PENDAL

Pendal Responsible investment philosophy and approach – Australian Equities

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Responsible Investment (RI) is the consideration of environmental, social and governance (ESG) issues when making investment decisions, as well as influencing companies or assets through engagement and voting. Pendal believes that analysis of ESG factors contributes to better informed investment decisions and can improve the quality and consistency of long-term value creation. Please refer to the Our Philosophy section below for more details.

Background and scope

Pendal is an Australian investment manager focused on delivering investment returns for clients through active management. We operate a multi-boutique structure offering a broad range of investment strategies. The investment teams managing each of these strategies (Pendal investment teams; We) have autonomy over the investment process and environmental, social and governance (ESG) integration.

The Pendal investment teams have a dedicated Head of Responsible Investment to support continuous enhancement of ESG integration and stewardship.

We manage several investment strategies across the Pendal boutiques, including sustainable and impact strategies. These strategies have the additional focus of investing in companies that have positive ESG credentials or outcomes. We utilise the ESG expertise gained through managing these sustainable portfolios to manage ESG risks within our core strategies.

This document outlines the ESG integration process used by Pendal's standard and sustainable strategies for the purposes of ESG risk management. Pendal's sustainable strategies have additional processes aligned with their sustainability goals. These additional processes are not discussed in this document.

Pendal is owned by parent company Perpetual Limited. Pendal joined Perpetual Limited in January 2023, further enhancing Pendal's capacity as a multi- boutique investment manager which combines the benefits of specialised investment teams with the operating scale and distribution reach of a larger business.

Pendal operates under two entities: Pendal Fund Services Limited (PFSL) and Pendal Institutional Limited (PIL). PFSL acts as the Responsible Entity or Trustee for Pendal's registered Managed Investment Schemes (MIS) and unregistered funds. PIL provides discretionary investment management services to institutional clients and other intermediaries. The PFSL and PIL Boards are responsible for overseeing the effectiveness of all operational risk and compliance activities of their licensed activities, including ESG governance.
The investment decisions of Pendal's investment teams are underpinned by centralised support functions that includes operations, legal, client services, IT, compliance, risk management and sales and marketing. This model allows investment managers to focus their efforts on what they do best, investing for Pendal's clients.

Regnan

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

In 2015, Pendal acquired 50 per cent ownership of Regnan, eventually assuming full ownership in 2019, and bringing the capability in-house.

The Regnan research centre works closely with Pendal investment teams, supporting them through thematic research, targeted ESG engagement, the provision of screening oversight and advisory services. Importantly, Regnan provides portfolio managers and analysts another perspective of ESG issues through their longstanding expertise in the responsible investment field.

Our philosophy

As an active manager, our primary purpose is to help our clients achieve their investment objectives.

We believe the incorporation of ESG factors into our investment analysis is critical to achieving this goal.

Our philosophy is based on the fundamental belief that assessment ESG factors contributes to better informed investment decisions and can improve the quality and consistency of long-term value creation.

ESG themes are changing industry structures and business models. ESG information is increasingly contributing to analysts' views on matters such as revenue forecasts, execution capability and competitive position.

Effective engagement with investee companies and issuers is a key part of our investment approach. It offers us the opportunity to raise concerns directly with the company or issuer, to get a clearer understanding of the actions they are taking and to advocate for change.

We support the transition to a more sustainable economy. We take a pragmatic approach in our analysis and stewardship activity. We recognise that change takes time and is not always linear. For example, we understand the various challenges that our investee companies face on their decarbonisation journey, and we factor this into our analysis and stewardship. We believe that this approach leads to better financial and real-world outcomes.

We are cognizant that the pursuit of long-term sustainability goals requires compromise today, however we believe companies must balance these needs responsibly.

We strive to assist our clients to meet financial and non-financial objectives they may have through performance-driven investment solutions including where relevant dedicated investment options aligned to their ethical, environmental or social priorities.

Our investment teams dedicate resources and continue to evolve their own approach to integrating ESG considerations into their investment process and stewardship practices as they see most relevant to their respective strategies and asset classes. This autonomy and diversity in approach is a key strength of our business and plays an important role in our ability to deliver the investment outcomes and solutions that meet the needs of our clients, including with consideration to their values and principles.

Our responsible investment (RI) history

Our commitment to responsible investing has a long and proud heritage. Key milestones in Pendal's RI journey to-date include:

1984	• BT Australian Charities Trust (now Pendal Sustainable Balanced Fund) was launched. [1]
2000	• Became a member of Responsible Investment Association Australasia (RIAA).[2]
2001	• Launched the innovative Pendal Sustainable Australian Share Fund and Pendal Ethical Share Fund. [1] • Established BT Governance Advisory Service, which would later become Regnan – Governance Research & Engagement.[2]
2005	• RIAA certification for the Pendal Ethical Fund, a brandmark recognising product investment intentions and processes as being consistent with RI claims. [1] • Founding member of the Investor Group on Climate Change (IGCC).[2]
2007	• Signatory to the United Nations supported Principles for Responsible Investment (PRI) (refer to list of commitments in the box across).[2] • Co-founded Regnan – Governance Research & Engagement, a firm widely recognised for establishing leading standards in RI research, advisory and engagement practices.[2]
2009	• Launched our first Sustainable Australian Fixed Interest strategy.
2014	• Awarded our first 'Low-Carbon' mandate.
2016	• Launched Pendal Sustainable Australian Fixed Interest Fund, Pendal Sustainable International Fixed Interest Fund
2017	• Pendal Sustainable Series Funds[3] received RIAA certification.
2018	• Launched Pendal Sustainable Future Australian Share Portfolio SMA• Published our first Principles of Internal Governance and Asset Stewardship.
2019	• Assumed full ownership of Regnan – Governance Research & Engagement, bringing it in-house to serve as a specialist RI boutique within Pendal Group.

2020	• Launched Pendal Group's first Impact strategy, the Regnan Credit Impact Trust. • Launched Pendal's first Sustainable Multi-Asset[4] SMA
2023	• A superannuation fund for public sector employees launched their first sustainable option, managed by Pendal.
2024	• Formal Sustainable Objectives added to Sustainable Series[3] of funds. • Pendal wins Zenith Fund awards in the Sustainable and Responsible Investments – Income
2025	• Pendal Sustainable Series Funds awarded RIAA certification under updated certification program. All 7 Sustainable Series Funds are classified by RIAA as Sustainable Plus.
2026	• Pendal recognised as a Responsible Investment Leader in the Investment Manager category by RIAA for the fifth year in a row.

[1] The fund was launched when Pendal was part of the BT Financial Group. Pendal Fund Services Limited (previously known as BT Investment Management (Fund Services) Limited) became the responsible entity of this fund in 2007.

[2] When Pendal was part of the BT Financial Group.

3 The Pendal Sustainable series includes Pendal Horizon Sustainable Australian Share Fund, Pendal Sustainable Australian Share Fund, Pendal Sustainable Balanced Fund, Pendal Sustainable Conservative Fund, Pendal Sustainable Australian Fixed Interest Fund. Pendal Sustainable International Share Fund, Pendal Sustainable Future Australian Share Portfolio.

[4]Pendal's multi-asset funds are managed by the Perpetual Multi Asset team since 14 March 2024.

ESG integration

ESG integration refers to the inclusion of ESG factors within investment analysis and decision making. Where any ESG considerations may impact the financial performance of an investment, those factors are considered as part of our active investment processes (in the same way as we consider other potential risk factors).

We analyse material ESG risks and opportunities using proprietary methodology developed in-house. A key part of our ESG integration approach is the utilisation of our in-house expertise. Our investment analysts have expert knowledge of the companies within their coverage and are very well positioned to analyse the effective management of material ESG risks within the broader company context. This is complemented by continued engagement with RI specialists from across Regnan and Pendal. These specialists provide thematic context, ESG research and proprietary tools for enhanced ESG analysis. Additionally, the RI specialists provide support for the development of the investment teams' ESG engagement program.

Pendal investment teams typically adopt an 'open architecture' approach to ESG integration, allowing for the flexibility of incorporating additional information and data as it presents. While the underlying methodologies adopted may vary within and across asset classes, and even sectors, there are common characteristics, including materiality to value, a forward-looking, and adaptive approach that responds to new information and data and to changes in corporate and consumer behaviours or regulation.

Governance

ESG risk management is undertaken within each investment team as part of the portfolio construction and review process and is further supported as part of regular reviews held with each investment team, chaired by Pendal's Investment Director. The Australian Equities ESG Watchlists Assessment Panel meets quarterly to review controversies of companies in the ASX300 and discuss next course of action. This may lead to company engagement and goals setting, placing the company on a watch list or exclusion list for sustainable portfolios. We also review portfolio-level exposure to climate and modern slavery risks using proprietary tools developed in-house. These include our Climate Heat Map Tool and Modern Slavery Tool, the outputs of which are reviewed by the Panel on a quarterly basis. Further detail on our Australian Equities ESG Assessment Process (EAP) and ESG Watchlists Assessment Process is set out below.

Pendal Australian Equities ESG integration process

Our Australian Equities team's ESG integration framework is a standalone process that is designed to feed into the overarching investment decision making process to enhance risk-adjusted returns. The proprietary framework identifies the most relevant issues for a given company, which impact on the investment case, through a forward-looking lens.

This approach reflects the team's investment philosophy that active investors need to anticipate change and should be compensated for the risks they take in all market environments.

The team's views on how structural trends may amplify ESG risks opportunities where relevant.

At the portfolio construction level, the portfolio manager is aware of the ESG factors at play in an analyst's assessment of a company, through the research note which outlines the analysts' stock recommendations, models, valuations, and assumptions.

In undertaking a company assessment, the team looks at the ESG factors most material to value and considers to what extent ESG information contributes to analysts' views on, for instance, revenue forecasts, execution capability, competitive position, and the likelihood of an ESG issue materialising. Consideration is also given to the risks to the sector, as well as the unique risks to the company. This ongoing company-level research, coupled with valuation, underpins the idea generation process.

ESG Assessment Process (EAP)

Underpinning our Australian Equities ESG integration process is the EAP, a proprietary scorecard-based methodology applied consistently across our investable universe. The EAP identifies the ESG factors most material to each company through a proprietary materiality map developed alongside Regnan. Our equities analysts then provide input and a view into how well each company is managing those risks and opportunities.

Analyst assessments are translated into stock level company ESG scores that reflect our analysts' views with input from Regnan. The EAP highlights additional areas for company engagement to mitigate ESG risks.

The EAP is conducted on the ASX100 and our holdings in small caps. Each company is reviewed at least annually.

Incidents Watchlist and assessment process

In addition to the EAP, our Australian Equities team maintains a dedicated Incidents Watchlist to respond to significant controversies that may affect a company's suitability for our sustainable funds. All companies within the ASX300 are monitored on an ongoing basis for emerging incidents.

Where a controversy has the potential to represent a significant breach of social or environmental norms or regulations, or conduct that is fundamentally misaligned with the spirit of our sustainable funds, it is escalated for formal assessment. This assessment is informed by an advice panel comprising senior investment and responsible investment representatives

This can result in one of three outcomes: business as usual, placement on a dedicated monitor list for ongoing review, or exclusion from the relevant funds.

Companies on the monitor list, and those that remain excluded, are formally reviewed at least quarterly.

Company Engagement

The team adopts a top-down and bottom-up approach to engagement. From a top-down perspective, they set priorities for key ESG themes, such as climate change or diversity, equality, and inclusion (DEI), that are assessed as being material at portfolio level and/or to our clients. The team then determines which holdings have material exposure to the thematic and which Pendal can best influence the desired outcome. From a bottom-up perspective, analysts identify ESG issues typically through their ESG integration frameworks. These insights are brought into engagements for more pointed discussions with boards and management teams.

The Australian Equities team also undertakes a formal Thematic Engagement Program, focused on systems-level sustainability themes that are material to value. The themes are underpinned by Regnan research and guidance. Engagement focuses on understanding the opportunities and challenges for systems-wide change and collaboration with companies to encourage and facilitate that change.

Active ownership

In addition to our direct engagement, we participate alongside other institutional investors in stewardship activities, as well as other collaborative and industry initiatives.[1] Such collaboration helps to ensure a coordinated approach and to add weight to matters of market integrity.

We regard the exercise of voting rights as an important aspect of RI. We take an active approach to voting, considering each decision on a case-by-case basis. While we will not become involved in day-to-day management issues, we recognise that we can influence company policy on ESG matters by virtue of shareholdings under our management.

We are committed to transparency in our active ownership practices and provide comprehensive information to clients such as disclosing proxy voting and engagement on our website.[2]

Approach to key ESG issues

We recognise the need for the RI agenda to evolve with changes in society and the financial ecosystem, and place additional emphasis on emerging topics within RI as their importance increases.

Information on Pendal investment teams' approach to specific ESG issues can be found on the Pendal website:

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[1] Please refer to our website for the initiatives and associations of which we are a member or participant - https://www.pendalgroup.com/about/corporate-governance/industry-representation/

[2] https://pendalgroup.com/about/corporate-governance/

- Pendal Climate Change Statement
- Pendal Human Rights Statement

RI Conclusion

We believe investing responsibly enables us to better deliver competitive returns and, where applicable, do so in a manner consistent with the values and objectives of our clients. We understand that views on responsible investing are varied and that approaches need to evolve with changes within society and the corporate environment. As such, we continue to develop our RI processes and are committed to continuing our proud heritage of partnering with our clients, delivering RI products and solutions to meet their needs and with a focus on supporting long-term wealth creation.

For more information, please visit **pendalgroup.com**

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