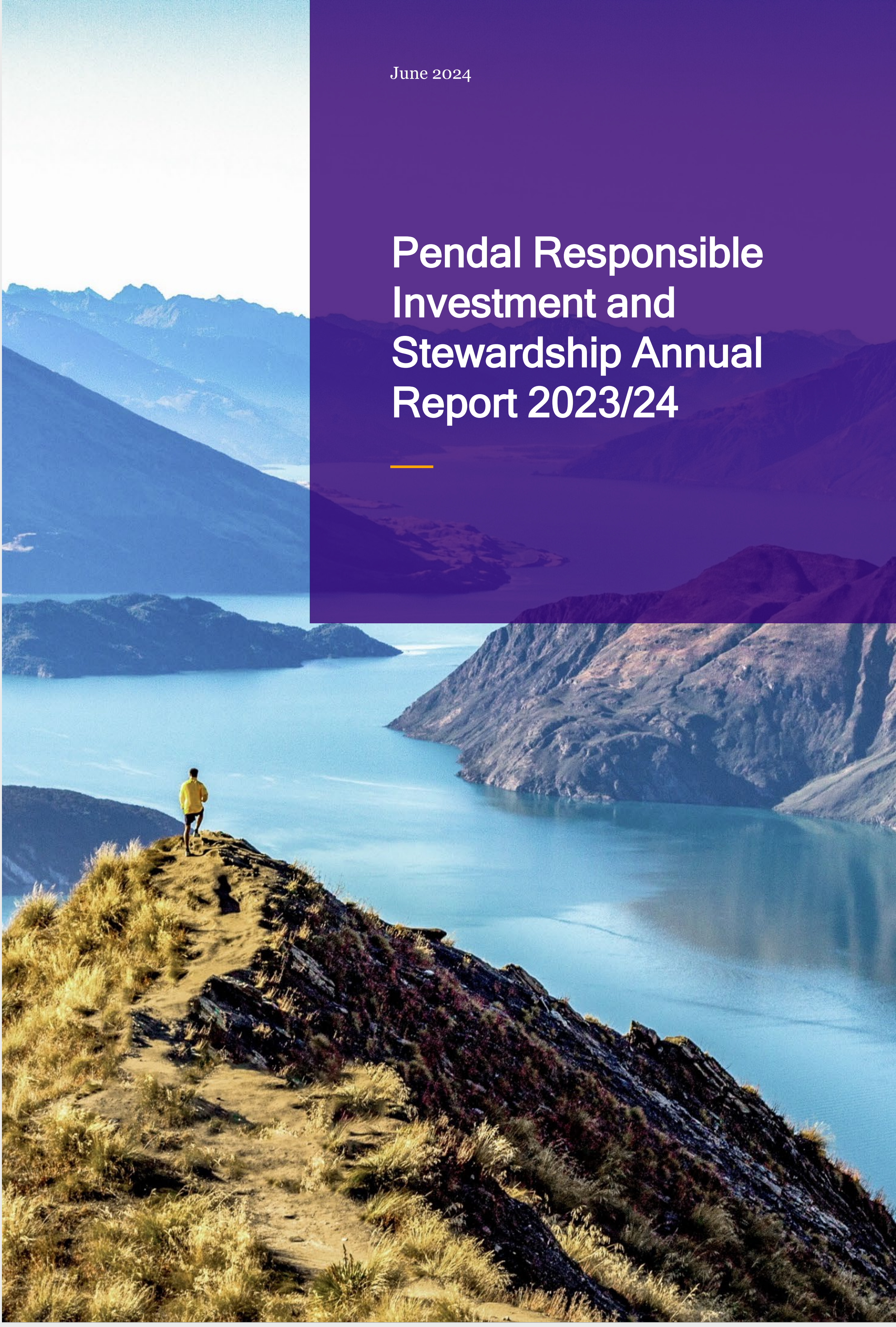
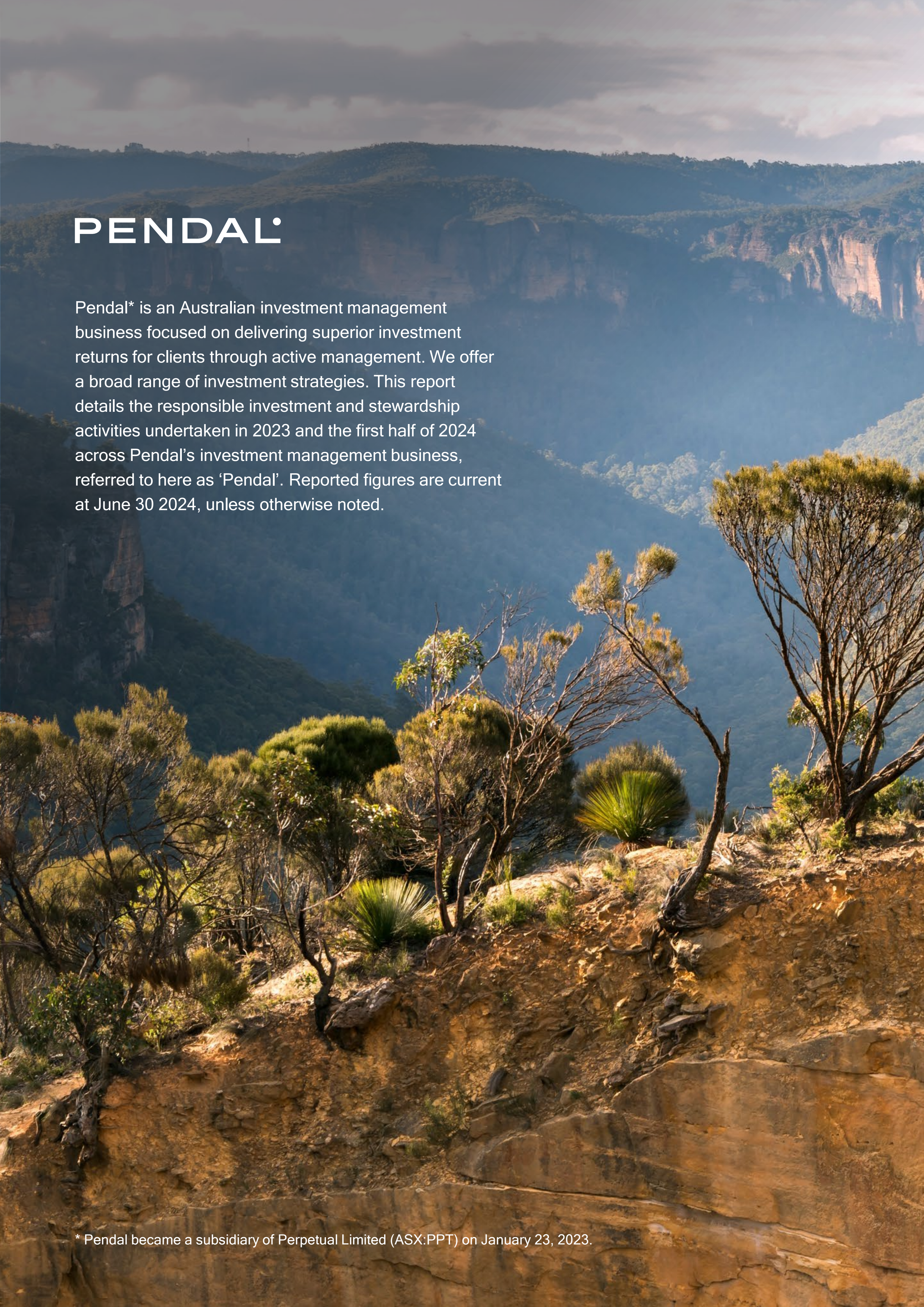
June 2024

Pendal Responsible Investment and Stewardship Annual Report 2023/24



PENDAL



PENDAL

Pendal* is an Australian investment management business focused on delivering superior investment returns for clients through active management. We offer a broad range of investment strategies. This report details the responsible investment and stewardship activities undertaken in 2023 and the first half of 2024 across Pendal's investment management business, referred to here as 'Pendal'. Reported figures are current at June 30 2024, unless otherwise noted.

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

Table of Contents

Highlights

1 January 2023 - 30 June 2024

537

ESG engagements across our investment boutiques

Started advocacy work towards the creation of the first biodiversity-linked green bond

Joined Perpetual Group, leveraging the Group's corporate sustainability expertise for Pendal's business operations

A$4.7bn

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 or 5 out of 5 stars in our investment and stewardship modules, across all asset classes, in our latest Principles for Responsible Investment (PRI) report

42%

Proportion of Pendal and Regnan engagements that concerned climate change

51

Sustainability-related* impact bonds held across our portfolios

*Sustainability-related impact bonds refer to green bonds, social bonds and sustainability-linked bonds

Investment Director letter and introduction

Daniel Campbell
Investment Director

The Australian ESG landscape experienced a pivotal year in 2023. The proposed legislation for mandatory climate-related financial disclosure marked a watershed moment, demanding greater transparency and accountability from companies on climate risks and opportunities. This aligns with a global trend towards standardized ESG reporting frameworks, fostering a more level playing field for investors.

The fight against greenwashing intensified globally in 2023 and the first half of 2024. Investors are demanding genuine sustainability practices beyond glossy marketing campaigns. Regulatory bodies worldwide are also taking a more proactive approach, with cases like those brought by the Australian Securities and Investments Commission (ASIC) sending a clear message.

While climate transition remains a critical ESG issue, 2023 and 2024 witnessed a welcome broadening of investor focus. Globally, themes such as biodiversity risks, responsible supply chain management, and human rights considerations are increasingly driving investment decisions.

Investors are demanding greater accountability from boards for their companies' ESG performance. This global trend highlights the importance of strong board oversight and strategies that create long-term sustainable value. We actively engage with companies to promote robust board accountability and remuneration structures that drive positive-change.

The increasing use of Artificial Intelligence (AI) presents a new ESG frontier. The potential ethical issues and societal impacts of AI development are emerging as crucial considerations for responsible investors globally.

ESG data availability is also improving, however issues around the lack of data standardisation remain a challenge. This is why at Pendal, we focus on our internal expertise. We have a long history in responsible investing and ESG integration, which gives us a competitive advantage.

Our people have amassed a wealth of knowledge and experience over many years managing sustainable strategies and integrating ESG themes. In our 2023/24 stewardship report we will highlight the work undertaken by our investment teams to enhance our own responsible investment capability as well as to progress responsible investment initiatives across the industry. This work includes the development of a proprietary sustainability framework and 17 years of service on the board of a leading climate change initiative. We will also outline the advocacy our Regnan* colleagues have pioneered, where they have advocated for the creation of a first-of-its-kind biodiversity green bond to benefit nature and communities right here in Australia.

This years' report will cover a period of 18 months, from 1 January 2023 to 30th June 2024, as we align our stewardship report with our financial reporting period.

As always, we will discuss the key engagements we held with companies and issues throughout the 18 months to June 2024 and the outcomes we have observed. We discuss our priorities for 2024 and how we are evolving our ESG work. At Pendal, we remain steadfast in our commitment to ESG integration and sustainable investing. I am pleased to share this report on our ongoing work.

Daniel Campbell
Investment Director

*Regnan is a member of a multi-stakeholder initiative to lobby for a biodiversity green bond . Refer to page 21 for further information.

Engagement and advocacy

At Pendal, our analysts actively and directly engage 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 continued their regular engagement in 2023 and the first half of 2024. There was a focus on governance failures at executive levels, executive pay, safety, carbon emissions and climate change.

In 2024, the Australian Equities team also launched their thematic ESG engagement program with a focus on closing the Gender Pay Gap in Australia. In addition to engaging with portfolio companies, the team is also collaborating with industry bodies across the market.

Pendal's Income and Fixed Interest (I&FI) team also continued 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 engagement program.

Regnan engaged with Australian and international listed companies on material ESG issues on behalf of Regnan UK and J O Hambro, including strategic human capital management, climate transition, and the physical risks of climate change. As previewed last year, Regnan has expanded the focus of its program to not only companies bearing ESG risks, but also companies and other stakeholders contributing to risks that are likely to lead to the destruction of value elsewhere in portfolios, with a focus on systems change.

Regnan continued 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 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.

Following the roundtable, Regnan convened a series of meetings with a range of stakeholders to advocate for the creation of a first of its kind biodiversity bond. These included Victorian State government ministers and senior public servants, academia, civil society, and a number of potential institutional and wholesale investors.

Engagement statistics

ESG engagement by our Australian equities team

Our 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.

432
ESG engagements

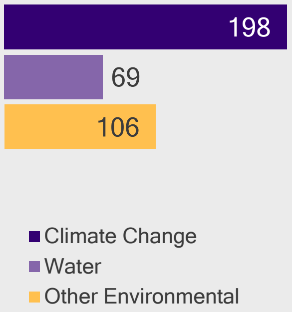
180
companies engaged

ESG engagements by our Australian equities team

Environmental

248

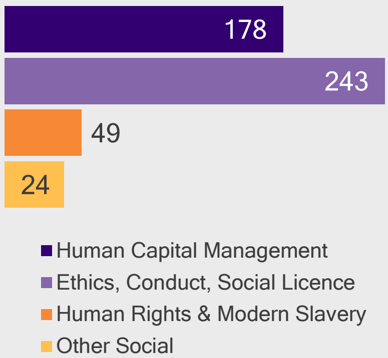
engagements discussed **environmental** issues



Social

318

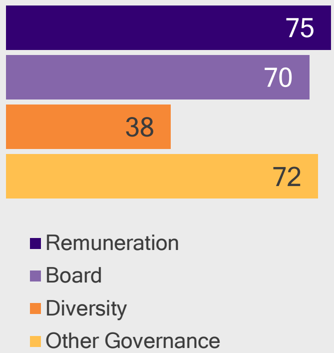
engagements discussed **social** issues



Governance

154

engagements discussed **governance** issues



ESG engagement by our income and fixed interest team

In 2023 and the first half of 2024, the team undertook 105 direct engagements across 80 different entities and a range of ESG concerns. Of our engagements in 2023 and the first half of 2024, 26 addressed disclosures, 25 were about the underserved in society, 27 related to climate stability, 13 about improving debt markets and 14 relating to ESG integration.

105

ESG engagements conducted with issuers

Climate stability

We probe issuers to:

- identify climate risks and opportunities
- develop or improve transition plans and increase ambition
- contribute to climate and environmental solutions

i.e. encouraging issuers to have an effective plan to minimise our credit risk from climate change

Underserved in society

We request from issuers:

- evidence that bonds are targeted towards the underserved
- targeted funding towards social projects
- effective monitoring of impact

i.e. encouraging issuers to provide funding towards the underserved in society

Improving the debt market

We do this to:

- share our expectations of bonds
- safeguard against greenwashing
- grow the impact bond market
- improved impact reporting

i.e. ensure our market follows best practice and continues to grow

Disclosures

We ask issuers for:

- greater public disclosures
- improved, specific and timely ESG reporting.

i.e. asking issuers for more publicly disclosed information

ESG integration

We seek to:

- Enhance management of ESG risks
- signal the importance of ESG across all issuers.

i.e. including ESG in everything

Thematic engagement program

Thematic ESG Engagements

Australian equities: Gender Pay Gap

On 27th February 2024 WGEA publicly released the first set of Gender Pay Gap (GPG) data for all private sector Australian employers with over 100 employees. The data revealed the total remuneration average GPG across the Australian private sector to be 21.7% (median 19%). This translates to women earning 78c for every $1 earned by a man.

We believe the financial benefit to the Australian economy from reducing the GPG is substantial and would benefit all companies. We believe that reducing the GPG has the potential to increase revenues for Australian companies and to provide additional benefits for the Australian economy through widening the labour pool. Reducing the GPG is also highly aligned with driving the transition to a more sustainable Australian economy (linked with SDGs 1, 5 and 8).

Females accounted for 47.9% of all employees in Australia in 2022, representing 68.5% of part-time worker and 38.6% of full-time workers. The GPG in 2020 was equivalent to $966m per week or $52bn pa. in national earnings.

Deloitte Access Economics modelled in 2022 that abandoning prescriptive gender norms would grow the Australian economy by $47bn by 2040 and $163bn by 2050. Over 50 years to 2071, the expected benefit is a 6.2% increase in GDP. There is also likely to be substantial social and wellbeing benefits which accrue to individuals and society.

Additionally, research by Bankwest Curtin Economics Centre (BCEC) and WGEA for the Review of WGEA Act 2012 found that an increase of female 'top-tier' managers by 10% or more led to a 6.6% increase in the market value of Australian ASX-listed companies, the equivalent of $104.7m.

The Pendal Australian Equities GPG thematic engagement program aims to:

1. Increase corporate awareness of *the* GPG, importance of the issue, business value created by solving for it and best practices.
2. Encourage companies to undertake a review of GPG drivers
3. Encourage companies to develop a clear and nuanced action plan targeting the drivers of company GPG

The first few months following the release of the WGEA GPG data our Australian equities team met with multiple portfolio companies to gauge their response to the data and highlight our focus on this issue. We have also worked closely with Regnan to develop an engagement brief on this topic.

We expect this thematic to remain a key area of focus for the Australian equities team over multiple years and we will continue to update our clients on activity and progress.

Engagement case studies

Case study

Australian equities: Xero Limited

ESG issues are often interwoven with other considerations, such as those that are financial or strategic in nature. This engagement demonstrates how the mix of non-financial and financial materiality leads to effective stewardship.

Xero is a software-as-a-service company providing cloud-based accounting and administration tools for 4.16 million subscribers, typically small-to-medium businesses. It is the dominant provider in Australia and New Zealand and is making inroads into the UK and North American markets. We hold Xero across multiple portfolios.

We have long seen opportunity in Xero's potential to benefit from the structural growth in digital, cloud-based accounting, as well as the opportunity to move into additional countries and develop a broader suite of adjacent products for small businesses.

Unfortunately, the intrinsic value of Xero's leading platform business was not being reflected in its share price which had declined by more than 50% during the course of 2022. In our view, this reflected concerns over capital allocation discipline which were exacerbated by limited recourse to management remuneration.

Xero appointed a new CEO late in 2022. We took the opportunity to meet with the new CEO and present our views on the company's underperformance via a 50-page slide presentation with a series of recommended actions. Our objective was to improve the quality of the company's governance and approach to capital allocation, which we felt could improve both corporate earnings and the stock's valuation multiple.

In January we met with Xero's management and provided a comprehensive review of the business from our perspective and a suggested course of action for the future. Our suggestions included, among others:

- **Cost and investment review** – looking to freeze headcount, identify excess spending and implement leaner business practices
- **Product review** – right-size investment, improve and communicate return-on-investment (ROI) methodology
- **Guidance framework** – shift focus on growth to include margin, pathway to each country being self-funding
- **Capital allocation review** – only deploy cash to highest ROI projects and return excess cash to shareholder via dividends and buybacks
- **Remuneration review** – realignment of management to growth and margin, improve alignment with shareholder value creation and improve disclosure in-line with ASX best practice.
- **Market communications** – work on educating market and improving quality of communications.

During July, we continued to execute on this engagement strategy by meeting with the Chair and board to discuss remuneration reporting and structure. Our view was that margin and growth metrics should be included in management KPI's to better align remuneration to shareholder value creation.

Following the initial engagement, we have seen Xero announce a cost optimisation program in March 2023 and a new guidance and capital allocation framework in May 2023. The product review has translated into change in leadership and an approach which was well received by the market at the Investor Day in February 2024. Importantly, there are also early signs that customers are also reacting positively to recent product releases.

After meeting with the board, we have seen the long-term incentives (LTIs) of the CEO adjusted to better capture revenue growth and cash flow margins. The company has also adopted a capital allocation framework centred around the "Rule of 40" which targets both revenue growth and margin expansion.

Case study

Australian equities: Xero Limited

Regnan also met with the Xero board in July 2023, with a discussion focused on social and environmental risks and opportunities for the business. In consideration of redundancies made in March 2023, Regnan sought details of management efforts to ensure XRO remains an attractive employer for key digital talent. The company gave assurances that attention remains focussed on employee engagement, both to monitor for effects of broader reorganisation and in response to XRO's new CEO, with the RemCo chair observing that more frequent and detailed engagement with employees (increased to every 4 weeks) was providing the board with the necessary insight to the broader human capital transition. Whilst our discussions made it clear that the decision to cut the local labour force was not made lightly, the company believes it has struck a balance between managing costs, whilst providing opportunities and incentives to attract and retain key talent.

In testing XRO's consideration of opportunities to assist SME customers to manage and account for their carbon footprint, the RemCo chair noted that XRO's partnership with climate start-up Ecologi Zero provides emissions measurement and monitoring for SMEs which leverages existing XRO data. With customer retention in mind, the board showed interest in Regnan's suggestion to provide additional climate insights via the Xero Small Business Insights (XSBI) dashboard, which may provide a good platform for small businesses to track their own transition progress.

Regnan is continuing to engage with the company on material ESG issues including remuneration, diversity, equity and inclusion (DEI), and strategic human capital management.

Case study

Australian equities: Assessing the implication of the Safeguard Mechanism

The federal government's "Safeguard Mechanism" law – which sets limits on Australia's biggest polluters – has been well flagged, and we have been engaging with affected companies on this for some time.

Our objective has been to understand how affected companies are thinking about how they will meet emissions targets. We are looking to gauge the efficacy of corporate strategies and understand the potential impact on costs and capex under various scenarios.

A move to set new baseline figures for sites covered by the safeguard mechanism has prompted another round of engagements with affected companies in the mining, transport and manufacturing sectors.

Notionally, the new baselines (from July 2023) require many affected companies to reduce emissions by 4.9% per annum. But the government appears open to negotiation with individual companies in trade-sensitive or hard-to-abate sectors.

This was highlighted by BlueScope Steel when we engaged them on this topic. BlueScope management has previously highlighted that a 4.9% emission target would likely render the re-lining of its blast furnace at Port Kembla uneconomic. In our conversations, (after the government's March 2023 announcement), management says ongoing discussions with government suggested less onerous treatment that would allow this project to proceed.

We have also engaged chemical companies Orica and Incitec Pivot on this issue. Both are high emission but trade-sensitive and hard-to-abate. Both companies have installed tertiary abatement for their Australian manufacturing facilities which takes out >95% of the N_2O and will give them a good head start. However, unless green ammonia can be procured or produced at a comparable cost to burning gas, they will have to start paying when they are behind the emission reduction target.

We have also engaged with affected miners. They have been scoping out the potential impact of various safeguard mechanism scenarios and preparing various carbon offset strategies. We are starting to understand potential impacts and how each company is approaching it. As a result, this remains an ongoing area of engagement.

We note the mechanism now calls for all new gas projects to be net zero emissions. This has material implications for the economics and rate of return on new gas projects – which in turn has material implications for power pricing.

One clear implication could be that carbon capture and storage processes – such as those in development by Santos – will became a "need-to-have" rather than a "nice-to-have."

We believe this topic will form part of our ongoing engagement program. We will continue to review of effect on companies over following years.

Case study

Australian equities: Carbon Emissions Management

Both Rio Tinto and South32 operate aluminium smelters, which form a large part of the total carbon emission footprint for both companies. Both companies have set themselves target dates by which some of their smelters will need to be powered by renewable energy.

We met separately with the CEOs of both companies during 2023 to understand how they are tracking against this target and the challenges they are facing. We hold Rio Tinto and South32 in some portfolios, although the latter is excluded from our Responsible Investment portfolios due to coal exposure.

South32's Hillside smelter in South Africa is urgently seeking lower-carbon energy to satisfy new European requirements for environmentally friendly aluminium. The first phase of new regulations (EU Carbon Border Adjustment Mechanism) will come into force in 2026, which will require a lower-carbon solution. The second phase will occur in 2030, by which time Hillside is likely to need a renewable power source. At this point the most likely solution appears to be nuclear-energy-based, from its current provider, while it continues to explore solutions such as wind, solar and battery storage.

Likewise, Rio Tinto has set itself a target of 2030 to find a low-carbon solution for its Australian smelters. Its Canadian smelters are powered by hydro-electricity and Rio is looking at a similar solution for its Boyne smelter in Queensland.

However, the company is highlighting the considerable issues it faces, such as finding sufficient land, engagement with traditional landowners and other regulations, as well as the issue with a lack of "firming" the baseload for renewable energy.

It has made some headway in 2024, signing power purchase agreements with solar and wind energy providers.

Both companies have targets that look difficult given the degree of time required to identify and plan solutions, gain approval and then develop them. It remains uncertain whether the 2030 timeframe can be met. This remains an area of focus and continued engagement for us.

Case study

Australian equities: A reality check on Future Made in Australia

The federal government's Future Made in Australia (FMA) scheme – currently before parliament – was introduced as part of the 2024-25 budget. It is designed to maximise the economic and industrial benefits of a shift to net zero and to establish Australia as an integral part of the supply chain of resources and products it requires.

The government proposes investing $22.7 billion over the next decade to incentivise further private investment in two key areas. The first is in sectors which can make a significant contribution to achieving net zero, where there is scope for Australia to establish a competitive advantage.

The second is in economic security and resilience, which is about building supply chains which are diversified and less vulnerable to disruption.

Five industries have been initially identified for investment: renewable hydrogen, critical mineral processing, green metals, low-carbon liquid fuels and clean energy manufacturing including battery and solar panel supply chains.

More than 20 ASX-listed companies have exposure to these areas and could potentially benefit from investment tailwinds here. Miners are moving into environmentally friendly metals and areas of strategic importance such as rare earths. Several companies are exploring sustainably produced hydrogen. Others have potential exposure to the infrastructure for supporting electric vehicles or for upgrading to a renewables-based power grid.

However, the degree to which the FMA investment will provide a material tailwind – particularly in the next two-to-three years – is debateable.

Some 60% of the FMA budget is production tax incentives for the processing and refining of critical minerals and subsidies for green hydrogen. Ironically, the trend in recent months has been a reversal in progress in some of the key areas. This suggests that path towards a Future Made in Australia needs to address some more complex issues.

Nickel has been designated one of these critical minerals and Australia has 23% of the world's reserves. However, in July 2024 BHP announced it would suspend operations at its Western Australia Nickel divisions, including mining and refining at Kwinana, the Kalgoorlie smelter and development of the West Musgrave project.

BHP had invested $4.4bn in the divisions since FY20, including two new mines, solar farms and battery storage, and Australia's first nickel sulphate plant. However, the divisions had delivered negative cash flow in every period since.

In our dialogue with management, BHP suggested that nickel remained one of its future-facing commodities, but the more important issue was low global nickel prices, driven in part by low-cost competition from Indonesia.

This is an issue which is unlikely to be solved by the 10% refundable tax offset proposed by FMA.

Mining company Fortescue has been in the vanguard of the drive to develop a green hydrogen industry in Australia, investing more than $2bn over the last three years. Fortescue has, however, announced that the plan to produce 15 million tonnes of renewable hydrogen annually has been placed on hold. While investment goes on, its energy division was downsized and merged with its mining segment.

In our discussions with the company, they cited the high cost of electricity in Australia as a key issue. The charge into hydrogen has also been funded by the company's iron ore profits – which have been slashed by softer prices on the back of Chinese weakness. Again – not issues which are likely to be resolved by the FMA's proposed structure.

Rare earths provided one initially successful area of government investment. In Q1 2022 the previous government announced a $1.25bn loan to Iluka Resources, as part of the Critical Mineral Facility, to develop Australia's first fully integrated rare earths refinery. However, an initial cost forecast of $1-1.2 billion has since blown out to $1.7-1.8 billion.

We have discussed the outlook here with management. They noted they were mired in negotiations with government about additional funding and development of the refinery had stalled. Rare earths are also suffering from low prices, with huge capacity from Chinese producers.

In lithium, we have also seen companies recently scale back ambitions. US-listed Albermarle has halved production and halted expansion of its Kemerton lithium hydroxide plant in Western Australia, while other companies are delaying development projects. Again, weak prices are to blame. This is driven by over-supply, with a surge of Chinese-backed development out of Africa, and emerging trends in EV demand, where plug-in hybrids (which are less lithium-intensive) are taking increasing share.

The common thread is that companies are seeing any potential benefits arising from the FMA swamped by other considerations. The issues facing companies when deciding to allocate capital are more complex than securing government support. Market fundamentals, often driven by uncontrollable factors such as geopolitics, are playing a far greater role in determining whether companies will invest in key areas identified by the FMA. The benefits it proposes are simply not of sufficient scale, or are too long-dated, to offset the challenges posed in other areas.

This may change. A more concerted effort by countries to diversify away from existing supply chains for critical minerals and clean energy may alter market fundamentals. The scale and nature of government incentives may shift.

However, for the moment in our conversations with companies, management are being circumspect as to the opportunities provided by FMA and its efficacy as a driver of investment in the critical minerals and clean energy sectors remains up for debate.

Case study

Income and Fixed Interest: Ensuring quality of the new Commonwealth green bond

Objective: Safeguard the sustainable bond market and help establish a new benchmark for reporting.

Process: The Commonwealth Government has announced its intention to launch its first green bond in 2024. The Australian Office of Financial Management (AOFM) and Department of the Treasury undertook meetings with investors for feedback about what should be included in the new green bond. We were the first investors asked. We have been vocal in other forums to help solidify these views. This includes to our clients, in blogs and podcasts and in the industry media. We also were active with the UNPRI Australian 'Sovereign Engagement National Regulators & Authorities' Working Group to share our views.

Outcomes: Ultimately, the AOFM adopted several of our recommendations about conforming to best practice. This included a shorter look-back period and providing stronger allocations to dedicated sustainable funds. Whilst we do not take credit for this, it is important to share with issuers and the arrangers prior to deals what our expectations are. We are encouraged that the Commonwealth Government's inaugural green bond was demand in the market for a high quality green bond as the bond was oversubscribed.

Case study

Income and Fixed Interest: Elevating the Worker Safety concern within the business

Objective: Longstanding engagement with an issuer to address continued employee fatalities. We want the business to prioritise this critical issue.

Process: We first met with the issuer regarding high worker fatalities in August 2020. We regularly request updates on what the business is doing to prioritise worker safety. We have told the issuer that we cannot invest in it for our sustainable strategies, despite the issuer's high green credentials. In the most recent meeting, we pointed out that the issuer had not improved in their worker safety outcome, and they will remain uninvestable, from our perspective, until they make progress.

Outcomes: The issuer informed us that, due to our continual engagement on this issue, the board has been notified that it is an area of significance. There have been discussions about linking executive pay to worker safety outcomes. We will continue to follow up with the issuer. It is pleasing to see that persistent follow up can lead to positive change.

Income and Fixed Interest

Case studies

Climate stability

Energy Transition: How a utility is understanding phasing out coal

Objective: Issuer has significant exposure to thermal coal in their energy mix. We wanted to know how they will manage the change in energy mix with the increase in renewable energy.

Process: A big challenge for this issuer is how to transition away from coal while ensuring energy security. Our role in this is not as technical experts, but market participants who are very interested in increasing public disclosures of commitments. We asked the issuer to share with the market their plans to manage the intermittency challenges posed by solar and wind energy, particularly the negative pricing during the day due to oversupply.

Outcomes: The issuer shared their potential solutions like battery storage, grid management, and other flexible resources. They agreed to share plans beyond their TCFD reporting that they have undertaken since 2018.

Improving the debt market

New Use of Proceeds Issuer: Impact Reporting

Objective: To get a new issuer of a Use of Proceeds bond to report specific indicators at an aggregated level.

Process: As investors, we have significant influence prior to the launch of a new deal to address what we consider to be important elements that effect investment decisions. With this issuer, we shared our expectation for impact reporting, including the specific indicators we require, prior to the bond launching. Whilst they agreed in principle, this engagement was a follow-up outlining what our expectations were.

Outcomes: Through meeting with the relevant internal teams within the issuer, we were able to push with more granularity about what good impact reporting looks like. We provided examples of impact reporting we like from other issuers and demonstrated the use case of how we compile impact reporting to offer clients insights into what outcomes are associated with their investments. Ultimately, we will only know if this has been successful in influencing what the issuer reports once they release their impact report next year. Nevertheless, it is important to share our expectations to ensure the market continually improves.

Disclosures

Supply Chain: Seek greater disclosures sustainability concerns

Objectives: To get greater reporting on a key sustainability issue within their supply chain. Specifically, how this issuer seeks to recycle batteries.

Process: Lithium-Ion batteries contain raw materials of nickel, cobalt, copper, manganese, graphite and lithium. This issuer has shared their plans to increase the amount of recycling and recovery for some of these materials, but have outlined no plan for others. We asked if they are working on this plan, and when it will be publicly disclosed.

Outcomes: The issuer undertakes recycling and recovery of the raw materials of nickel, copper and cobalt. Unfortunately, the issuer was unable to share when they would be disclosing their plans for other material. Nevertheless, we shared that investors are concerned about the end-life of these raw materials and would be interested in greater disclosure when available.

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 2023 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 ESG specialist affiliate, Regnan.

Elise McKay
Investment Analyst and
Portfolio Manager

Sustainable investment products:
Pendal Horizon Sustainable Australian Share Fund

During the year Pendal 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.

Elise McKay, recently promoted to Co-Portfolio Manager of the Pendal Horizon Sustainable Australian Share Fund (the Horizon Fund) alongside Crispin Murray, sat down with us to dive into the fund's purpose, its unique approach, and recent advancements in its responsible investment framework.

Building a Sustainable Future

"We are trying to build something that is forward looking and future proof," says Elise, emphasising the fund's focus on long-term sustainability. The Horizon Fund takes a proactive approach, adapting its ESG framework to **"evolve as risks and information available change"**. This agility is crucial in a transitioning economy.

Core Objectives: Capital Allocation and Stewardship

"We can influence companies most effectively through allocation of capital and stewardship," explains Elise. The Horizon Fund prioritises these two aspects to drive positive change.

Influencing Corporate Behaviour

The fund employs a multi-pronged approach to influencing corporate behaviour. This includes proxy voting, engaging in dialogues with companies on critical issues, and detailed presentations outlining specific areas for improvement. Collaboration is key, as Elise explains, **"Our preference is to undertake stewardship in a collaborative and constructive way, ensuring our views are captured before something goes wrong."**

Framework Enhancements in 2023

The ESG framework underwent a significant update in 2023. **“We used historical analysis to compare how the market and corporates have changed their approach on sustainability. We found majority of our portfolio companies have improved how they embed sustainability within their organisation. There were some outliers who have deteriorated – those are key areas of focus for us on engagement going forward,”** says Elise. Emerging issues, such as biodiversity and gender pay equity, were also incorporated.

What Sets the Horizon Fund Apart?

Elise highlights what differentiates the Horizon Fund from competitors:

1. **Rigorous Data Analysis:** "A rigorous, data base approach overlaid with qualitative scoring. 244 sustainability strategies reviewed, and 19,000 data points considered." This analysis is additive to the view of the covering analyst.
2. **Investor Voice:** "We leverage our scale, history, and relationships to give investors a voice on the issues clients care about the most."
3. **Authentic Leadership:** "Led by Crispin Murray, one of Australia's leading and most experienced portfolio managers, and newly appointed Co-Portfolio Manager Elise McKay.”

The combination of Crispin and Elise’s leadership and the ongoing evolution of the framework, cement the Horizon Fund’s place at the forefront of impactful sustainable investing.

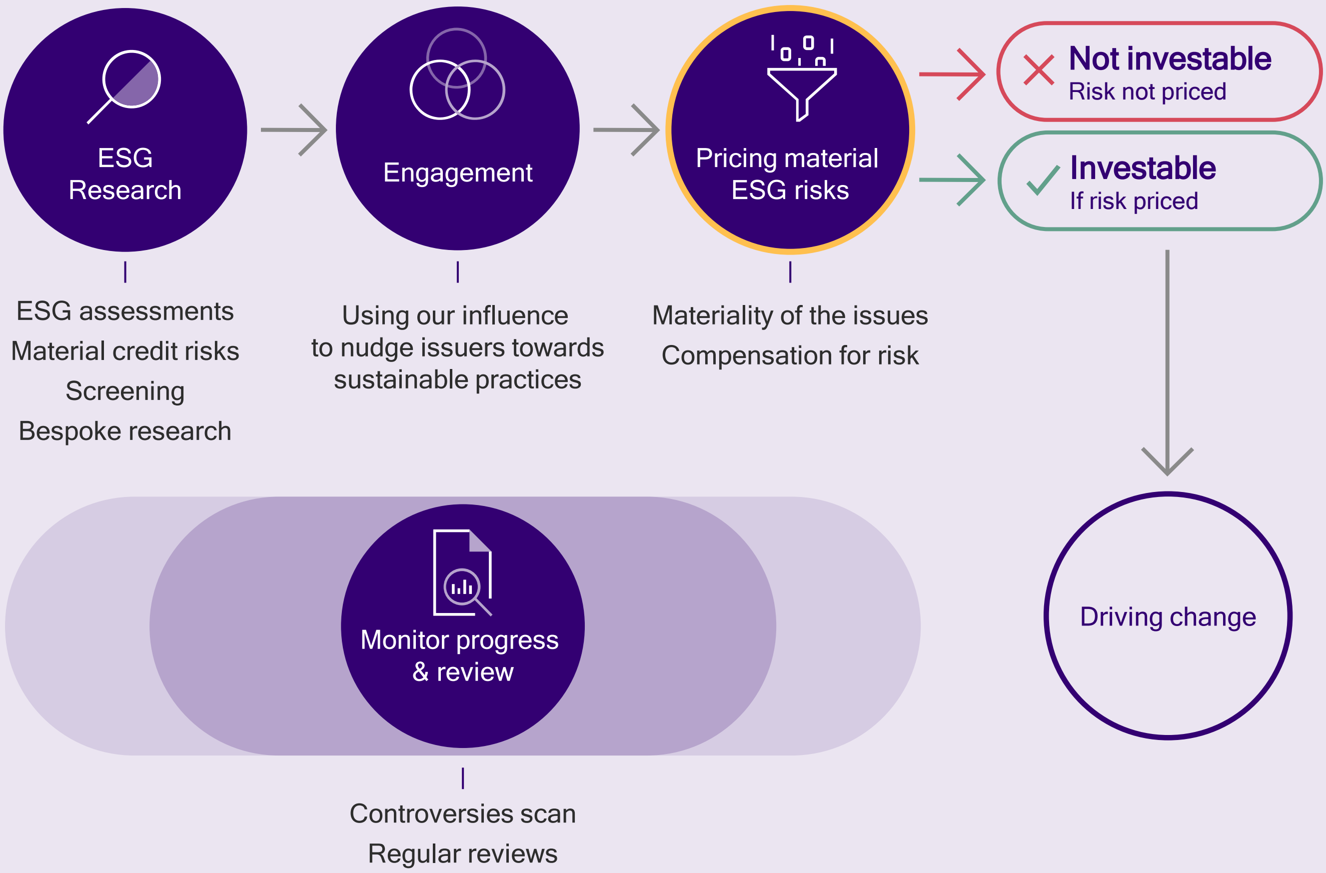
A spotlight on Income and Fixed Interest approach to ESG integration

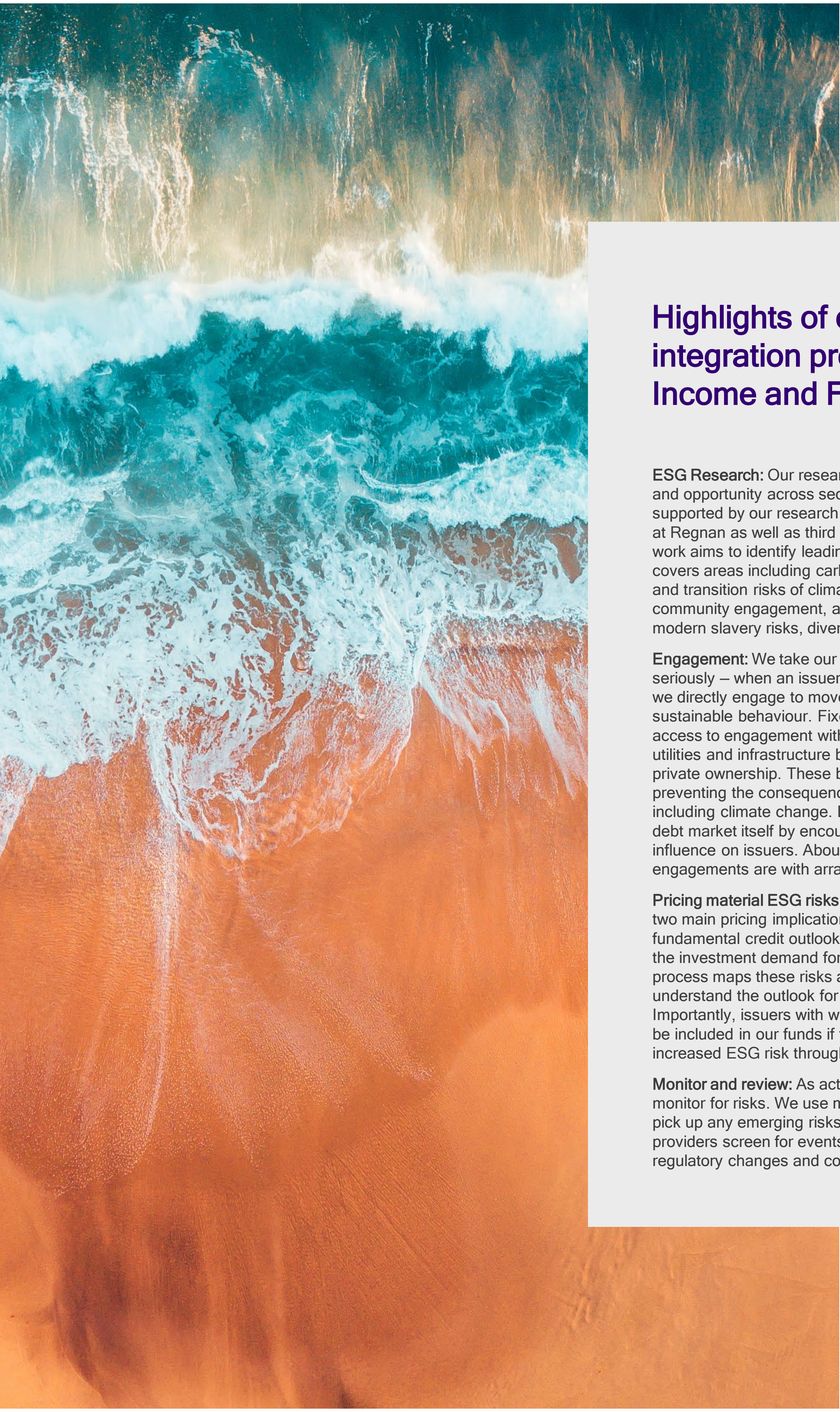
Integrating ESG into investment decisions is an important way of recognising risks beyond the standard credit research process.

ESG risks can hide potential future credit problems. 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.

ESG integration is more than just an investment process. We engage with both ESG leaders and ESG laggards. We consider engagement an opportunity to nudge the entire market towards more sustainable behaviour. In 2023, we had 66 direct engagements across 51 different entities.

Notably, this process applies to all of our fixed interest strategies. We discuss how we use engagement with our sustainable strategies on page 18.





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

ESG Research: Our research process assesses risk and opportunity across sectors. This process is supported by our research and engagement specialists at Regnan as well as third party research providers. This work aims to identify 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 41 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 us to better understand the outlook for individual issuers. Importantly, issuers with weaker ESG performance can be included in our 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. Our third-party data providers screen for events like workplace rulings, regulatory changes and compliance concerns.

Building out our assessment of credit impact bonds

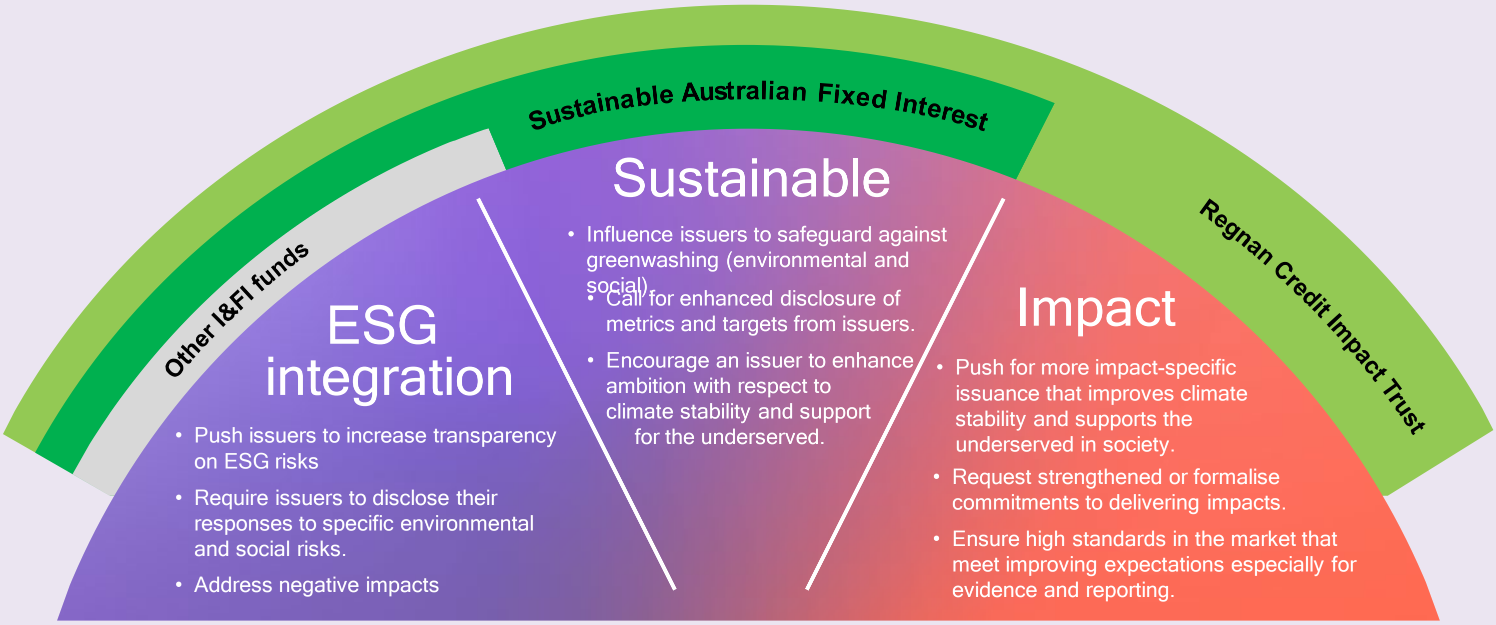
Pendal's Income and Fixed Interest team uses engagement to bring about change from issuers and improve the debt market. Each fund has different objectives which directs the focus of engagements. Through the Regnan Credit Impact Trust, we use engagement to further the environmental and social objectives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

Over the last few years, 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 are less impactful.

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:



Principles for Responsible Investment

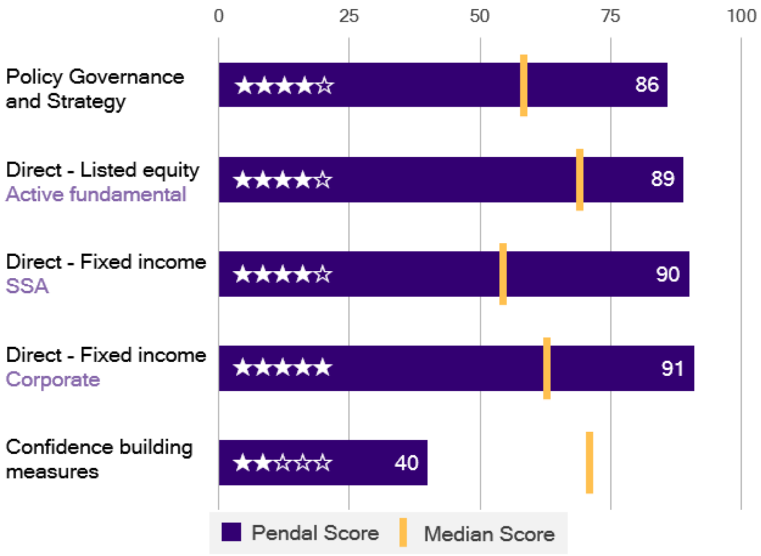
Pendal is a signatory to the UN-backed Principles for Responsible Investment (UNPRI), the leading global investor network and proponent of RI. We are committed to implementing the UNPRI's six principles which are a voluntary and aspirational set of investment principles that offer guidance on possible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

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

The 2023 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.

2023 Summary Scorecard for Pendal Australia



* A note on confidence building measures component of the PRI Summary Scorecard: Pendal Group was taken over by Perpetual Group in January 2023. Due to structural and personnel changes, our report could not be signed off at the usual level of seniority. This, along with not having external verification of our report, contributed to a lower score in the confidence building measures module.

Source: Principles for Responsible Investment

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 2023 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.

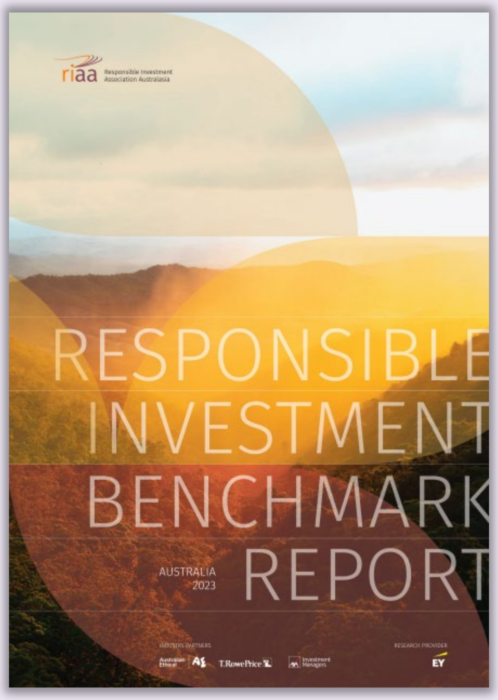
RIAA certified products offered by Pendal Group in Australia:

- Pendal Horizon Sustainable Australian Share Fund
- Pendal Sustainable Australian Share Fund
- Pendal Sustainable Future Australian Share Portfolio[2]
- Pendal Sustainable Australian Fixed Interest Fund
- Pendal Sustainable International Fixed Interest Fund
- Pendal Multi-Asset Target Return Fund
- Pendal Sustainable Balanced Fund
- Pendal Sustainable Conservative Fund
- Pendal Sustainable International Share Fund
- Regnan Global Equities Impact Solutions Fund

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

[2] Pendal Sustainable Future Australian Share Portfolio is a notional portfolio of Australian equities.

Responsible Investment Benchmark Report



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

↓24.1%

Pendal Sustainable Australian Share Fund

↓18.9%

Regnan Global Equity Impact Solutions Fund

↓69.5%

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

Pendal MidCap Fund

↓22.5%

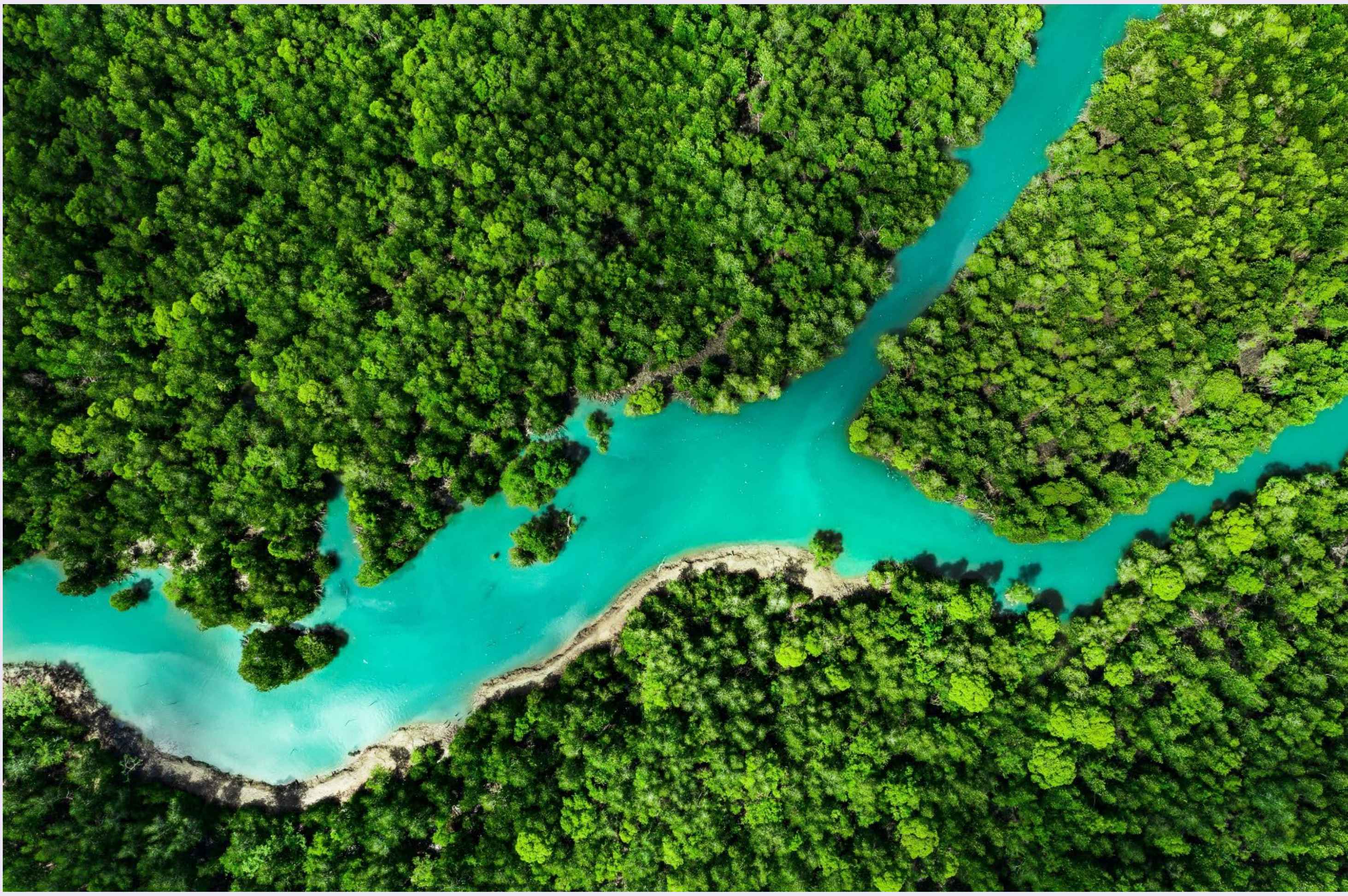
Pendal Global Select Fund

↓26.6%

Pendal Smaller Companies Fund

↓26.6%

Note: Weighted Average Carbon Iintensity, is calculated using ISS carbon data as 31 December 2023. Figures are indicative and at times based off estimated, not reported, emissions.



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 fixed-income products which invest in use-of-proceeds sustainability and impact bonds. They track 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.

Estimated Environmental and Social Outcomes

12 months to 31 December 2023

Pendal Sustainable Australian Fixed Interest Fund and Regnan Credit Impact Trust

Low Carbon

125,508 tCO_2e
GHG Emission Avoided p.a.

Equivalent to **55,185** cars taken off the road p.a.

22 hectares
of forest restored

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

Green Building

55,248 m^2
Buildings constructed

Sustainable farmland

7 hectares
Land conserved

Renewable Energy

164,742 MWh/year
Renewable energy generated

Equivalent to annual electricity use of **35,845** Australian households

71 megawatts
installed capacity

Equivalent to **3%** of renewable energy capacity installed in Australia in 2018

Low Carbon Transport

1,247,099 trips
for passengers supported p.a.

Water

428,472,703 litres
Water capacity secured

Equivalent to water use of **7,247** Melbourne residents p.a.

3,548,701 litres
Wastewater treated p.a.

5,851,779 litres
Water usage saved p.a.

The Pendal Sustainable Fixed Interest Fund and the Regnan Credit Impact Trust (Funds) are managed by Pendal Fund Services Limited (PFSL). The aggregated estimated environmental and social outcomes shown above are based on data provided by the issuers of bond securities (Issuers) held by the Funds. That data relates to the positive outcomes attributable to those securities held by the Funds. The information provided to us by the Issuers has not been verified by us and may be inaccurate or incomplete. These estimates are therefore indicative only and are provided for illustrative purposes and should not be relied on for the purpose of making investment decisions.
The outcome numbers are based on Issuers' data from 1 January 2023 to 31 December 2023 and the Funds' average investment value of $857.7 millions and $214.2 millions respectively over the period. Actual results may differ and subsequent changes in circumstances may occur at any time that impact the accuracy of the results.

Estimated Environmental and Social Outcomes

12 months to 31 December 2023

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*

4,877 underprivileged students
receiving education*

81 jobs
created through supporting education and renewable energy plants*

481 teachers trained*

170 youth
in at-risk youth training programs*

Financial inclusion

744
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 issuers.

The Pendal Sustainable Fixed Interest Fund and the Regnan Credit Impact Trust (Funds) are managed by Pendal Fund Services Limited (PFSL). The aggregated estimated environmental and social outcomes shown above are based on data provided by the issuers of bond securities (Issuers) held by the Funds. That data relates to the positive outcomes attributable to those securities held by the Funds. The information provided to us by the Issuers has not been verified by us and may be inaccurate or incomplete. These estimates are therefore indicative only and are provided for illustrative purposes and should not be relied on for the purpose of making investment decisions.
The outcome numbers are based on Issuers' data from 1 January 2023 to 31 December 2023 and the Funds' average investment value of $857.7 millions and $214.2 millions respectively over the period. Actual results may differ and subsequent changes in circumstances may occur at any time that impact the accuracy of the results.

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 Pendal Australia's Australian and global equity holdings during 2023 and the first half of 2024 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 Pendal website.

Proxy voting for 1 Jan 2023 – 30 Jun 2024	Total	For	Against	Abstain	Other[1]
Number of resolutions	2,341	2,086	215	1	39
Percentage of total	-	89.1%	9.2%	-	1.7%

[1] Other' includes Management Say on Pay (MSOP) proposals and where Pendal 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 2,059 votes across the four categories. Percentages are based on the total votes and not the unique resolutions.

ESG resolutions

2023 saw heightened scrutiny on pay practices and outcomes, after a relatively subdued 2022. The number of strikes on remuneration reports in 2023 was nearly double 2022, with 23 companies within the ASX200 receiving a strike. This figure represents the highest number of strikes observed in the ASX200 in more than 7 years. Misalignment between pay and performance was a prevailing factor, especially for companies who experienced lower financial performance during the year.

In contrast, in 2023 only 3 ASX100 companies submitted their ‘Say on Climate’ resolutions, with an average 91.5% shareholder support level. 6 companies had environmental shareholder proposals in 2023. This was relatively subdued compared to 2022, with 8 and 11 companies submitting their ‘Say on Climate’ resolutions and climate related shareholder proposals, respectively.

Pleasingly, 2023 saw an increase in the number of ASX300 board positions occupied by women rising from 35% to 36% over the past year. In addition, 41% of ASX300 boards have hit the 40:40:20 target. Cultural diversity across ASX boards remains unchanged, with many companies still yet to address this issue.

Between January and June 2024, 491 Annual General Meetings (AGMs) were held across the ASX300 index. Trends in strikes against executive remuneration reports and accountability votes against directors continue to dominate the landscape, alongside a pronounced reduction in shareholder resolutions.

Source https://www.georgeson.com/au/insights/2024-australian-mini-agm-season-review

Pendal voted against the granting of performance share rights to Aristocrat Leisure chief executive officer Trevor Croker. The same issues persist as identified in prior years where 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 other STI and LTI performance targets. Shareholders may be concerned that the company has not made the case in justifying why this undisclosed performance metric is worthy of such additional and material remuneration.

Pendal voted against Star Entertainment Groups remuneration report due to its inconsistencies compared to overall market practice and good governance expectations of many shareholders. The absence of disclosure of EPS growth and ROIC hurdles in the LTI prevent an assessment of rigour and alignment with shareholder expectations, especially in the context of the material uncertainty raised by the auditor. Additionally, the award of an excessive retention equity grant to the CEO is unjustified and we view as a substantial breach of good governance.

Pendal voted against GenusPlus’ management regarding the approval of modifying the existing constitution. One of the proposed amendments includes wording that explicitly states that the company may conduct meetings by using virtual-only means. Concerns are raised about any moves to eliminate any physical attendance at a meeting. Virtual-only meetings may reduce transparency and accountability and may affect the interaction between directors and shareholders.

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 2023 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.
- Signatory to the United Nations Principles for Responsible Investment (UNPRI) and participation in the Australian Sovereign Engagement National Regulators & Authorities Working Group, UNPRI Spring Initiative's Advisory Committee, and UNPRI Nature Reference Group.

Rajinder Singh
Portfolio Manager

Rajinder Singh: A Champion for Sustainable Investing at Pendal

We recently sat down with our very own colleague at Pendal, Rajinder Singh, to chat about his incredible 17-year journey on the Investor Group on Climate Change (IGCC) Board. His dedication to sustainable investing and his leadership at IGCC have been instrumental in shaping Pendal's position in this critical area.

The IGCC: A Powerful Voice for Climate Action

Established in 2005, the IGCC is a not-for-profit organisation that brings together investors to address climate change from a financial perspective. As one of the founding members, Pendal played a key role in the IGCC's creation. "The organisation was really thinking from a risk and return perspective as opposed to just we must do this because it's the right thing to do," explains Rajinder.

The IGCC's mission is to drive real progress on climate change by connecting investors, advocating for responsible management of climate risks and opportunities, and ultimately achieving sustainable returns. Their vision is a climate-resilient global economy on track for net zero emissions by 2050. "One thing that I think is really special about IGCC is that it covers the whole financial food chain," says Rajinder, highlighting the importance of including all investors in the conversation.

Rajinder's 17-Year Journey with the IGCC

Rajinder joined the IGCC Board in 2007, serving as a regular Board member until 2012 and then as Treasurer up to 2022. "I see the development and growth of IGCC as one of my proudest professional achievements," he reflects. During his tenure, the organisation has grown from a one-person operation to a team of over 30, establishing itself as a powerful voice for sustainable investing.

Key Achievements of the IGCC

Rajinder's contributions have helped shape the IGCC's success in several ways:

- Formation of the Asian Investor Group on Climate Change (AIGCC): Recognising the critical role of Asia in the climate transition, the IGCC played a pivotal role in establishing the AIGCC, which has become a strong regional voice for investors.
- Global Collaboration: The IGCC has fostered collaboration between investors in North America, Europe, Asia, and Australia, providing a unified voice on climate change issues to international forums like the United Nations.
- Investor Practice: The IGCC has played a key role in raising awareness of climate change among investors, ensuring that ESG and climate considerations are integrated into mainstream investment decisions. Rajinder emphasises, "that has been a massive achievement getting the Australian industry in particular to take climate change as just an everyday risk."

Rajinder's Board Role and Key Discussions

As a Board member, Rajinder brought a valuable perspective – that of a portfolio manager actively engaged with companies. This "real investment manager perspective" was invaluable in shaping the IGCC's approach to issues such as:

- Government policy and climate change initiatives
- Member education on climate change, physical impacts, and transition strategies
- Growing the IGCC's influence with policymakers and on the global stage
- Responsible governance of the IGCC, ensuring its mission and credibility

Passing the Torch and Looking Ahead

After his long and successful tenure, Rajinder has stepped down from the IGCC Board. He welcomes the news that Chris Fayers from Regnan was appointed to IGCC's Board at the most recent Annual General Meeting and hopes that this will continue Pendal's association with the industry body's important work. Chris's background in sustainable investing and international experience will make him a valuable asset to the IGCC.

While taking a break from board responsibilities, Rajinder remains committed to sustainable investing, as the portfolio manager for the Pendal Sustainable Australian Share Fund. Pendal's commitment to this crucial area, outlined in our Climate Change Statement, is a testament to Rajinder's dedication and the lasting impact of his work with the IGCC.

Murray Ackman
Regnan Senior ESG and Impact Analyst

ESG Advocacy in Fixed Income

In this conversation with Murray Ackman, Regnan Senior ESG and Impact Analyst*, we'll explore the evolution and future of use-of-proceeds bonds and delve into the work of the United Nations-backed Principles for Responsible Investment (UNPRI). We will explore Murray's contribution to the UNPRI Australian 'Sovereign Engagement National Regulators & Authorities' Working Group and how this has benefitted Pendal's internal ESG work.

The Rise and Promise of Use-of-Proceeds Bonds

Murray highlights the significant growth of the use-of-proceeds bond market, with the outstanding value nearly tripling in just a few years. He sees this trend continuing, fuelled by the need to finance Australia's transition to a low-carbon economy.

"The biggest source of emissions in Australia is electricity - at nearly half," says Murray. "Investments in renewable energy sources like wind and solar, storage solutions, and transmission networks will require significant expenditure."

Use-of-proceeds bonds, with their clear allocation towards sustainable projects, can play a crucial role in financing this transition. Murray emphasises the importance of:

- An increase in high-quality bonds to meet investor demand.
- Confidence in the label to ensure genuine green projects are funded.
- Market innovation and expansion, such as looking at reducing embodied carbon.
- Impactful projects that have real additionality.

The UNPRI: A Force for Sustainable Investment

Murray delves into the UNPRI, a UN-supported network of investors, that works to promote sustainable investment through the incorporation of ESG factors. He highlights "investors launched the PRI-Coordinated Collaborative Sovereign Engagement in Climate Change to support global climate action, including by aligning portfolios toward net zero and engaging policymakers and other sovereign entities on climate risks and opportunities."

"The 25 institutional investors involved in the pilot phase are responsible for approximately US$8 trillion in assets under management" explains Murray.

Pendal has been a signatory of the UNPRI since 2007 (initially as BT Financial Group, from 2016 under Pendal Group), and are co-lead investors for the engagement's workstream. The emphasis has been on:

- **Encouraging enhanced green and sustainability sovereign bond issuance** from the Australian and State Governments (in partnership with the Sub-Sovereign Working Group) to help fund the achievement of Australia's Nationally Determined Contributions and enhanced resilience.
- **Seeking enhanced reporting** on the outcomes of supplemental financing and investment through national authorities to better understand the contribution to national climate plans and better understand gaps between the following: 1) current action and a Paris-aligned emissions reduction trajectory; 2) projected costs and planned financing; and 3) current and future climate adaptation and resilience needs.

The Benefits of UNPRI Involvement for Pendal's Income and Fixed Interest Team

Murray outlines three key benefits his involvement with the UNPRI brings to Pendal's Fixed Income and ESG work:

1. Collaboration and Knowledge Sharing: "Engagement allows us to discover priorities of other investors, share lessons learned, and develop best practices."
2. ESG Integration: "Understanding best practices helps us integrate ESG effectively within the team."
3. Regulatory Insights: "The UNPRI provides valuable insights into the evolving regulatory environment and expectations. This allows us to effectively price different ESG risks."

By actively participating in the UNPRI, Murray plays a vital role in shaping Pendal's ESG strategy for Fixed Income, ensuring the team is well-positioned to navigate the evolving landscape of use-of-proceeds bonds and contribute to a more sustainable future.

* Murray took on a new role of Senior ESG and Impact Analyst at Regnan in April 2024. He continues to work with the Pendal Income and Fixed Interest team on ESG in this new role.

Improving the debt market: Championing the Great Forest National Park Project

Pendal has a long history of investing in Green, Social and Sustainable Bonds through the Pendal Sustainable Australian Fixed Interest Fund and, since 2020, the Regnan Credit Impact Trust. Green, Social and Sustainable Bonds ringfence money for specific projects that have an environmental or social outcome. Along with engagement, it is the major way in which the Pendal Sustainable Australian Fixed Interest Fund and the Regnan Credit Impact Trust bring about positive outcomes through their investments.

These funds also seek to bring about change through engagement by improving the debt market. Engagement aims to strengthen the quality of projects and reporting as well as encouraging issuers to launch sustainable finance products that these funds can invest in.

Investors can influence what gets issued by demonstrating that there will be demand. One corporate issuer advised us that engagement by Pendal, with support from Regnan, was influential in them researching and issuing a Green Bond.

In addition to corporate issuers, we have had a longstanding engagement with the Australian Government through the Department of the Treasury and the Australian Office of Financial Management. Adding our voice to this discussion encouraged the Australian Government to issue their Green Bond in mid-2024.

There was also an opportunity to encourage an issuance that could protect Regnan's namesake with a State Government. Regnan took its name from Australia's *Eucalyptus Regnans*, the tallest tree in the southern hemisphere. Victoria's Central Highlands is home to the *Eucalyptus Regnans.*

Regnan (part of the Perpetual Group), led a multi-stakeholder initiative to lobby for the issuance of a Treasury Corporation of Victoria Sustainability Bond for the creation of the Great Forest National Park in eastern Victoria. The Great Forest National Park Project, located 60 kilometres northeast of Melbourne, is for the Central Highlands of Victoria which is home to one of Australia's most endangered mammals, the Leadbeater's Possum. These species, along with their habitat, are currently threatened by clear-fell logging and wildfires.

This initiative, undertaken with interested parties across Victorian and Commonwealth Governments, private investors, Australian National University (ANU) researchers, local communities and non-government organisations, seeks to protect endangered flora and fauna species, restore vital habitats, contribute significantly to carbon sequestration, protect and enhance water catchments, manage invasive species, support community transition post the cessation of logging, and improve recreational community access to vast areas within the Great Forest National Park.

A key component of this initiative is to fund projects linked to the park, fostering economic growth, job creation, and ecological restoration. The plan integrates rigorous monitoring, utilising ANU's scientific expertise, to ensure both environmental impact and economic value, aligning with Parks Victoria's commitment to sustainable park management.


July 1983, start of data collection

The proposal is to fund protection and restoration through the issuance of a Sustainability Bond by Treasury Corporation of Victoria (TCV).

The Great Forest National Park Project is not merely about establishing a beautiful location. This initiative's primary goal is the preservation of a vital ecosystem for future generations. The park is envisioned to serve multiple significant roles:

- **Biodiversity Sanctuary:** By creating a haven for endangered species like the Leadbeater's possum, the park will play a crucial role in safeguarding their habitat within old-growth forests.
- **Climate Change Champion:** Old-growth trees are powerful carbon storage units; thus, protecting them will aid in combating climate change by reducing atmospheric carbon.
- **Waterway Guardian:** The forests within the park are essential to Melbourne's water supply. Preserving these forests ensures clean water for the city's growing population.
- **Economic Engine:** The national park is projected to stimulate tourism, thereby creating jobs and boosting revenue for local communities.

A key feature of the proposed Victorian sustainable bond is it relies on four decades of research by a team at the ANU to provide a robust baseline for monitoring forest regeneration. This will allow measurement of improvements in carbon sequestration, water quality, and overall ecosystem health. This unique feature enables measurement of impact on multiple biodiversity metrics. It can therefore be used to report the real-world impact of the investment.

The initiative is under consideration by the Treasury Corporation of Victoria (TCV). We believe it demonstrates the importance of active management in improving the market.

This project has brought together a coalition of academics, investors and asset owners to push for high quality nature repair. This is an area where there has been much discussion but there are limited investable opportunities. By bringing together different stakeholders, we are hoping to continue to grow the market for bonds that our funds may invest in to bring about positive outcomes.

Key ESG issues

1

Artificial Intelligence (AI)

In 2023 we witnessed the emergence of Artificial Intelligence (AI) as a significant theme within the ESG landscape. While the potential benefits of AI are undeniable, its increasing use also raises critical questions for responsible investors. Concerns around the potential misuse of AI for bias, discrimination, or privacy violations became a key focus. Investors are demanding that companies developing and utilising AI technologies prioritise ethical considerations and responsible use. The potential environmental and social impacts of AI development and deployment started receiving greater attention.

Questions surrounding job displacement due to automation and the potential for AI to exacerbate existing social inequalities became pressing issues. The massive computational power required to train and operate AI systems translates to significant energy consumption, raising concerns about their environmental footprint. This high energy demand, often reliant on traditional energy sources, can contribute to greenhouse gas emissions and climate change. Responsible investors are calling for more sustainable AI practices, including exploring renewable energy sources to power AI systems and optimising their energy efficiency.

2

Greenwashing

In 2023, The Australian Securities and Investments Commission (ASIC) became more proactive in tackling greenwashing. High-profile cases against companies accused of misleading investors regarding their ESG credentials sent a strong message to the market. These developments pushed the Australian ESG landscape towards greater transparency and accountability. This was mirrored on the global stage with authorities in the US, Europe, and Asia launching investigations into greenwashing. While regulators try to keep greenwashing in check, the work being done by the International Sustainability Standards Board (ISSB) is becoming increasingly important.

In 2023 the ISSB laid the groundwork for IFRS Sustainability Disclosure Standards with an aim to create a unified framework for ESG reporting, an important step in combating greenwashing.

Investors also became more sophisticated, looking beyond marketing campaigns and demanding demonstrable action on ESG principles.

We continue to take the 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.

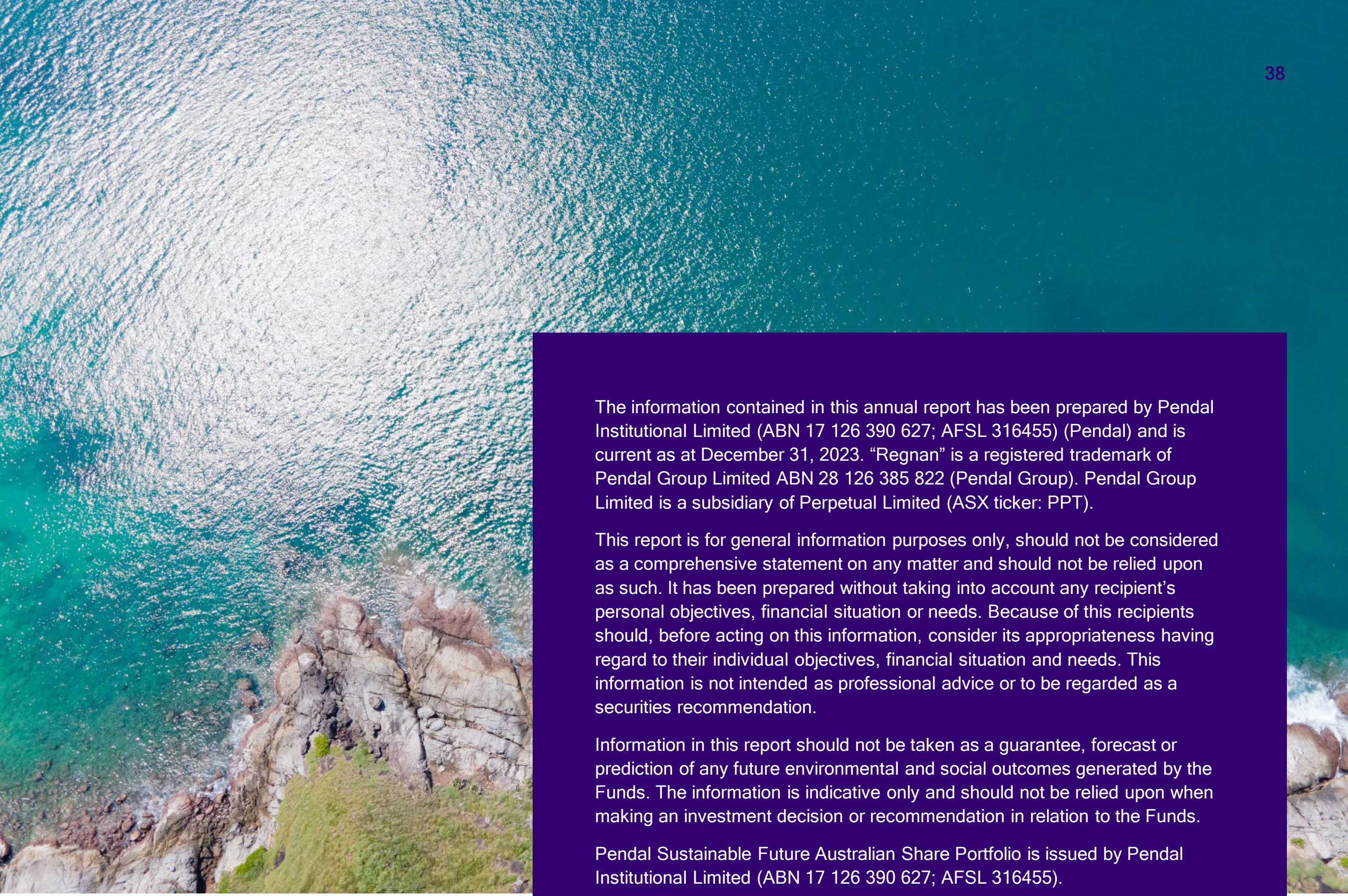
Looking ahead

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:

- Progress and evolve our thematic engagement program focused on systems-based change across our equities portfolios. In 2024/25 we will continue to focus on the Gender Pay Gap, collaborating with industry participants
- Develop a second thematic engagement program focused on addressing ESG issues in critical minerals mining
- Continuing to review the exclusionary screens across our Sustainable Series funds to ensure they continue to meet client needs
- Enhancing our climate change and modern slavery risk tools to incorporate new information and best practice guidance
- Enhancing our oversight practices across our investment processes
- Continuing to improve client reporting in relation to responsible investment

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

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



The information contained in this annual report has been prepared by Pendal Institutional Limited (ABN 17 126 390 627; AFSL 316455) (Pendal) and is current as at December 31, 2023. “Regnan” is a registered trademark of Pendal Group Limited ABN 28 126 385 822 (Pendal Group). Pendal Group Limited is a subsidiary of Perpetual Limited (ASX ticker: PPT).

This report 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 intended as professional advice or to be regarded as a securities recommendation.

Information in this report should not be taken as a guarantee, forecast or prediction of any future environmental and social outcomes generated by the Funds. The information is indicative only and should not be relied upon when making an investment decision or recommendation in relation to the Funds.

Pendal Sustainable Future Australian Share Portfolio is issued by Pendal Institutional Limited (ABN 17 126 390 627; AFSL 316455).

Pendal Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 is the responsible entity or trustee and issuer of units in the Pendal Horizon Sustainable Australian Share Fund (ARSN: 096 328 219), Pendal Sustainable International Fixed Interest Fund (ARSN: 612 664 945), Pendal Sustainable International Share Fund (ARSN: 612 665 219), Pendal Sustainable Australian Fixed Interest Fund (ARSN: 612 664 730), Regnan Global Equity Impact Solutions Fund (ARSN: 645 981 853), Pendal Multi-Asset Target Return Fund (ARSN: 623 987 968), Pendal Sustainable Australian Share Fund (ARSN: 097 661 857), Pendal Sustainable Balanced Fund (ARSN: 637 429 237), Pendal Sustainable Conservative Fund (ARSN: 090 651 924), Regnan Credit Impact Trust (ARSN: 638 304 220), Pendal MidCap Fund (ARSN: 130 466 581), Pendal Smaller Companies Fund (ARSN: 089 939 328), Pendal Global Select Fund (ARSN: 651 789 678), each a “Fund”, and collectively, the “Funds”. A product disclosure statement (PDS) or Information Memorandum (IM) is available for each Fund and can be obtained by calling 1300 346 821 or visiting www.pendalgroup.com. A Target Market Determination (TMD) is available for each fund at www.pendalgroup.com/ddo. You should obtain and consider the PDS and TMD or IM for the relevant Fund before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in any of the Funds is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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.

The information in this annual report may contain or be based on material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this annual report is complete and correct, to the maximum extent permitted by law neither Pendal, PFSL nor any other company in the Perpetual Limited, accepts any responsibility or liability for the accuracy or completeness of this information.