

April 2023

Pendal Responsible Investment and Stewardship Annual Report 2022



PENDAL



PENDAL

Pendal Group* is a global investment management business focused on delivering superior investment returns for clients through active management. We operate a multi-boutique structure offering a broad range of investment strategies. This report details the responsible investment and stewardship activities undertaken in 2022 across Pendal Group's Australian investment management business, referred to here as 'Pendal'. Reported figures are current at Dec 31 2022, unless otherwise noted.

* Pendal Group became a subsidiary of Perpetual Limited (ASX:PPT) on January 23, 2023.



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2022 Highlights

562

ESG engagements across
our investment boutiques

Pendal's Australian-based
operations became **carbon
neutral** certified by Climate
Active

Published Pendal Australia's
ESG integration guiding
principles and investment
team approach

A\$5bn

Funds under management
in dedicated responsible
investment strategies



Actively involved
in 40:40 Vision engagement
initiative on gender diversity

11

Products certified by
Responsible Investments
Association Australasia



Pendal scored 4 out of 5
stars across Principles for
Responsible Investment
(PRI) reporting modules

40%

Proportion of
Pendal and Regnan
engagements
that concerned
climate change

28

Sustainability-related
impact bonds held across
our portfolios

CEO letter and introduction



The concept of responsible investing has evolved hugely over the past decade, and the pace of change is accelerating. Not necessarily in clear directions, however.

We've reached a point where there wouldn't be many boards or management of major Australian listed companies not taking ESG risks seriously.

A cursory glance at MSCI ESG ratings shows an improvement in scores across the market in recent years. As one of the leading sustainable investors in the country, Pandal has played an important role in this transition, driving companies to change. This is something we are very proud of.

It's also reasonable to believe that the potential alpha available from targeting "box-ticking sustainability improvers" has eroded over time.

Curiously, companies that are deprived of capital as a result of poor ESG behaviours may well have higher expected returns, at least over shorter time periods.

This reflects their higher risk and lower multiples. Certainly, higher fossil fuel prices over the past year made excess returns very challenging for sustainable investors.

Nevertheless, we know that changing consumer preferences, increasing transparency and a significant shift in the direction of policy settings are real.

These will demand ever more vigilance on behalf of corporates to stay on top of their sustainability agenda.

So, what does this new ESG environment look like?

Firstly, box ticking will become increasingly less helpful. The challenge for investors is identifying authentic leadership that can leverage non-financial factors to generate real economic value.

Since many of the basic hygiene factors are already considered, it will become particularly difficult for systematic processes like those used by the mainstream ESG score providers to assess this. It is here that Pandal's deep fundamental research resources will be well placed.

Secondly, the next horizon is one of impact. What are the externalities created by a company? To what extent is a company, through its product and services, making the world a better or worse place?

Many see this as the third axis of investing. The first was return, the second risk – and the third is impact. Notoriously difficult to measure, full of unintended consequences and spurious correlations, impact is nevertheless a real component of allocating capital. It is the "so what" of owning a business and holding management accountable.

In 2023, the Federal treasurer has started asking sincere questions of the role of financial markets in impacting our society as whole. The influence that we have on our system as stewards of capital has never been lost on us.

This report aims to highlight how we have carried out this responsibility.

Richard Brandweiner
CEO, Australia

Engagement

Pendal actively engages directly with investee companies and issuers in our role as responsible stewards of capital.

We focus on companies or issuers where we have identified areas of concern or where our shareholding affords us influence. We aim to drive improved practices including in environmental, social and governance (ESG) matters. We have a duty and an interest in doing so.

The **Australian Equities** team's regular engagement continued in 2022. Aspects of Covid-related social issues carried over from previous years. There was a focus on governance failures at executive levels, executive pay, cyber security, carbon emissions (reflecting new government legislation) and climate change.

Pendal's Income and Fixed Interest team strives to use its influence for positive change. Engaging with issuers is an important component of the I&FI team's ESG process. A significant portion of our engagements are with specific issuers. Many are with unlisted entities, which expands the reach of

our stewardship activities and is particularly important for climate transition, since many infrastructure and utility companies are privately owned.

In the growing market for impact and sustainability securities like social bonds, climate/green bonds and sustainability bonds, we advocate for enhanced quality of issuance supported by timely, outcome-focused reporting.

In addition to direct liaison with companies via our investment teams, Pendal continued to be represented in **Regnan's** ESG-focused collective engagement program alongside other institutional investors.

Increasingly Regnan's work is focusing not only on companies bearing ESG risks, but also companies contributing to risks that are likely to lead to the destruction of value elsewhere in portfolios. Its subscription-based services ceased during the year to enable it to transition its approach to more specifically focus on systems change.



An early example of this has been a series of roundtables bringing together senior leaders from across the value chain for sustainable agriculture and food production. Drawing on the key insights from Regnan's thematic research, the sessions have sought to increase awareness of the need for more sustainable models, highlight examples of collaborative practice supportive of this transition and identify further areas for collaborative action.

Full details of the key themes of Regnan's engagement and advocacy activities during the year, including detailed reporting on the outcomes of this work, can be found in Regnan's annual report on its website - [From stock to system: Australian engagement report 2022](#).

Regnan also continued its advocacy efforts, including support for client deliberations on "Say on Climate" voting and ongoing commitment to increasing climate fluency across the sector via a series of masterclasses for members of the Investor Group on Climate Change (IGCC) and Asia Investor Group on Climate Change (AIGCC).

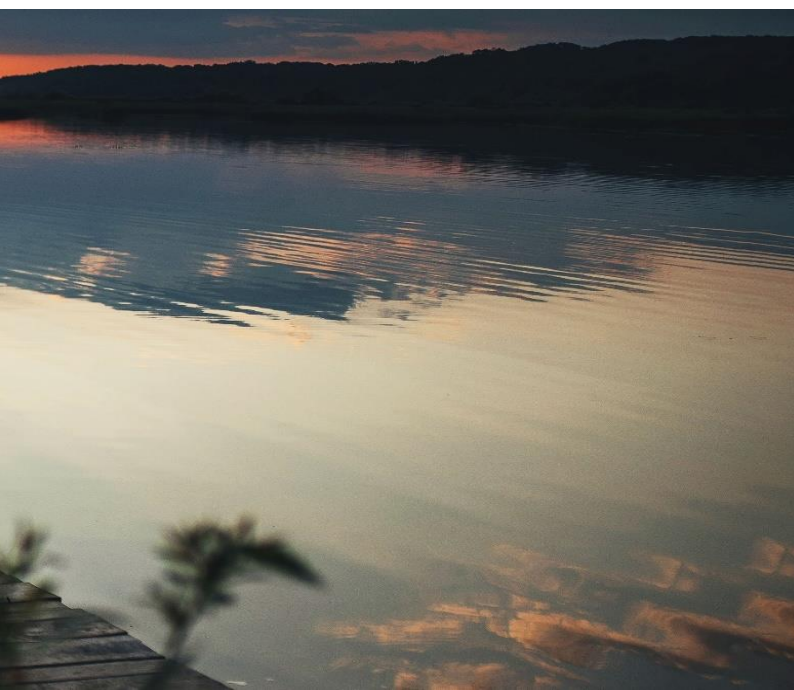
"Engagement", as it's known in the investment industry, is usually undertaken on a one-to-one basis between an investor and an investee. But as interest in ESG grows – and the complexity of issues increases – engagement must evolve to ensure effectiveness, says Regnan's head of engagement Alison Ewings.

Engagement can be more successful, particularly on portfolio-wide risks, if it shifts away from a company-by-company approach and evolves into a collaborative, systems-wide activity.

Historically, Pandal has engaged in a very bottom-up fashion, looking at the ESG risks to an individual company. While there is still a role for this kind of engagement, we must acknowledge that individual companies are limited in the actions they can take on some ESG issues. For these multifaceted, system-wide issues, one-to-one engagement will not be enough to reduce the risks to portfolios.

Climate change is a typical example, where you can divest your way out of the risks to a certain point. But if climate change is left unchecked, it will still create risk in portfolios and the potential for associated economic shocks.

As a result, Regnan has been looking at new models of engagement, and is now approaching engagement in two ways. One is to engage right along the value chain to achieve system change and reduce portfolio risks from major ESG trends. The other is to look at opportunities to bring companies together to address these issues. This more intentionally inclusive approach to problem solving also enhances the pool of ideas for how to tackle major societal challenges.



Engagement statistics

ESG engagement by our Australian equities team

Our large Australian Equities team actively meets with Australian companies, seeking outcomes that are in the long-term interests of shareholders. Long-term ESG issues often feature in our corporate engagement alongside financial management.



328

ESG engagements AEQ



127

companies engaged

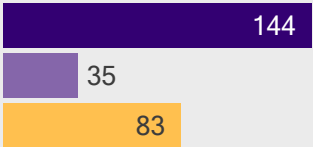


Environmental



196

engagements discussed
environmental issues



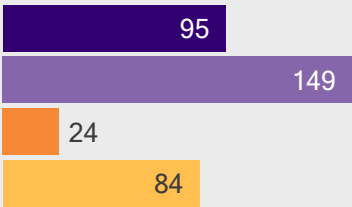
- Climate Change
- Water
- Other Environmental

Social



198

engagements discussed
social issues



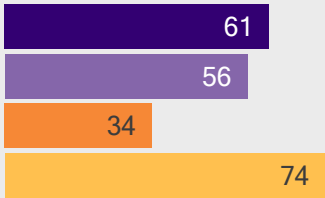
- Human Capital Management
- Ethics, Conduct, Social Licence
- Human Rights & Modern Slavery
- Other Social

Governance



130

engagements discussed
governance issues



- Remuneration
- Board
- Diversity
- Other Governance

ESG engagement by our income and fixed interest team

95

ESG engagements
conducted with issuers

In 2022, the team undertook 95 direct engagements across 61 different entities and a range of ESG concerns. Key areas of engagement were across three areas: reporting, climate change transition and shaping the debt markets. Some engagements address more than one focus area. Of our engagements in 2022, 28 addressed disclosures, 17 related to climate stability and 30 were about improving the debt markets. This last focus area was with arrangers or issuers offering a new type of impact bond in the Australian market (sustainability-linked bonds)

ESG engagement by our global equities team

139

ESG engagements
conducted with
companies

The Pandal Concentrated Global Share team was active in engaging companies during 2022, despite not being able to travel for parts of the year due to COVID19 travel restrictions. The team undertook 139 ESG-related engagements during the year.

Engagement case studies

Case study

Australian equities: sustainability in the lithium sector

Lithium is often called a “future-facing metal”, given the importance of lithium-ion batteries in the electric vehicle (EV) and renewable energy sectors.

Notwithstanding its role as an input into less carbon-intensive technologies, we have been engaging on several important, related ESG issues.

For miners of spodumene (a source of lithium), the key focus of engagement has been the location and carbon intensity of downstream processing of ore. Historically, the product shipped overseas to China for processing into the lithium hydroxide used in batteries.

This meant more than 90 per cent of the product shipped from Australia was waste – the highest waste of any product shipped in the mining sector.

Our engagement with spodumene miners has focused on their plans to upgrade product domestically to reduce the overall carbon profile of the end lithium products.

Conversion to hydroxide in Australia can reduce the overall carbon footprint in two ways. First, less material is shipped with lower associated emissions from transportation and handling.

Secondly, companies can power domestic processing plants with renewable energy, rather than relying on the traditional fossil fuel powered grid typically used in China.

We have been seeking to understand the detail around company plans to achieve this, notwithstanding the challenges involved.

We have been encouraging management and boards to address this in a credible and sustainable way.

The lithium sector is ramping up quickly as companies scramble to take advantage of a supply-demand imbalance and long-term structural tailwinds. This brings challenges and risks in areas such as governance, health & safety and operations, since companies are under pressure to grow quickly from a small base to achieve scale advantages.

We have been seeking to raise understanding and mitigation of these risks.



Case study

Spotlight: Income and Fixed Interest team

Every green, social and sustainability bond Pandal invests in has an impact report that is released a year after the bond launches. Our objective is to ensure this has granular information with enough data to make a judgement on the investment.

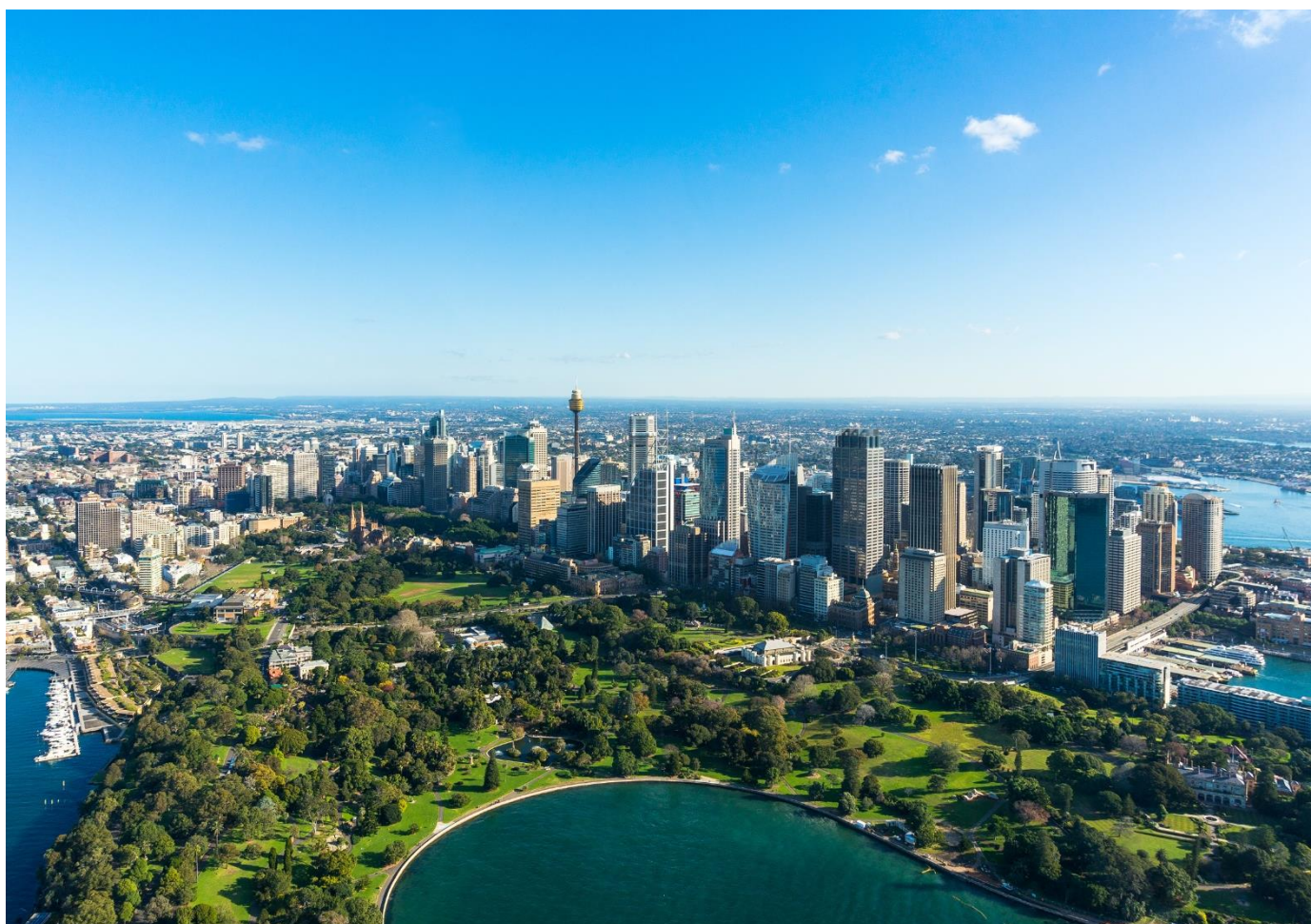
We expect these impact reports to contain data on specific indicators that are disaggregated by a bond.

Where this is not the case, we will engage with the issuer. For instance, we engaged with a supranational issuer in 2022 to enhance their impact reporting.

When they released their next impact report, we were disappointed to see they had not included a level of detail which had been the subject of our engagements.

After having engaged with the issuer over the year with no improvement, we divested from our holding and notified the issuer as well as the arranger.

We were explicit that we were divesting because the impact reporting was not at the same quality as peers.



Case study

Australian equities: insuring the inevitable

Perhaps more than any other type of company, insurers operate across the whole ESG spectrum. Engaging with insurers is a critical part of Pandal's responsible investing process.

We have four key areas of engagement ongoing with QBE.

First is its exposure to catastrophic weather events. We are looking to gain confidence that QBE is cognisant of the increase in catastrophic events, their potential impact on its business and the cost of reinsurance.

Second is the transition to a low-carbon economy. QBE has set targets it believes are consistent with the Paris Agreement. These include not insuring companies with more than 60 per cent revenue from oil and gas extraction from 2030, with the revenue threshold dropping to 30 per cent from 2040.

There is scope for more detail, such as plans underway in support of its recent commitment to the Net Zero Insurance Alliance. This will be an ongoing area of engagement.

Third is the human capital issue of improving corporate culture and diversity. QBE had some cultural issues previously, and there has been room for greater diversity. The insurer is on a path of clear improvement here and we continue to engage on these issues to ensure momentum is maintained.

The company has implemented staff surveys and has also committed to 40 per cent female executives by 2030.

And finally, we are engaging on the governance issue of its exposure to inflation risk and managing the potential mismatch between assets and liabilities that could result.



Case study

Global equities engagement: making air travel cleaner

Air travel is part of many people's daily lives, but it comes with a major downside – carbon emissions. The global aviation industry represents 2.5 per cent of human induced CO₂ emissions.

The investment opportunity is huge. According to the United Nations, four billion passengers travel annually and the sector supports 65.5 million jobs and \$US2.7 trillion in global economic activity¹.

However, managing the environmental risk is critical.

French-based airline manufacturer Airbus is a key holding in the Pandal Concentrated Global Share Fund.

Airbus is a market leader in its commitment to achieving carbon neutrality, backing the industry's goal of carbon neutral growth from 2020. The involves mitigating carbon output, using 2019 emissions as a baseline, even as the sector grows.

The industry has also promised net zero emissions by 2050.

Airbus has gone further, with a goal of building the first zero emissions aircraft by 2035. As Airbus says: "We have the ambition to develop the world's first zero-emission commercial aircraft by 2035 to ensure future generations can enjoy flying as much as we do."

It involves several possibilities. One is developing a sustainable aviation fuel. Another is to design significantly more efficient engines to reduce fuel burn. Already Airbus's latest-generation, fuel efficient aircraft has helped the industry save one billion tons of CO₂ since 1990.



A third option is to build hydrogen-powered aircraft and hybrid planes.

Airbus is working with the industry to help improve flight management - more direct routes which take less fuel.

And finally, Airbus is working on reducing its carbon footprint in its manufacturing facilities, via a program called high5+. It's an ambitious program targeting the five most environmentally unfriendly aspects of their industrial footprint.

As a money manager, Pandal needed to better understand the critical environmental and business risks, and gain comfort with how Airbus is managing them.

Through engagement with Airbus, Pandal's Global Equities team better understood the concerted effort by Airbus to not just meet industry goals but exceed them and gain confidence that Airbus is part of the solution to carbon emissions, which aligns with Pandal's sustainability goals.

ESG Integration

Pendal believes the performance of companies in which we invest is linked to factors that include the quality of its management and ability to build resilience in the business.

The way a company manages ESG issues can provide insight into its exposure to risks or ability to capitalise on emerging opportunities.

We believe understanding how a company manages ESG issues is a natural extension of our active approach to investment management. Pendal recognises that several drivers (from client interest and regulatory changes to the presentation of ESG factors material to valuations) require us to continue building our ESG capabilities and access to high-quality, investment-relevant research.

The deeper our capabilities in this space, the better placed we are to manage risk and encourage sustainable business practices among our investee companies and issuers.

In 2022 we undertook projects to enhance ESG-related investment practices, process and people across the organisation. A number of these projects have been supported by our specialist in-house responsible investments team - Regnan.



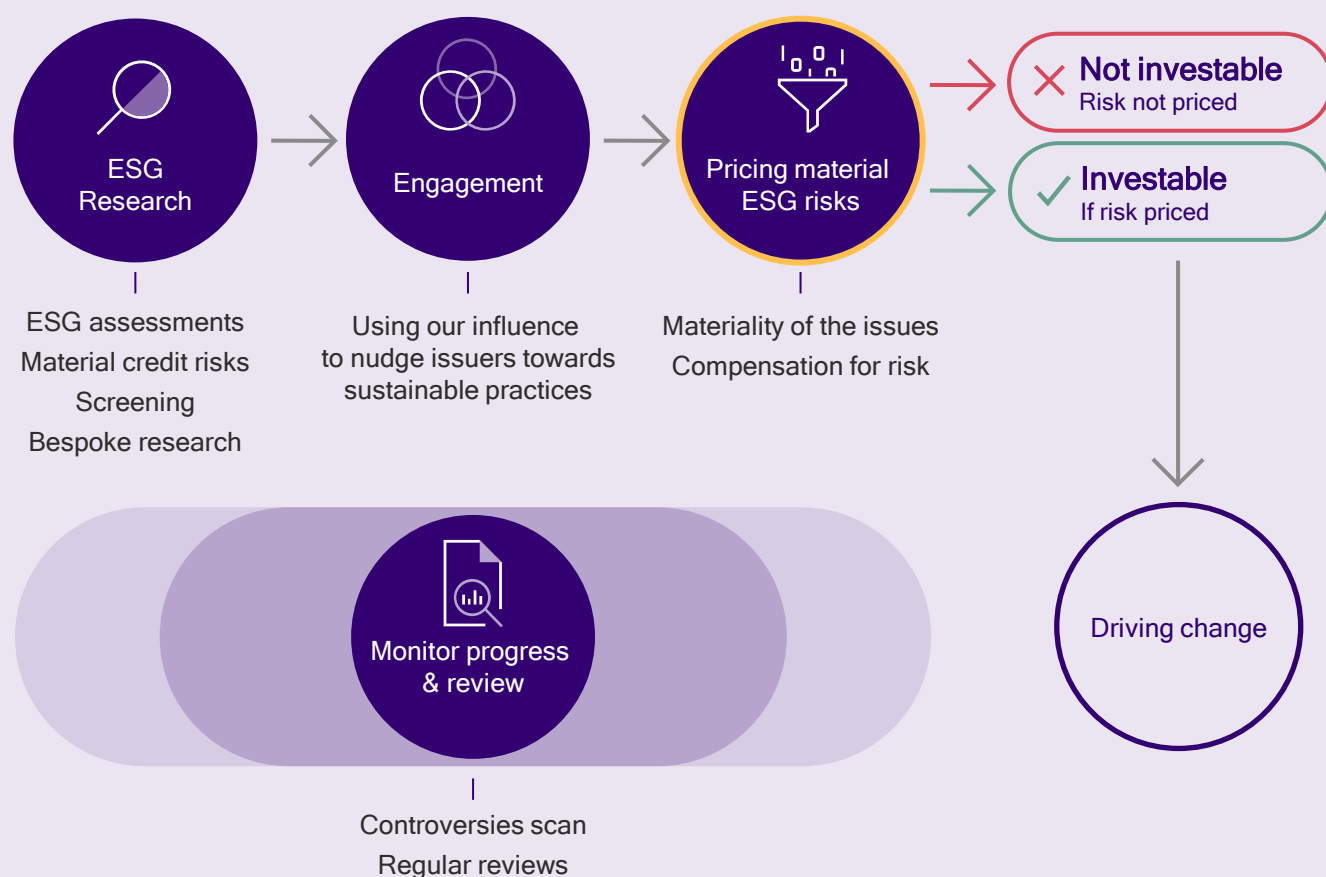
A spotlight on Income and Fixed Interest approach to ESG integration

Integrating ESG into investment decisions is an important way of recognising risks beyond the standard credit research process.

ESG risks can hide potential future credit problems and integrating ESG factors into investment processes helps create a better understanding of risks and opportunities, including the probability of credit downgrades and the prospects for liquidity and pricing in the secondary market.

But ESG integration is more than just an investment process. We engage with the best ESG performers and the laggards and consider engagement an opportunity to nudge the entire market towards more sustainable behaviour. In 2022, we had 95 engagements across 61 different issuers.

Notably, this process is for our vanilla strategies. We discuss how we use engagement with our sustainable strategies in page 18.



An aerial photograph of a sandy beach with several small, green, bushy plants scattered across the sand. The sand is light-colored and has some darker patches. The plants are mostly in the lower half of the image, with some in the upper left. The overall scene is a natural, coastal environment.

Highlights of our ESG integration process for Income and Fixed Interest:

ESG Research. Our research process assesses risk and opportunity across sectors supported by our research and engagement specialists at Regnan as well as third party research providers. Research aims at identifying leading and lagging issuers and covers areas including carbon emissions, the physical and transition risks of climate change, worker safety, community engagement, adherence to regulation, modern slavery risks, diversity and governance.

Engagement. We take our engagement responsibilities seriously – when an issuer deviates from expectation, we directly engage to move them back towards sustainable behaviour. Fixed income uniquely has access to engagement with non-listed entities including utilities and infrastructure businesses that are often in private ownership. These businesses are critical to preventing the consequences of a range of ESG issues, including climate change. Engagement also shapes the debt market itself by encouraging arrangers to use their influence on issuers. About 20 per cent of our engagements are with arrangers.

Pricing material ESG risks. ESG risks come with two main pricing implications: a change in the fundamental credit outlook of an issuer, and a change in the investment demand for an issuer. Our pricing process maps these risks and allows to better understand the outlook for individual issuers. Importantly, issuers with weaker ESG performance can be included in our vanilla funds if there is compensation for this increased ESG risk through an elevated credit spread.

Monitor and review. As active managers, we constantly monitor for risks. We use media monitoring to ensure we pick up any emerging risks and third-party data providers screen for events like workplace rulings, regulatory changes and compliance concerns.

Spotlight: Sustainability-linked bonds

Sustainability-linked bonds (SLBs) are debt securities that pay a coupon linked to the achievement of environmental or social outcomes.

Importantly, SLBs are not linked to a specific project. They instead allow an issuer to set an overarching goal such as reducing emissions or improving diversity at a corporate level. If an issuer fails to hit its goal, usually it pays a penalty in the form of a higher coupon.

Sustainability-linked bond issuance reached US\$103 billion in 2021 – a one-year increase of 803 per cent, according to World Bank research. While there was a 37 per cent decrease in 2022, this reflects the wider slow-down in general issuance with market volatility.

That makes SLBs the fastest-growing sustainable debt instrument – with considerable potential to grow further on the back of strong investor, appetite and supportive government policy.

As they gain traction in jurisdictions including Australia, several issues have emerged, such as greenwashing, which Pental is taking an active role to help safeguard against.

If an issuer fails to meet the underlying environmental or social goal, the bond may no longer meet the criteria to be called sustainable. While it may have achieved some outcomes, the bond is perceived as less sustainable than intended.

The asset may then be divested under a sustainable investment strategy just as the step-up coupon is due to be paid.

Another emerging flaw is that the typical coupon step-up of 25 basis points made sense when interest rates were next to zero – but it may be less attractive to investors now that the general bond yields are higher.

A third problem is that some Australian companies are issuing bonds that are not sufficiently ambitious in scope.

Pental is actively engaging with arrangers before deals are shared and spoken about in public forums to help with SLB structures. Addressing the potential shortcomings with the issuer before launch is a sensible approach to strengthening this important, growing sector of the market, particularly in the development phase.



Building out our assessment of credit impact bonds

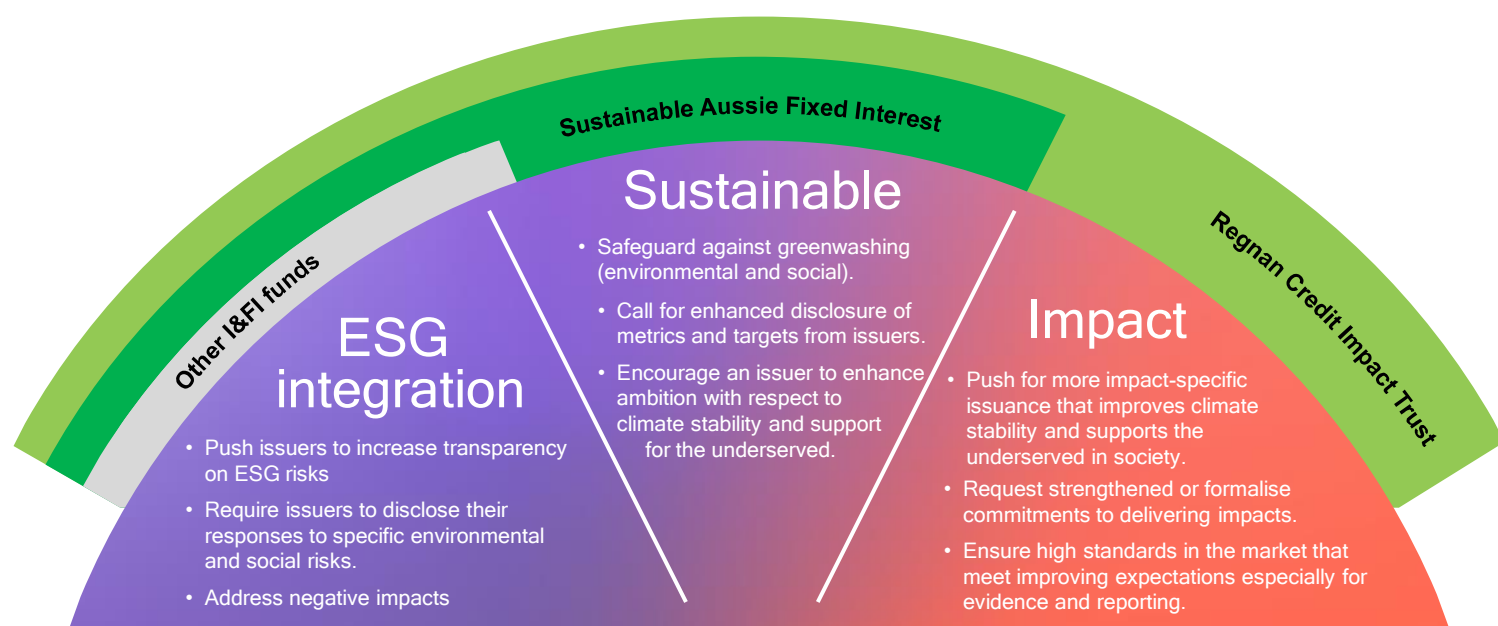
Pendal's Income and Fixed Interest team uses engagement to bring about change from issuers and improve the debt market. Each fund has different objectives which directs the focus of engagements. Through the Regnan Credit Impact Trust, we use engagement to further the environmental and social objectives of the fund. This is to address climate stability as well as the underserved in society.

Over the last year, Regnan has developed our impact methodology to evaluate the expected impact from securities and prioritise those with the greatest intensity of impact in our target areas. We rank bonds by the quality, level and conviction we have of the outcomes achieved. Securities in the top bands have clear and strong contribution to our goals, whereas those in the low bands may still be achieving positive outcomes but we have less evidence.

This approach has directed our engagements for the fund as we emphasise getting a clear evidence-base for the outcomes linked to securities. We are improving the debt market through pushing issuers to increase their transparency with publication of disaggregated impact reporting and methodologies.

We also are encouraging issuers and arrangers to issue more securities that are rated higher on impact outcomes. This includes more social bonds that address the underserved in society.

The ways in which our funds have different engagement approaches is shown in the graphic below:



Multi-asset update: Working towards better sustainability

In 2022, Pandal boosted our strategy for sustainable multi-asset funds. This included tightening the negative screens applied to our core global equities holdings to reduce funds exposure to fossil fuels at the end of May. This improved the weighted average carbon footprint of the portfolios.

Another change made to the international shares strategy for our sustainable multi-asset funds was the inclusion of a bespoke emerging market equities allocation in February, including a specific exclusion around oppressive regimes.

We plan to refine this further in future years. But our initial action enables sustainable fund investors to access the growth potential of emerging markets in a manner more consistent with the values of a typical sustainable funds investor.

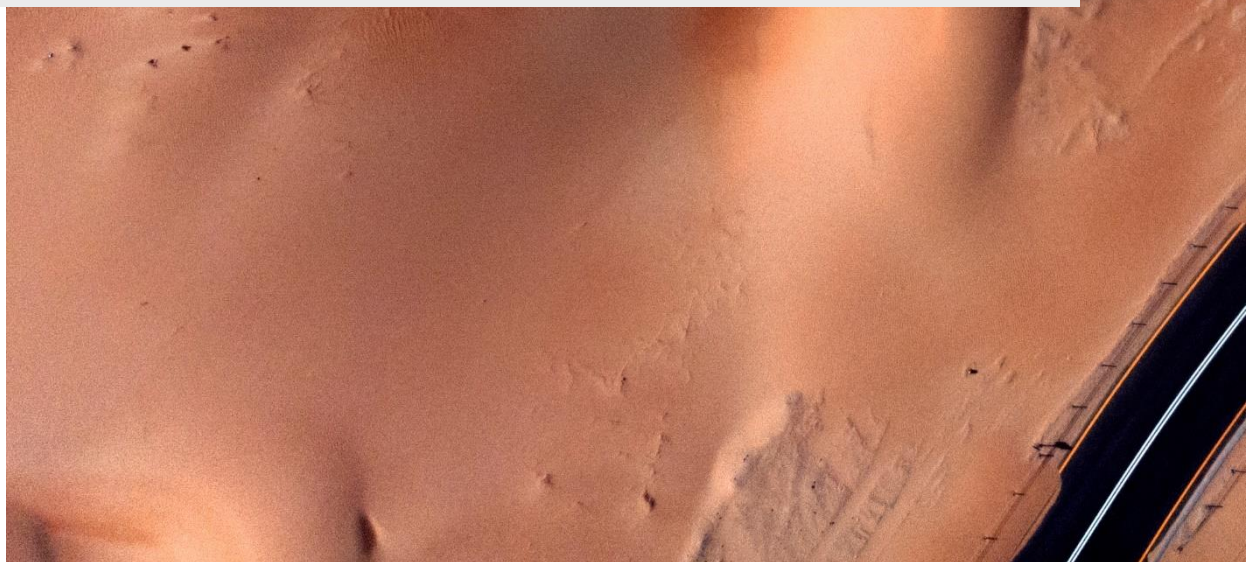
In alternatives, we continued to build out our exposure to sustainable listed infrastructure, participating in several capital raisings early in the year, as well as via purchases on market.

Our listed infrastructure allocation emphasises exposure to renewable energy, including solar and wind power as well as a smaller exposure to dedicated energy solutions, including assets such as battery storage.

This allows the portfolios to benefit from high yielding, diversified assets, with a strong degree of inflation linkage in their underlying cash flows, while also supporting the transition to a low carbon economy.

In our traditional (unscreened) diversified funds we increased exposure to sustainable strategies, including continuing to increase the proportion of our total underlying fixed income assets that are invested in sustainable funds.

This is particularly relevant for fixed income where downside risk management is considered particularly important.





Principles for Responsible Investment

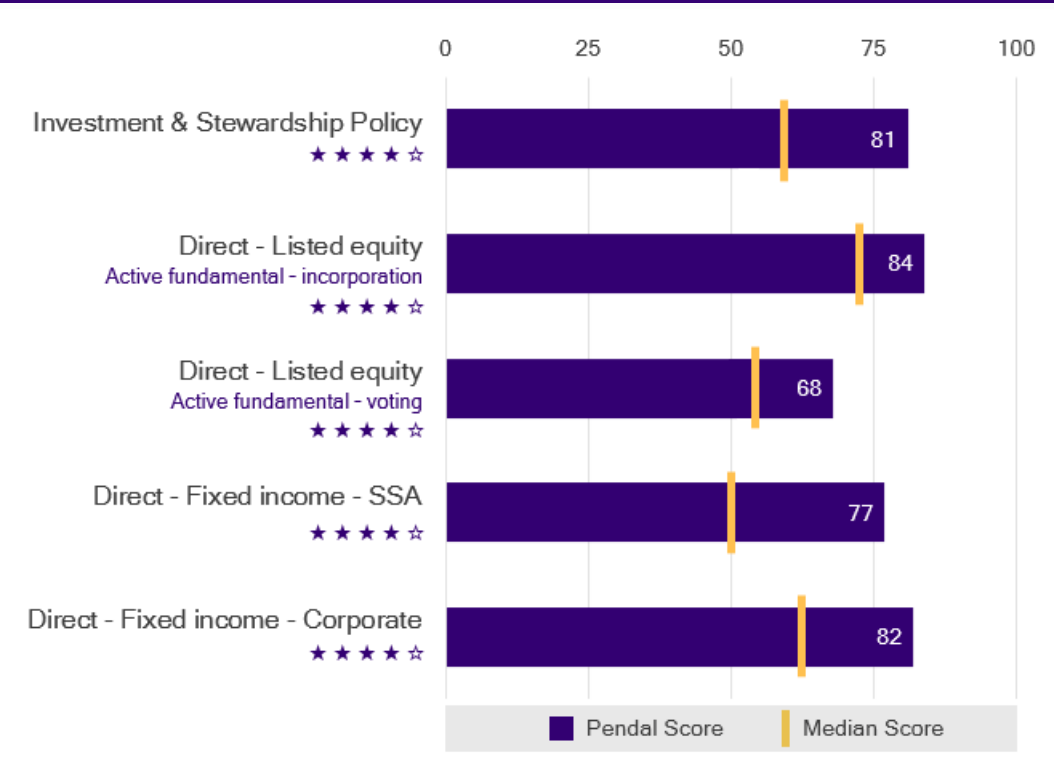
Pendal is a signatory to the Principles for Responsible Investment (PRI), the leading global investor network and proponent of RI. We are committed to implementing the PRI's six principles which are a voluntary and aspirational set of investment principles that offer guidance on possible actions for incorporating ESG issues into investment practice.

The PRI requires signatories to provide annual disclosures on RI practices to demonstrate implementation and allow for assessment. Asset managers receive an assessment report.

The 2021 Summary Scorecard for Pendal Australia (see below) shows a solid standing in terms of our overall practices in governance and active stewardship.

You can download the full Assessment Report [here](#) and view the Transparency Report [here](#).

2021 Summary Scorecard for Pendal Australia



At the time of publication PRI had not released 2022 assessments.

Source: Principles for Responsible Investment

Sustainable and impact investment products

During the year Pandal continued to develop and evolve our suite of sustainable and impact offerings. These products provide solutions that meet the needs of the growing number of clients interested in investing in a manner consistent with their values or interest in sustainability.

Pandal Horizon Sustainable Australian Share Fund: working actively to make a difference

The Pandal Horizon Sustainable Australian Share Fund is a concentrated portfolio aligned with the transition to a more sustainable, future economy.

The Fund uses the team's large scale - 19 people, averaging 22 years of experience in financial markets, credible relationships with companies, contacts across the market, insight from industries - to identify companies that are leveraged to the transition occurring in the economy.

The fund also has access to research and insights from Regnan on a range of issues and ideas from climate change to modern slavery to diversity, equity and inclusion.

Investor attitudes and preferences have changed and successful companies must now manage a wider set of risks, says Crispin Murray, Pandal's Head of Equities.

"Pandal's Horizon fund is unique. Firstly, it screens out companies doing bad for the economy. This includes fossil fuel companies.

"Then it is looking to find companies who are benefiting from the move to a sustainable economy," Murray says.

That might be a company leading the transition with new, innovative products that allow a more sustainable future. Or it might be an organisation that enables the transition, providing the infrastructure for it to occur.

Then there are reformers, Murray says.

"Companies that the market sees as having an issue with ESG - and there is a valuation discount as a result of that - but they might have really good management identifying and fixing the issues. These companies can perform well."

"We are living in a world where there are now whole new constraints. That means some of the companies that have been successful in the last 20 or 30 years are now challenged. The thing that worked in the past doesn't necessarily work in the future. At the same time, sustainability represents a huge opportunity.

"Active management is critical in sustainable investing. If you sit passively in an index, all you're doing is accepting the world as it is today. You're not actually thinking about what it will look like tomorrow."

- Crispin Murray, Head of Equities, Pandal

Similar to the trend seen over the past few years, 2022 has seen strong demand from clients and broader stakeholders for solutions that go beyond investment products that 'do no harm' to the community and its future, to investments that actively strive to make society better.

Pendal directly participated in this momentum with wins in wholesale and institutional channels, consistent with broader growth in the responsible investment sector.

Pendal Australia's funds under management (FUM) in dedicated responsible investment (RI) strategies remained relatively steady at \$5 billion.

2022 also saw strong support for our RI products from research houses:

- Lonsec upgraded the Pendal Sustainable Australian Fixed Interest Fund to the highest possible rating of 'Highly Recommended'.
- Lonsec initiated coverage of the Regnan Global Equity Impact Solutions Fund with an Investment Grade rating.
- Lonsec and Zenith both initiated coverage of the Regnan Credit Impact Fund with a Recommended rating.
- Morningstar initiated coverage of the Pendal Sustainable Balanced and Sustainable Conservative funds with a Neutral rating.
- Morningstar initiated coverage of the Pendal Sustainable Australian Share Fund with a Bronze rating.

Pendal also continues to be recognised in responsible investor, being awarded 2022 Fund Manager of the Year by Zenith in the Sustainable and Responsible Investments (Income) category.

The wholesale channel saw strong support as client portfolios increasingly reflected responsible investing considerations.

In our wholesale channel, we experienced positive net flows across multiple asset classes. A highlight was Pendal's Sustainable Australian Fixed Interest strategy which saw net flows of over \$235 million in total.

Similarly, our sustainable multi-asset strategies saw net flows of over \$70 million in the wholesale channel. This was alongside the launch of Sustainable Multi-Asset Managed Portfolios on an adviser platform, following similar launches on other adviser group's platforms in both 2020 and 2021.

A key benefit of the model portfolios – when compared to similar RI investment options in industry superannuation funds and other fund managers – is the competitive pricing of our portfolios.

Pricing is a growing concern in the adviser market for lower-balance clients who are struggling to find cost effective RI and ESG solutions.

Responsible Investment strategies continued their momentum in the wholesale and high net wealth channels with several platform additions and Approved Product List (APL) inclusions for the:

- **Pendal Horizon Sustainable Australian Share Fund**
- **Pendal Sustainable Australian Fixed Interest Fund**
- **Regnan Credit Impact Trust**
- **Pendal Sustainable Balanced Fund, and**
- **Regnan Global Equity Impact Solutions Fund**

Certification by Responsible Investment Association Australasia

Pendal is proud to again be acknowledged as a “Responsible Investment Leader” in the Responsible Investment Association Australasia (RIAA)’s [2022 Responsible Investment Benchmark Report](#).

Responsible investment leaders are assessed as demonstrating a “commitment to responsible investing; the explicit consideration of environmental, social and governance (ESG) factors in investment decision making, strong and collaborative stewardship; and transparency in reporting activity, including the societal and environmental outcomes being achieved”.

RIAA’s Certification Program is the leading initiative for distinguishing quality responsible, ethical and impact investment products and services in Australia and New Zealand. Pendal Group offers 11 funds in Australia with RIAA certification status.

The certification provides confidence that Pendal is delivering on its responsible investment promise and meeting the Australian and New Zealand Standard for responsible investing.



[Responsible Investment Benchmark Report link](#)

RIAA certified products offered by Pendal Group in Australia:

- **Pendal Horizon Sustainable Australian Share Fund**
- **Pendal Sustainable Australian Share Fund**
- **Pendal Sustainable Future Australian Share Portfolio**
- **Pendal Sustainable Australian Fixed Interest**
- **Pendal Sustainable International Fixed Interest**
- **Pendal Multi-Asset Target Return Fund**
- **Pendal Sustainable Balanced Fund**
- **Pendal Sustainable Conservative Fund**
- **Pendal Global Select Fund**
- **Pendal Sustainable International Share Fund**
- **Regnan Global Equities Impact Solutions Fund**

Emissions intensity of selected strategies vs their respective benchmarks

Our dedicated RI and Regnan strategies significantly outperform their benchmarks in terms of emissions intensity:

Pendal Horizon Sustainable Australian Share Fund	Pendal Sustainable Australian Share Fund	Pendal Sustainable Future Australian Shares Portfolio	Regnan Global Equity Impact Solutions Fund
↓47.8%	↓42.4%	↓42.9%	↓66.5%



Some of our core strategies are also less carbon intensive than their benchmarks:

Pendal MidCap Fund	Pendal Global Select Fund	Pendal Concentrated Global Share Fund	Pendal MicroCap Opportunities Fund
↓29.7%	↓57.2%	↓24.2%	↓92.3%

Note: Weighted Average Carbon Intensity, calculated using ISS carbon data as 31 December 2022. Figures are indicative and at times based off estimated not reported emissions.



Research house ratings for our dedicated responsible investment products

Fund	Zenith	Lonsec	Morningstar
Pendal Horizon Sustainable Australian Share Fund (previously Pendal Ethical Share Fund)			
Pendal Sustainable Australian Share Fund			
Pendal Sustainable Balanced Fund			Neutral
Pendal Sustainable Conservative Fund			Neutral
Pendal Sustainable Australian Fixed Interest Fund			Neutral
Regnan Credit Impact Fund			
Regnan Global Equity Impact Solutions Fund			
Pendal Sustainable Future Australian Shares Portfolio			

Research house Lonsec upgraded Pendal's **Sustainable Australian Fixed Interest Fund** to the highest possible rating of 'Highly Recommended' in October 2022. This rating indicates Lonsec has very strong conviction that the financial product can generate risk-adjusted returns in line with relevant objectives.

In its product assessment Lonsec noted that it holds high regard for the investment team, considering them to be highly experienced and also finds appeal in the investment process that draws upon a blend of quantitative and qualitative insights.

¹See more on RIAA's Responsible Investment Certification program at <https://responsibleinvestment.org/ri-certification/>

Expected environmental and social outcomes

Pendal Sustainable Australian Fixed Interest Fund and Regnan Credit Impact Trust

The Pendal Sustainable Australian Fixed Interest Fund and the Regnan Credit Impact Trust are our two core fixed-income products which invest in use-of-proceeds sustainability and impact bonds, and can track the positive outcomes generated from these investments.

Use-of-proceeds bonds, such as green bonds or social bonds, typically commit to reporting annually on the positive environmental or social impacts associated with the underlying sustainability-related projects.

We manage an impact database, which collates relevant impact data from issuer reports so we can determine our direct contribution to real-world outcomes.



Expected Environmental Outcomes

Pendal Sustainable Australian Fixed Interest Fund and Regnan Credit Impact Trust

Low Carbon



70,665 tCO₂e
GHG Emission Avoided p.a.

Equivalent to **31,071** cars
taken off the road p.a.



23 hectares
of forest restored

Equivalent to **9** Melbourne
Cricket Ground-sized stadiums

Green Building



4,279 m²
Buildings constructed

Sustainable farmland



7 hectares
Land conserved



Renewable Energy



93,618 MWh/year
Renewable energy generated

Equivalent to annual electricity
use of **20,369** Australian households



36 megawatts
installed capacity

Equivalent to **1.5%** of renewable energy
capacity installed in Australia in 2018

Low Carbon Transport



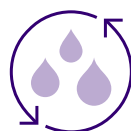
455,171 trips
for passengers supported p.a.

Water

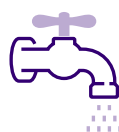


614,091,655 litres
Water capacity secured

Equivalent to water use of **10,385**
Melbourne residents p.a.



4,316,248 litres
Wastewater treated p.a.



6,675,139 litres
Water usage saved p.a.

The aggregated expected environmental outcomes shown above are based on data provided by the issuers of bond securities (**Issuers**) held by the Pendal Sustainable Australian Fixed Interest Fund / Regnan Credit Impact Trust (**Funds**). That data relates to the outcome attributable to those securities held by the Funds. Information provided is indicative only and should not be relied upon when making an investment decision or recommendation in relation to the Funds. The information provided to us by the Issuers has not been verified by us and may be inaccurate or incomplete. Actual results may differ and subsequent changes in circumstances may occur at any time that impact the accuracy of the results. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this impact summary is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pendal group accepts any responsibility or liability for the accuracy or completeness of this information. Past performance is not a reliable indicator of future performance. The outcome numbers are based on data from 1 January 2022 to 31 December 2022.

Any projections contained in this summary are predictive and should not be relied upon when making an investment decision or recommendation. Whilst we have used every effort to ensure that the assumptions on which the projections are based are reasonable, the projections may be based on incorrect assumptions or may not take into account known or unknown risks and uncertainties. The actual results may differ materially from these projections.

Expected Social Outcomes

Pendal Sustainable Australian Fixed Interest Fund and Regnan Credit Impact Trust

Social quality



9,191 people
with access to Information and
Communication technology in
third world remote regions*



517 small-scale farmers
reached for improved agricultural
technology*



7,189 underprivileged
students
receiving education*



774 jobs
created through supporting education
and renewable energy plants*



425 teachers trained*



160 youth
in at-risk youth training programs*

Financial inclusion



651
social / affordable housing*



1,521 loans
made to female-owned micro, small
and medium enterprises with little
access to formal sources of financing*



4,880 micro-loans
made to financially-underserved
entrepreneurs from underdeveloped
nations*

*Contribution is based on forecast numbers provided by the issuer



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Proxy Voting

We regard the exercise of proxy voting as an important aspect of our investment decision-making and stewardship responsibilities.

We place great emphasis on exercising clients' ownership rights and responsibilities to ensure companies are managed in the best interests of their long-term investors.

We vote on a case-by-case basis following an assessment of the matter at hand and after taking into consideration the likely effect on the portfolio or fund, drawing on

relevant internal and external research as needed, as well as relevant insights from engagement.

Information on the proxy voting activity for all Pandal Australia's Australian and global equity holdings during 2022 is set out below.

As active managers, our investment teams endeavour to engage with companies in relation to proxy matters to support informed voting decisions. We also publish our proxy voting records on the Pandal [website](#).

Proxy voting for 2022	Total	For	Against	Abstain	Other ¹
Number of resolutions	2,506	1,951	265	0	275
Percentage of total	-	78.3%	10.6%	-	11%

¹ Other¹ includes Management Say on Pay (MSOP) proposals and where Pandal did not vote on a proposal due to administrative and other reasons, including where a shareholding was divested prior to the voting cut-off date.

* Please note individual funds may place differing votes on the same resolution resulting in a total of 4,705 votes across the four categories. Percentages are based on the total votes and not the unique resolutions.

ESG resolutions

2022 saw the highest levels of investor support for board and executive remuneration for Australia's ASX300 companies in 5 years. The number of strikes on remuneration reports was down from 27 in 2021 to 21 in 2022. This is likely to be in part due to companies becoming more effective in the way information is disclosed in their remuneration reports, as well as companies engaging throughout the year so that their stakeholders have a better understanding of the measures and rationale underlying the remuneration plans.

In contrast, 'Say on Climate' resolutions put forward in 2022 saw almost 25% of shareholder votes cast against Australian companies, which was more than double the global average. For example, Woodside which is one of Australia's major oil and gas companies, had a 'Say on Climate' resolution put to shareholders and experienced a large share of no votes at 49%.

This demonstrates the need for companies to present credible plans to achieve net zero - with clearer targets and detailed plans around how they will be achieved.

Pleasingly, 2022 saw an increase in the number of female directors appointed to ASX200 companies, accounting for 45% of all appointments, with females accounting for 35.7% of director positions in ASX200 companies, slightly up on the previous year.

Cybersecurity was a growing issue in 2022, exposing vulnerabilities in a number of Australian companies. We expect to see further interest in this area as investors seek to understand a company's exposure and ensure it has measures in place to manage cyber security risks.

We voted against a **Rio Tinto** remuneration report due to concerns its short-term incentive (STI) adjustment was insufficient for the findings of the Broderick cultural review report into the company. In conjunction with Regnan and more broadly, these types of incidents have helped to inform our early thinking on new work we have commenced looking at mining culture, including how it influences approaches to a host of other ESG issues - such as diversity, equity and inclusion, but also its likely approach to issues such as climate change.

Woodside Petroleum's climate proposal placed too much reliance on purchasing carbon offsets. As a high emitter in an emissions intensive industry, we want to see a commitment to long term scope 1 and scope 2 carbon targets. In addition, we would like to see more ambition on the measurement, reporting and reduction of scope 3 emissions. By voting against this resolution we sent a signal to the company that we would like to see continued development in its carbon strategy.

Pendal voted against the granting of performance share rights to **Aristocrat Leisure** chief executive officer Trevor Croker. The decision reflects the fact that 40 percent of the Long term incentive (LTI) is based on undisclosed "objective-balanced scorecard" performance items, which may be regarded as either a discretionary bonus with a likely high level of vesting for "day job" duties or for performance which would already be captured in STI and LTI performance targets. Shareholders may be concerned that the company has not made the case in justifying this undisclosed performance metric as worthy of such additional and material remuneration.

Case study

Cultural Heritage Management

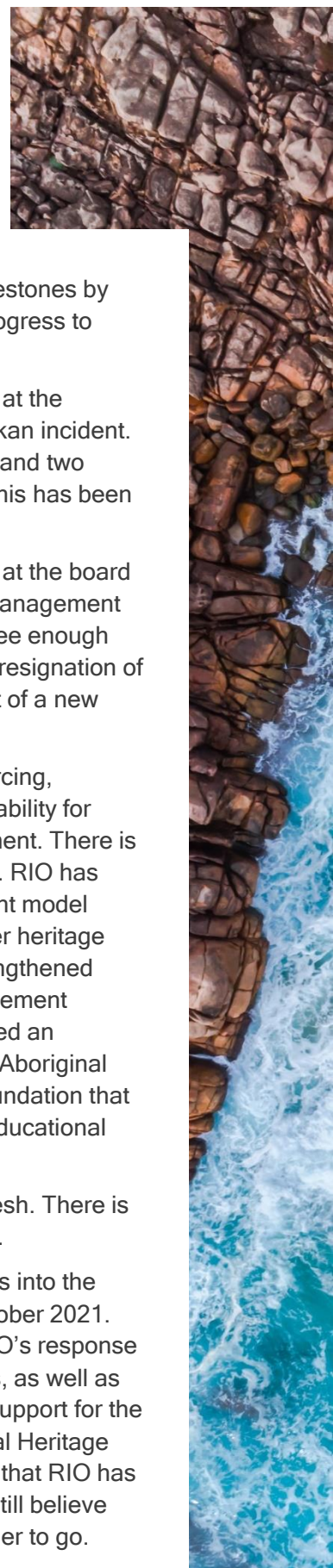
In late May 2020 Rio Tinto carried out blasting as part of its Brockman 4 mining operation in the Pilbara Region of Western Australia, which affected a site of Aboriginal significance, specifically to the Puutu Kunti Kurrama and Pinikura (PKKP) people, the traditional owners of the area.

The site was also archeologically significant and the blasting resulted in the destruction of a 46,000-year-old Aboriginal rock shelter in the Juukan Gorge. This caused distress and outrage both with the PKKP people and the media at large on news of the destruction of the site.

At the time, we engaged with RIO's management to identify how the incident occurred and the failings which led to it. We found explanations offered by RIO as to the circumstances surrounding this incident unsatisfactory.

We identified five explicit milestones by which we assessed RIO's progress to rectify this issue:

1. Evidence of accountability at the executive level for the Juukan incident. The departure of the CEO and two senior executives means this has been achieved, in our view.
2. Evidence of accountability at the board level for the subsequent management of the incident. Here, we see enough progress evident, with the resignation of the Chair and appointment of a new non-executive director.
3. Evidence of greater resourcing, transparency and accountability for cultural heritage management. There is sufficient progress evident. RIO has shifted to a co-management model which should provide better heritage protection. It has also strengthened assurance and risk management systems and recently signed an agreement with the PKKP Aboriginal Corporation to create a foundation that supports cultural, social, educational and economic aspirations.
4. Evidence of a cultural refresh. There is sufficient progress evident.
5. The Senate Inquiry findings into the incident were made in October 2021. We continue to monitor RIO's response to these recommendations, as well as the company's degree of support for the Western Australian Cultural Heritage Act. While we are pleased that RIO has made good progress, we still believe that the company has further to go.



Globally

Meta

Once again in 2022, Pandal Concentrated Global Share Fund supported a vote for an independent Chair at **Meta**, owner of Facebook. While we acknowledge the success of the founder, CEO and Chair in building a global social media company, we believe the current Board structure does not best facilitate the longer-term strategic decision-making required by a company that is being forced to navigate several social and technology inflections.

We also voted for a shareholder proposal requesting Facebook provide a report detailing community standard enforcement and for additional information as to how the company is seeking to prevent potential online child sexual exploitation.

There have been a number of reputational issues that have caused damage to Facebook, around community standards.

With any technology company, Pandal considers the rate of change in that technology and how that leaves companies open to unintended uses of their products. We as shareholders want to be cognisant of the unintended consequences of changing technologies.

ExxonMobil

This year the Pandal Concentrated Global Share Fund voted against management and for a shareholder proposal asking for an audited report on scenario analysis consistent with the International Energy Agency's 'Net Zero by 2050' roadmap, and how under that scenario, assumptions underlying its financial statements and future strategy would be impacted. In a close vote, the shareholder proposal won with 51% (majority required) of shareholders voting in favour.

We acknowledge the number of hypothetical scenarios published by recognised bodies make it a difficult and complex task for corporates to model the risks (and opportunities) presented by climate change in both the short and longer term. We also acknowledge that **Exxon** has improved efforts to disclose the risks the business faces under different scenarios (and we actually saw this in their 2022 Advanced Solutions Report), however we appreciate the further transparency around scenario analysis given in their 2023 report after the shareholder vote in 2022.



Case study

Activism in action

In 2021, the Pandal Concentrated Global Share Fund and other shareholders, won what many considered a historic and very close proxy battle against Exxon Mobil Board in voting for the appointment of four independent directors with expertise in energy transition, technology, and regulatory policy, that had been lacking in the previous Board.

In 2022, pleasingly the Board of Directors recommended for the three directors that they voted against in 2021 to be re-elected.

Since then, we think we have started to see signs of cultural and strategic change within the organisation.

Capital expenditure going into new oil projects is lower than what was planned pre COVID, whilst at the same time management has established what we consider to be a credible low carbon business. More external management appointments have followed, bringing a fresh perspective on future strategy whilst returns to shareholders and buybacks have increased. We continue to monitor progress of strategic initiatives introduced at the company to better position for the ongoing energy transition.

Advocacy

Advocacy is an important part of Pendal's active approach to responsible investment and stewardship.

We undertake advocacy activities not only to raise awareness of specific ESG matters or responsible investment in general, but also as a means to address systemic ESG issues.

Our activities include participation in industry bodies and initiatives, providing educational materials for finance sector participants, and public commentary such as speaking at events and forums, and contributing thought pieces.

Our membership of, and active participation in, a range of industry bodies and initiatives enables us to collaborate with other investors in order to encourage greater uptake of responsible investment practices and to support the management of ESG risks and opportunities.

In addition to publishing relevant research and facilitating collaboration, often these bodies advocate on our behalf on public policy matters and other industry consultations.

Continued and new industry participation in 2022 included the following:

- Pendal submissions to the Responsible Investment Association Australasia (RIAA) regarding proposed sustainability ratings for its certified products.
- Pendal named 'Responsible Investment Leader' in the Responsible Investment Benchmark Report by Responsible Investment Association Australasia (RIAA).
- Ongoing support of the Investor Group on Climate Change (IGCC) with Pendal being a signatory to the 'Climate Change League 2030', a 10 year initiative of the IGCC to reduce Australia's greenhouse gas emissions by a further 230 million tonnes from what is projected for 2030.
- Regnan is a member of the Sustainability Management Advisory Committee for Chartered Accountants Australia and New Zealand.
- Member of the GIIN Listed Equities Working Group.
- Contributions to the Impact Investing Institute Learning Panel.

During the financial year, various advocacy activities across the group focused on thought leadership, education and awareness raising with regard to responsible investment and specific ESG matters.

Highlights include the following:

Investor Group on Climate Change

The Investor Group on Climate Change (IGCC) is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. Regnan ran a series of investor masterclasses on climate change designed for members of the IGCC.

One of the sessions focused on tools to support the effective development of investor climate actions plans. They included practical tips from local practitioners and explored better practice examples from around the globe.

A further masterclass focused on effective corporate engagement and the role of policy advocacy, highlighting guidance available in the IGCC's newly released Net Zero Stewardship toolkit. The physical risks of climate change and the development of net zero approaches were also covered in the series.

Publications

During the year we published a number of thought pieces on topics such as diversity, equity and inclusion (DEI), climate change, modern slavery, biodiversity and impact bonds to raise awareness of these issues and their role in investment decision making. These can be found on the Pandal [website](#).

Unpacking Stewardship in Australasia in 2022

Portfolio manager Rajinder Singh and Regnan's Alison Ewings participated in a RIAA study exploring trends in best practice stewardship. The report includes stewardship developments and contexts and articulates a framework to demonstrate the variety of stewardship practices existing in the region.

The framework identifies three main stewardship approaches that many investors apply:

1. Proactive stewardship targets ESG issues if they are considered financially material for an investee company or portfolio, aiming to decrease financial risks and sustain long-term value;
2. Strategic stewardship involves setting priority ESG areas with a view to create positive change with real-world outcomes (such as climate change) and aligning stewardship policies, objectives and activities with these strategic priorities.
3. Reactive stewardship occurs in response to a controversial event or incident in an industry or with a specific investee company, on an ad hoc basis.

The final report is available on the RIAA website and can be found [here](#).

Key ESG issues

1 Cyber Security

Cyber security was a key ESG issue particularly in the second half of 2022, following news of a series of data breaches including at a number of Australian listed companies such as Medibank Private, Optus and Australian Clinical Labs.

In September 2022, Optus confirmed at least 2.1 million personal identification numbers were stolen and announced an external review into the unprecedented cyber attack.

Of the 9.8 million customers whose data was hacked, Optus believes 7.7 million do not need to replace documents. The 2.1 million personal ID details include 150,000 passports and 50,000 Medicare numbers.

The federal government effectively rejected the company's claim to be a reliable company dealing responsibly with a growing threat. All companies that are storing customer data were effectively put on notice.

Case study

Protecting against cyber attack at Spanish bank Caixa

The Pandal Concentrated Global Share Fund has become increasingly focused on cyber security. The larger the company, the more data it has and the more critical it is to society. These larger companies are also more likely to be targeted for a cyber-attack. One of our investments, Caixa, a Spanish financial services company, has the largest IT platform in Spain.

CAIXA receives 74 attacks every hour and the number of attacks is increasing. Understanding the risk associated from a cyber-attack on that business is critical.

We looked at the policy framework CAIXA has in place to understand mitigation efforts, and preparedness for cyber-attacks.

There were very clear roles and responsibilities defined. They have a cyber policy that's corporate wide. They have a specialised Cyber Security Committee which includes executive management team members and representatives from the audit team.

Three board members have specific technical expertise. Board members receive training in cyber risks, and security is reflected in the key performance indicators of management. Importantly they have a Cyber Risk role separate from the Chief Technology Officer.

CAIXA also undertakes independent assessments of cyber security twice a year and have a very comprehensive education program for all staff and customers. CAIXA monitors unusual behaviour among staff and the use of data. They are also represented on the National Cyber Security Task Force.

The internal controls and processes provide comfort for our investment team that sufficient due diligence and oversight of cyber security risks are in place at Caixa Bank. This has been further reinforced by third party reviews of Caixa's cyber security policy.

2 Greenwashing

Investors are becoming increasingly aware of the threat of greenwashing in portfolios.

According to investment regulator, the Australian Securities and Investments Commission (ASIC), greenwashing is the practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical. It is increasingly grabbing the attention of ASIC and the Responsible Investment Association Australasia.

In June 2022, ASIC released Information Sheet 271 to help issuers avoid misleading or deceptive statements when offering or promoting sustainability-related products.

The information sheet helps issuers improve the quality of their disclosures on sustainability-related products to facilitate truth in promotion and to have clarity in communication.

We are mindful of ASIC's concern in relation to greenwashing and have taken necessary steps to mitigate the risk of greenwashing. This includes ensuring that our sustainability related product disclosures have clear labels and relevant terminology with appropriate information to support the claims we make.



Looking ahead

As always, we continue to evolve our responsible investment practices in response to the changing investment landscape and stakeholder expectations. In the year ahead, beyond our ongoing ESG integration and stewardship activities, key focus areas include:

- Completing our review of the exclusionary screens across our Sustainable Series funds to ensure they continue to meet client needs
- Undertaking dedicated engagements with investee companies, to manage risk, effect change and protect value over the long term
- Embedding climate change and modern slavery risk tools and oversight practices across our investment processes
- Continuing to improve client reporting in relation to responsible investment
- Continuing to enhance our approach to Diversity, Equity and Inclusion (DEI) in our investment and stewardship practices

We look forward to another year of progress and updating our stakeholders in our next report.

We invite our stakeholders to share with their Pandal contact any feedback they have on our disclosures so we can incorporate it into future reporting.



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Performance figures referred to in this annual report are calculated in accordance with the Financial Services Council (FSC) standards. Performance data (post-fee) assumes reinvestment of distributions and is calculated using exit prices, net of management costs. Performance data (prefee) is calculated by adding back management costs to the post-fee performance. Past performance is not a reliable indicator of future performance.

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PENDAL