian investments.
Currency risk	The Fund has assets that are denominated in foreign currencies. For hedged investments in international assets, the hedge may not provide complete protection from adverse currency movements. For unhedged investments in international assets, a rise in the Australian dollar relative to other currencies will negatively impact investment values and returns. Currency markets can be extremely volatile and are subject to a range of unpredictable forces.
Credit risk	This is the risk of an issuing entity defaulting on its obligation to pay interest and principal when due. It arises primarily from investments in fixed interest securities and from certain derivatives.
Liquidity risk	The risk that an investment may not be easily converted into cash with little or no loss of capital and minimum delay. Fixed interest securities may have limited or no liquidity where there has been a default by the issuer, or deterioration in the creditworthiness or credit rating of a particular issuer or market. Liquidity risk may also extend to swap transactions, structured securities or derivative contracts which provide exposure to some types of assets or markets. This means that it may not be possible to sell these investments or to do so in sufficient time to pay withdrawals. If this occurs, withdrawals may be suspended for the protection of all investors even if other assets can be readily sold.
Counterparty risk	The risk of loss arising from the failure of another party to a contract (the counterparty) to meet its obligations. Counterparty risk arises primarily from investments in derivatives and currency transactions. Substantial losses can be incurred if a counterparty fails to deliver on its contractual obligations.

## **Investing in the Pental Sustainable Balanced Fund**

### **How to apply**

Direct investors should complete the Application and relevant Customer Identification Form(s) by clicking on 'Apply now' at [www.pentalgroup.com](http://www.pentalgroup.com) and downloading the forms. A copy of the forms can also be requested by calling 1800 813 886. Payment details and methods are available on the Application Form.

Only investors who meet the definition of a wholesale investor pursuant to section 761G of the *Corporations Act 2001* are currently permitted to invest in the Fund. The offer made in this IM is only available to persons receiving this IM (electronically or otherwise) within Australia. Applications from outside Australia will not be accepted.

You can add to your investment at any time by sending us your written instructions with your payment.

### **How to withdraw**

You can redeem some or all of your investment by either mailing or faxing us a completed withdrawal form or providing a written notice of withdrawal.

Withdrawals will generally be paid to your nominated Bank Account within 5 Business Days or within 14 Business Days if you choose to receive a cheque.

### **Restrictions on withdrawals**

There may be circumstances where your ability to withdraw from the Fund is restricted and you may have to wait a period of time before you can redeem your investment.

We may delay or suspend a withdrawal request where we are unable to realise sufficient assets due to circumstances outside our control (such as restricted or suspended trading in the market for an asset) or where the Fund becomes illiquid.

The constitution of the Fund also contains specific provisions that provide us with powers in relation to withdrawals.

### **Processing**

If we receive an application or withdrawal request by 3.30pm (Sydney time) on a Business Day, we will process the transaction using that day's unit price. Requests received on or after the cut-off time of 3.30pm (Sydney time) on a Business Day, or on a non-Business Day, will generally be treated as having been received before the cut-off time on the next Business Day.

If we receive an invalid or incomplete application or withdrawal request, the transaction request will be processed using the unit price applying on the day that we receive the correct documentation. The above rules about cut-off times apply.

### **Distributions**

The Fund generally pays distributions on a quarterly basis, with the final distribution paid at the end of June each year. In some circumstances, we may also pay distributions at other times where we consider it appropriate.

Distributions are generally calculated based on the Fund's net income at the end of the distribution period divided by the number of units on issue. In certain circumstances, some income and/or net realised capital gains may be held back until the final distribution at the end of June to allow for market volatility.

You can choose to have your distributions automatically reinvested into additional units in the Fund or paid directly into your nominated Bank Account. There is no buy-sell spread on distributions that are reinvested. Reinvestment of distributions will normally be effective the first day following the end of the distribution period. Distribution payments to your nominated Bank Account are generally made within 10 Business Days after the end of the distribution period.

## Management costs

Management costs <sup>2</sup>	Amount
The fee for managing the assets and overseeing the operations of the Fund.	Management costs consist of the following component:  Issuer fee 0.90% pa

Management costs are met from a single fee, being the issuer fee which is paid from the assets of the Fund and reflected in the unit price of your investment. The issuer fee is calculated on the net asset value of the Fund, accrued on a daily basis and deducted from the Fund monthly.

We are also entitled to be reimbursed for expenses we incur in the proper performance of our duties and in connection with the day-to-day operations of the Fund. At the date of this IM, we do not deduct these recoverable expenses out of the Fund. However, in the future if we decide to deduct these expenses, we will give investors 30 days written notice.

### Buy-sell spread

The buy-sell spread is generally incurred whenever you invest in the Fund. The buy-sell spread is retained by the Fund (it is not paid to us) and represents a contribution to the transaction costs incurred by the Fund such as brokerage and stamp duty, when the Fund is purchasing and selling assets. There is no buy-sell spread on distributions that are reinvested.

At the time of this Information Memorandum, the buy-sell spread is 0.28%.

We may vary the buy-sell spread from time to time and prior notice will not ordinarily be provided unless there is a material increase. For current buy-sell spread information, visit [www.pendalgroup.com](http://www.pendalgroup.com), click on 'Products' and select the Fund.

### Rebates/waivers for interfunding arrangements

The Fund may invest from time to time in other funds that we, or a related entity, manage (**related fund**). Our current policy is:

- no contribution fee is payable to the related fund;
- issuer fees are either not collected by the related fund or if they are, they are rebated in full to the Fund; and
- where the related fund charges expense recoveries outside of the issuer fee, these will also be rebated to the Fund.

However, we may change these arrangements at any time, in which case, we will give investors 30 days' notice.

### Taxation Information

The following is a brief summary of some of the Australian income tax consequences of investing in the Fund.

Pendal does not provide tax advice and the information contained in this section is of a general nature only. Potential investors should not rely on this summary and should seek their own taxation advice in relation to the tax consequences of investing in the Fund prior to making any investment decision. The tax consequences may differ, depending on your own particular circumstances.

### Australian investors

#### Tax on distributions

The Fund will generally distribute all of its net income each year so that the Fund is not subject to tax. An investor's share of the net taxable income of the Fund becomes part of that investor's assessable income for that income year. This is the case regardless of whether the income is paid to the investor or reinvested, or if the income is received by the investor in the next income year.

Some distributions may not need to be included in an investor's tax return but will generally reduce the cost base of their investments for capital gains tax purposes.

#### Tax on withdrawals

Partial or full withdrawals from the Fund will be treated as disposal of investments for tax purposes and investors may be subject to Capital Gains Tax (CGT).

<sup>2</sup> Management costs are quoted inclusive of GST and net of Reduced Input Tax Credits.

Individual investors that hold their investment on capital account, and have held the investments for more than 12 months, may be entitled to a CGT concession that can reduce their CGT liability by 50%. Other taxpayers (for example, complying superannuation funds) may be entitled to a 33.33% CGT concession provided the investments are held for more than 12 months.

#### **Withholding taxes**

The Fund may derive income from foreign sources which is subject to foreign withholding taxes in those jurisdictions. Such taxes may be reduced under tax treaties which may exist between Australia and the respective foreign jurisdiction. The benefit of foreign taxes paid by the Fund will be distributed to investors as foreign tax credits to the extent permitted by Australian tax legislation.

#### **Taxation of Financial Arrangements (TOFA)**

Broadly, the TOFA rules may affect the time at which gains and losses from financial arrangements are recognised for income tax purposes, including whether the gains and losses are recognised on an accruals rather than realisation basis or whether the gains and losses are on revenue account. The Fund should be subject to the TOFA rules and depending on the types of financial arrangements it holds, it may be required to recognise gains and losses from these financial arrangements on an accruals basis. Individuals should not be directly subject to TOFA in respect of their investment, unless they have elected for the TOFA rules to apply.

Other investors may be directly subject to the TOFA rules in respect of their investment. Prospective investors should seek their own advice in relation to the potential applicability of TOFA in respect of their particular circumstances.

#### **Tax reporting**

After the end of the tax year, we will send tax statements and CGT statements (if applicable) to investors.

#### **TFN/ABN Withholding**

Investors are not obliged to provide us with their Tax File Number or Australian Business Number (if applicable), but if an investor does not provide either and does not claim a valid exemption, we are required to deduct tax from that investor's distributions at the highest marginal tax rate, plus the Medicare levy and other applicable levies, to meet Australian Taxation Office requirements.

Australian companies and other entities that invest in the course or furtherance of their registered business can supply their ABN instead of their TFN to us.

#### **Goods and Services Tax (GST)**

GST will not be imposed on the application for, or withdrawal of, units in the Fund. However, it will be charged on:

- the price of most purchases made by the Fund in carrying out its investment activities; and
- fees payable to us, and reimbursable expenses (if applicable).

The Fund may be entitled to claim a refund (Reduced Input Tax Credit) for part of the GST included in the price of most purchases.

#### **Non-residents of Australia**

For non-resident investors wishing to invest in Australia, we recommend that they seek independent professional tax advice. Tax at the prescribed rates will be withheld from distributions to non-residents to the extent that the distributions comprise Australian sourced income or certain capital gains.

#### **Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS)**

##### **Foreign Tax Residency Information**

We are required to identify tax residents of a country or countries other than Australian in order to meet account information reporting requirements under domestic and international laws.

If at any time after account opening, information in our possession suggests that you, or the entity or any individual who holds ownership and/or control in the entity of 25% or more of the entity (Controlling Person) may be a tax resident of a country or countries other than Australia, you may be contacted to provide further information. Failure to respond may lead to certain reporting requirements applying to the account.

A Controlling Person refers to the individual(s) that directly or indirectly own a legal interest in the entity of 25% or more and/or exercises actual effective control over the entity, whether from an economic or other perspective such as through voting rights.

Where no individuals are identified as exercising control of the entity through ownership interests, the Controlling Person of the entity is deemed to be the individual(s) who hold the position of senior managing official. In the case of a trust, a Controlling Person includes the settlor(s), trustee(s), appointer(s), protector(s) or classes of beneficiaries and in the case of an entity other than a trust, the term includes persons of equivalent or similar positions.

### **Other Important Information**

#### **Related party transactions and conflicts of interest**

The Fund may, without limit, invest in other funds of which we, or a related entity, are trustee, responsible entity or manager (**related funds**).

We may appoint any of our related entities to provide services or perform functions in relation to the Fund, including acting as our delegate. We may also enter into financial or other transactions with related entities in relation to the assets of the Fund and may sell assets or purchase assets from, a related entity. A related entity is entitled to earn fees, commissions or other benefits in relation to any such appointment or transaction and to retain them for its own account. Such arrangements will be based on arm's length commercial terms.

In the course of managing the Fund, we may face conflicts in respect of our duties in relation to the Fund, related funds and our own interests. We have policies and procedures in place to manage these appropriately. We will resolve such conflict fairly and reasonably and in accordance with the law, ASIC policy and our policies.

#### **Consents**

The following parties have consented to this IM containing, and accept responsibility for the inclusion of, their name and the information referable to them in the form and context in which it appears:

- AQR Capital Management, LLC (AQR)
- AEW Capital Management, L.P. (AEW)

The parties above have not withdrawn their consent before the date of this IM and are not responsible for any information or statements which are not referable to them.

#### **Terms used in this IM**

In this IM:

'ASIC' the Australian Securities and Investments Commission;

'Bank Account' means an account with an Australian Authorised Approved Deposit Taking Institution (which includes a building society and credit union);

'Business Day' means a day (other than a Saturday, Sunday or public holiday) on which banks are open for general banking business in Sydney;

'Fund' means the Pandal Sustainable Balanced Fund;

'IM' means this Information Memorandum dated 25 September 2019;

'Trustee' means Pandal Fund Services Limited ABN 13 161 249 332, AFSL 431426;

'we', 'our', 'us' or 'Pandal' means the trustee of the Fund and, where appropriate, Pandal Institutional Limited.

Asset values of the Fund for the purposes described in this IM are determined in accordance with the Fund's constitution.



This page has been left blank intentionally.

**CLIENT SERVICES ENQUIRIES**

Phone 1800 813 886

Monday to Friday 8.00am to 5.30pm (Sydney time)

Fax 02 9274 5786

[clientservice@pendalgroup.com](mailto:clientservice@pendalgroup.com)

**PENDAL FUND SERVICES LIMITED**

GPO Box 2675

Sydney NSW 2001

Australia



**[WWW.PENDALGROUP.COM](http://WWW.PENDALGROUP.COM)**

This Information Memorandum (IM) has been prepared by Pandal Fund Services Limited ABN 13 161 249 332, AFSL 431 426 (**Pandal**). Pandal is the trustee and issuer of units in the Pandal Sustainable Balanced Fund (**Fund**).

The information in this IM is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation or professional advice.

The information in this IM is given in good faith and has been derived from sources believed to be accurate as at its issue date. Neither Pandal nor any company in the Pandal group accepts any responsibility or liability for the accuracy or completeness of this information. Except where contrary to law, Pandal intends by this notice to exclude all liability for this material.

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

If an investor is classed as a wholesale investor under the Corporations Act, fees may be individually negotiated.

**PENDAL**