

Responsible investment philosophy and approach

December 2017

Scope

This document applies across Pendal Group Limited's Australian investment management business (Pendal), providing guidance to our investment teams.

This statement is aligned with Pendal's Corporate Sustainability and Responsibility Statement and Proxy Voting Policy Statement.

The document was approved by the Pendal Australia Executive Committee in December 2017 and is reviewed annually or more frequently if required.

Background

Pendal is an investment manager with a proud history and ongoing commitment to leadership in responsible investment (RI).

We offer a range of innovative approaches to RI across multiple strategies, including:

- Australian Equities
- Global Equities
- Australian Fixed Income and Credit
- International Fixed Income and Credit
- Multi-Asset Investments.

However, as a fiduciary and a corporate citizen, our approach to RI extends beyond product solutions. We view effective management of our impact upon the environment, the community and other stakeholders as critical to our continued ability to deliver sustainable value to our clients, employees and our shareholders.

"Responsible investing is part of our heritage and is a natural extension of our active approach to investing."

Emilio Gonzalez, Group CEO, Pendal Group Limited

Responsible investment philosophy

A company's performance is closely linked to the quality of its management. The way a company handles environmental, social and corporate governance (ESG) issues can provide insight into the company's exposure to negative incidents or emerging opportunities.

Pendal's RI philosophy is based on three core beliefs:

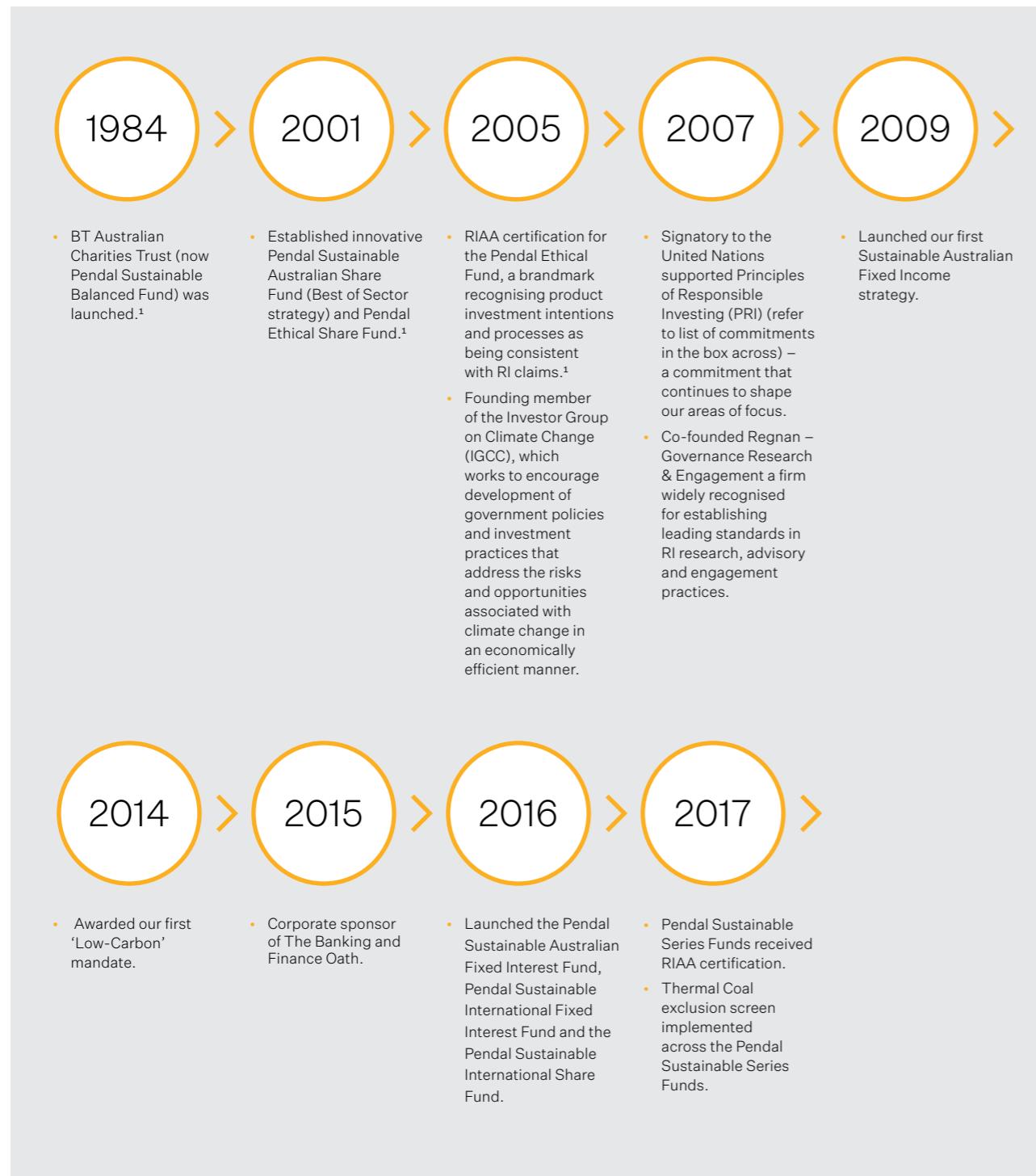
- Attention to environmental and social performance and to corporate governance can improve the quality and consistency of long-term wealth creation.
- As an active manager, we are well positioned to help our clients manage these risks and thus enhance returns, including through innovative investment solutions that provide opportunities to invest in line with the values of our clients.
- Our actions and decisions can affect practices in the entities in which we invest, in turn affecting the environment, our stakeholders, and the community. We have both a duty and an interest in managing this influence.

Where ESG considerations may impact the financial performance of an investment, those factors are taken into account as part of our active investment processes (in the same way as other potential risk factors).

In addition to integrating ESG via our active management processes, we strive to assist our clients to meet their objectives through innovative, performance-driven investment solutions. We focus on assisting clients to manage their own ESG commitments and responsibilities, through investment options aligned to their ethical, environmental or social priorities.

Our RI history

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



The PRI is a set of six commitments:

- 1** We will incorporate ESG issues into investment analysis and decision
- 2** We will be active owners and incorporate ESG issues into our ownership policies and practices;
- 3** We will seek appropriate disclosure on ESG issues by the entities in which we invest;
- 4** We will promote acceptance and implementation of the Principles within the investment industry;
- 5** We will work together to enhance our effectiveness in implementing the Principles; and
- 6** We will each report on our activities and progress towards implementing the Principles.

Source: PRI

Active ownership and engagement

Active ownership is a natural extension of our active management investment process. Pendal engages in an ongoing dialogue with the management of the companies in which we invest to manage risk, effect change and protect value over the long term. 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

To enable an enhanced focus and independent perspective on ESG issues, we also use an ESG specialist firm, Regnan, to engage with top 200 ASX-listed companies on ESG issues relevant for long term value.³ We consider this to be an important complement to our own practice, ensuring the capacity for emerging issues in the field to benefit from sufficient attention and expertise. We are proud that through our involvement in Regnan's establishment, we have also been able to support our clients and our industry's RI practices in this endeavour.

Approach to key ESG issues

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

Contemporary examples include demographic shifts, technological disruption of traditional industries, and climate change.⁴

Climate change

The transition to a low carbon economy is reconfiguring the investment landscape, with consequences for both physical and financial assets.⁵

While we are able to measure the carbon intensity across our portfolios, we believe robust investment analysis must go beyond reporting a carbon footprint to consider the impacts of risks and opportunities more broadly and across all sectors. These include:

- Adoption of cleaner technologies (eg. energy efficiency, advances in battery storage);
- Changes in consumer preferences (eg. shift to renewable energy);
- Related regulatory/policy initiatives (eg. energy efficiency standards); and
- Physical impact from extreme weather events, rising sea levels and consequent institutional responses (eg. diminishing insurance availability).

As an active investment manager our analysts also pose similar questions, where relevant, during Pendal meetings with company management and use this information to assess when, where, and how real and financial asset markets may be affected.

"We are committed to working with our clients to help them to tailor their investments to manage the risks and opportunities associated with climate change."

² <https://pendalgroup.com/about/corporate-governance/>

³ We disclose Regnan's Annual Engagement Record in our 'Corporate Sustainability & Responsibility' report as part of our Annual Report.

⁴ World Economic Forum's annual Global Risks 2017 report listed 'Failure of climate-change mitigation and adaption', 'Extreme weather events', 'Water crises', and 'Major natural disasters' as four of the top five risk factors in terms of impact. More specifically, the report lists natural catastrophes and water crises as the highest ranking risk factors in the Asia Pacific region.

⁵ Please refer to the Corporate Sustainability & Responsibility report in the 2017 BT Investment Management Annual Report for a discussion of our actions as a corporation in managing the risks and opportunities associated with the transition to a low carbon economy.

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.



Continuous improvement

While RI is well-established, its evolution and growth continue to provide new opportunities. As the quality of data, disclosure and tools evolve we continue to develop our RI processes and our products (including those serving different asset classes and geographies).

Conclusion

We believe it is possible to deliver competitive returns and invest in line with the values and missions 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. We are committed to continuing our proud heritage of partnering with investors to deliver RI solutions with a focus on long-term wealth creation.

Pendal acknowledges that climate change is an ongoing and complex issue. We are committed to working with our clients to help them to tailor their investments to manage the risks and opportunities associated with climate change while also delivering responsible, performance driven strategies that meet their long-term investment objectives.

For more information please email
RI@pendalgroup.com or visit pendalgroup.com

PENDAL

The information in this brochure is current as at 31 March 2018 and has been prepared by Pendal Institutional Limited ABN 17 126 390 627, AFSL No 316455 (PIL). It is not to be published, or otherwise made available to any person other than the party to whom it is provided. Prior to May 2018, Pendal Institutional Limited was known as BT Investment Management (Institutional) Limited. Pendal Fund Services Limited ABN 13 161 249 332, AFSL No 431426 (PFSL) is the responsible entity and issuer of units in the Pendal Sustainable Balanced Fund ABN 41 447 162 879, Pendal Sustainable Australian Share Fund ARSN 097 661 857, Pendal Ethical Share Fund ARSN 096 328 219, Pendal Sustainable Australian Fixed Interest Fund ARSN 612 664 730, Pendal Sustainable International Fixed Interest Fund ARSN 612 664 945 and the Pendal Sustainable International Share Fund ARSN 612 665 219 (Funds). Prior to May 2018, Pendal Fund Services Limited was known as BT Investment Management (Fund Services) Limited.

A product disclosure statement (PDS) is available for each Fund and can be obtained by calling 1800 813 886 or visiting www.pendalgroup.com. You should obtain and consider the PDS for each Fund before deciding whether to acquire, continue to hold or dispose of units in any of the Funds. 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.

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

The information in this document contains 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 fact sheet is complete and correct, to the maximum extent permitted by law neither PIL nor any company in the Pendal group accepts any responsibility or liability for the accuracy or completeness of this information.