

Pendal Sustainable International Share Fund Sustainability Objectives and Investment Process

31 December 2024

This document details the sustainability goals of the Pendal Sustainable International Share Fund (the Fund) and the investment process that underpins them. These sustainability goals encompass the positive environmental, social, and governance (ESG) factors, attributes, or outcomes that the Fund aims to achieve, either at the level of individual securities or in aggregate. Additionally, the Fund incorporates ESG integration and stewardship to manage risks and opportunities effectively.

Sustainability Objective

Sustainability Objective (SO): The Fund aims to support the transition to a more sustainable economy, by aligning 80% or more of its capital in aggregate with investments that advance this transition.

We aim to do this by allocating capital to investments that:

- support positive environmental and/or social change via their investment processes, positively tilting the overall investment portfolio, and/or active ownership¹; and
- avoid exposure to companies with business activities that Pendal considers to negatively impact the environment and/or society².

We define a sustainable economy as an economic system which balances environmental, social, and economic factors.

The Fund's Sustainability Objective does not apply to derivatives.

¹*Pendal defines active ownership (or stewardship), as exercising our voting rights through proxy voting and select engagement with investee companies or issuers.*

²*As defined by the exclusionary screens and gross revenue thresholds.*

Sustainability Assessment Framework

At Pandal, our investment philosophy is grounded in the belief that integrating Environmental, Social, and Governance (ESG) factors into our investment process enhances long-term value creation and risk management, as well as increasingly being aligned with our stakeholders' values.

Long-Term Value Creation

We believe that companies and assets that effectively manage ESG risks and opportunities are better positioned to deliver sustainable long-term returns. By focusing on ESG factors, we aim to identify investments that are not only financially sound but also contribute positively to society and the environment.

Risk Management

Incorporating ESG factors into our investment analysis helps us to identify and mitigate potential risks that may not be captured by traditional financial metrics. ESG issues such as climate change, regulatory changes, and social unrest can have significant impacts on asset values. By proactively addressing these risks, we seek to protect our investments and enhance their resilience.

Alignment with Stakeholder Values

We understand that our investors increasingly seek to align their investments with their personal values and societal goals. By integrating ESG factors, we aim to meet the growing demand for responsible investment options that reflect our stakeholders' commitment to sustainability and ethical practices.

To implement the Sustainability Objective (SO), the following four Primary Sustainability Actions (PSA) are carried out throughout the Fund:

1. The application of integrated ESG investment processes,
2. Avoiding exposure to companies with business activities that Pandal considers to negatively impact the environment and/or society,
3. Tilting the aggregate Fund's holdings towards supporting positive environmental and/or social change, and
4. Employing active ownership - which includes aligning proxy voting and select engagement activities with investee company management.

These four PSA are implemented at various portfolio levels, within asset classes as applied by the underlying selected investment funds, and also by top-down tilting where relevant such as for this Fund. Generally, we view sustainable investing "lives within asset classes", via the security selection processes. The SO guides the investment selection of underlying investment funds and by extension their underlying invested companies, ensuring their aggregate business activities align with the SO. For the Fund, the Multi-Asset team via a sustainability overlay process further monitors, controls and tilts aggregate holdings where warranted to ensure the Fund is aligned with the SO. Finally, a top-down active ownership process ensures that engagement and proxy voting are aligned with the SO. These actions ensures that 100% of the Fund is aligned with the SO.

We evaluate both the individual contributions of the investment funds towards the SO, and the overall contributions of the underlying companies held. This collective impact is measured, monitored, and controlled at the total Fund level to ensure the SO is effectively implemented. Should we view the Fund's holdings are not adequately aligned with the SO, we'll pro-actively tilt the holdings to ensure alignment.

Our approach to Sustainability Integration is illustrated via the six Primary Sustainability Steps (PSS) below:

Sustainability Objective (SO)	Primary Sustainability Actions	Investment Selection	Total Portfolio Management	Monitor and Control - Investments	Monitor and Control - Total Portfolio
Transition to a more Sustainable Economy	Applied across all levels of the Fund where possible: <ul style="list-style-type: none"> • ESG integration • Activity screening • Sustainability tilting • Active ownership 	Funds that are generally aligned with the SO Each fund will have its own specific RI process for security selection & stewardship	Top-down management to ensure intentional alignment with the SO, including sustainability tilting and stewardship Judicious management of ESG active risk taken, using a risk budgeting method	Quarterly review of their holdings (e.g. WACI, SDGs) and stewardship activities Annual Strategic Sustainability Review Engage where necessary	Quarterly tracking of aggregate Fund SO alignment and a positive sustainable tilt e.g. WACI, SDGs, stewardship Engage with underlying funds and/or enhance the sustainable tilt where necessary
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In addition to the above, Regnan is a significant collaborator providing sustainability research, advice and support across all levels of the Fund, such as:

- Activity screens
- Controversies
- Engagement
- Proxy voting
- Advocacy
- Regulatory compliance
- Data tools e.g. Horizon, Affinity
- Best practice sustainable investment management

Selection of Investment Funds – Bottom-Up Sustainability Management

The Fund applies two levels of sustainability investment management, at the bottom-up level by the underlying funds, and also at the top-down level by the Multi Asset team via sustainability overlay processes.

When selecting, retaining or realising the Fund's investments (such as funds), Pandal evaluates each investment's alignment with the Fund's Sustainability Objective (SO), which aims to support the transition to a more sustainable economy. To be considered for the Fund, investments are reviewed based on the primary sustainability actions: ESG integration, activity screening, a positive sustainability tilt, and stewardship. Additionally, any potential adverse impacts of holding the investment on the SO are considered.

For every fund (manager) investment considered for the Fund, we complete a sustainability Due Diligence Questionnaire (DDQ). This questionnaire helps determine the extent to which the prospective fund contributes to a more sustainable economy. We review the fund's holdings, investment and stewardship approach, stewardship activity, ESG integration approach, activity screening, sustainable themes and/or tilts, and the sustainability objective of the fund, where applicable, along with available reporting.

For ESG integration, we expect the underlying investment processes of invested funds to systematically integrate ESG factors into investment research, analysis, and decision-making. This includes:

- Conducting thorough ESG due diligence on potential investments.
- Incorporating ESG criteria into financial models and valuation frameworks.
- Engaging with companies to understand their ESG practices and encourage improvements.

Regarding exclusionary screens, we expect at a minimum exclusion of businesses with activities that could cause significant harm, such as the:

- production of tobacco (including e-cigarettes and inhalers); or
- manufacture controversial weapons (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/ or non-detectable fragments).

Whilst activity screens are also applied and controlled at the top-down sustainability overlay level, we view it's best practice that the underlying fund managers allow for screening in their security selection processes, as they are best able to manage the portfolio implications of such screens e.g. find a suitable similar replacement stock for a screened stock.

The underlying funds each have their own degree of ESG integration, activity screens, positive sustainability tilt and/or engagement. Whilst we view each fund makes a valid contribution to the SO of the Fund (and the PO) in isolation, the Fund isn't reliant on the underlying funds to achieve its SO.

Not all the underlying funds and securities held within the Fund will have a positive sustainability tilt or objective. The Fund has both a return and a sustainability objective. These objectives must be balanced to meet the best interest of investors. As such, the Fund builds on the sustainability contributions of the underlying funds, and relies on its top-down sustainability overlay processes to ensure alignment with its SO.

Total Portfolio Management – Top-Down Sustainability Management

Pendal integrates ESG insights and sustainability preferences into the portfolio from both the top-down and the bottom-up. Our unique emulation approach to implementing the underlying managers' target portfolios means the Multi Asset team directly owns, monitors, controls and implements all the investment holdings. This "funds management approach" to "multi-manager" we view is a superior approach to sustainability investment management, as we attain the return diversification benefit of blending complimentary managers (in line with the Fund's Performance Objective), but without the several sustainability inconsistencies of a multi-manager approach.

The typical multi-manager inconsistencies our emulation approach avoids are differences in:

- expressed values, beliefs, preferences;
- activity screens;

- sustainability objectives and themes;
- stewardship activities;
- ESG data providers leading to different stock views; and
- heterogeneous tracking and metrics relative to goals.

The underlying managers' level of sustainability (at least from the Fund's SO perspective), can also change through time. Our top-down overlay process monitors and controls such change.

We view our top-down sustainability overlays further fortifies the holdings and stewardship alignment to the Sustainability Objective beyond the underlying managers and ensures 100% of the Fund is aligned to the Sustainable Objective. The three top-down intentional sustainability overlays are:

1. Activity Screening: Ensuring one set of consistent screens is applied
2. Positive Sustainability Tilting: Monitoring and controlling the holdings to align with the SO
3. Active Ownership Activities: One approach to engagement/proxy voting/controversies

Activity Screening:

As noted above, the underlying managers also apply screens. However naturally the screens that each manager applies will differ, based on different screening preferences, aims, and data providers used to implement screens. Allowing the underlying managers to implement screens means that a material amount of screening will be integrated into the underlying managers' investment processes, enabling the underlying managers the opportunity to decide how to best replace and manage its screened stock portfolio.

However given the resultant screening inconsistency problem of the heterogeneous approaches of the underlying managers, we also overlay another layer of screening from the top-down. This top-down screening ensures that a consistent set of screens are applied to 100% of the Fund. The Fund's screens are managed independently of the Multi Asset team, by Regnan who runs the screens and the Risk and Compliance team and Exposure Management teams who ensure that screened stocks are removed from the underlying managers' target portfolios. The Multi Asset team then implements the screened target portfolios via the emulation approach.

Positive Sustainability Tilting:

Our sustainability tilting process ensures the intentionality of aggregate holdings alignment with the Sustainable Objective. The Multi Asset team monitors, controls, and positively tilts the holdings towards more sustainable outcomes if required. This overlay process applied to 100% of the Fund ensures that the Fund isn't reliant on the underlying managers to achieve the SO in terms of holdings alignment.

The tilting process not just increases the ability to align with the SO, it also enhances the probability of meeting the Performance Objective by increasing the investible universe of possible managers, as well as enhancing manager blending opportunities and alpha potential. Whilst we can align both environmental and social factors to the SO, we focus on the environmental factor and in particular target a WACI of 30% less than the benchmark. Social factors such as SDGs are monitored, with the potential for tilting holdings for SDGs alignment if viewed warranted.

Active Ownership Activities:

We believe in the power of active ownership to drive positive change. Through proxy voting and direct engagement with investee companies, we advocate for better ESG practices and hold companies accountable for their performance.

A material issue for multi-manager sustainable labelled funds is the potential inconsistencies of active ownership (i.e. stewardship). Not only could different managers vote or engage with a company in a contradictory way, but the break-up of the invested capital reduces the weight of money and dules the stewardship activity. Given the emulation approach, the Multi Asset team directly owns all company holdings, enabling a consistent approach to active ownership and enhancing the weight of money impact applied across 100% of the Fund.

The active ownership activities are managed by the Active Ownership Panel (AOP). The AOP has top-down oversight of the alignment of the active ownership activities with the SO, covering:

- Engagement
- Proxy voting, and
- Controversies

Regnan is responsible for the day-to-day management of these active ownership activities.

The AOP also monitors the SO alignment of the underlying funds and engages where necessary. This process ensures that underlying funds are being run in line with the fund selection DDQ (including an annual review), and by monitoring their active ownership decisions provides the AOP the opportunity further contribute to the effort. Or in some cases there may be a preference to override their active ownership activities if viewed they aren't in line with the Fund's SO and investor's best interests (e.g. an excluded stock due to an ethical controversy).

This overlay activity has extra focus on aligning and evidencing the Social Factor, given the focus within the Sustainability Tilting process to emphasis the Environmental Factor via the WACI target.

The AOP consists of members from the Multi Asset and Regnan teams and meets quarterly.

Engagement: Regnan has committed to engaging with at least 15 companies held in the Fund each year specific to SO alignment. This is in addition to the engagement activities of the underlying managers, which may or may not be aligned with the SO. Regnan will look to promote leading environmental and social practices and the avoidance of harm, with a particular focus on social issues aligned with the SO. Regnan adopts a "engagement for change" framework, consisting of setting of objectives prior to engagement, considering:

- Materiality of ESG factors
- Systematic risks to global portfolios
- Exposure (holdings)
- In reaction to ESG impacts which have already taken place
- In preparation ahead of a voting decision or as follow-up in response to a voting decision

Regnan also monitors the actions that companies take following engagements, and uses the Affinity engagement tracking platform that:

- Tracks the engagements, recording objectives, file notes, company correspondence and future steps
- Regulatory and client reporting, including case studies

Proxy Voting: Regnan recently advised moving to the higher-level ISS “International Sustainability Proxy Voting Guidelines”, reflecting better alignment with the SO and the need to rely on the ISS Guidelines’ recommendations for voting in most cases. However, Regnan will look to identify and potentially recommend voting against ISS’s recommendation where:

- Issues where ISS has recommended a vote against management recommendations, and
- Environmental and social recommendations aren’t aligned with the Fund’s SO.

The proxy voting process consists of Regnan:

- Monitoring ISS voting recommendations via email prior to each company’s AGM;
- Providing an assessment of the issue where necessary, using the SO as a lens and insights from Regnan’s Sustainable Value Assessment (SVA) methodology;
- Recommendation on whether to deviate from the ISS recommendation; and
- Keeping a record of voting recommendations for reporting to the AOP each quarter.

Where required, the Multi Asset team implements the voting by the deadline date per the ISS voting system.

Controversies: Regnan monthly screen the MSCI ACWI IMI and current holdings against ISS’ Norms Based Research (NBR), as well as intra-month review of ISS ad hoc email NBR Alerts.

ISS NBR covers four themes:

- Environment - environmental protection, climate change
- Human rights - Fundamental human rights, taxes, consumer protection
- Labour rights - Child labour, forced labour, union rights, workplace discrimination, labour standards
- Corruption - Bribery, accounting/disclosure standards, anti-competitive behaviour, money laundering

Stocks will be recommended for a “reconsideration” if red flagged (score of 10) by ISS NBR (a ‘verified failure’ to respect global norms), and MSCI ‘Controversy Score’ of ‘0’ (0-10 scale).

Regnan will prepare a “case” for discussion at the quarterly AOP meeting, and the AOP will decide the next course of action, such as:

- Divest;
- Reduce exposure;
- Engagement;
- Place on a watch-list and continue to monitor; or
- Consider suitable replacement stocks.

Portfolio Monitoring against the Sustainability Objective

We monitor and track the sustainability characteristics of the total Fund and each underlying fund by a range of metrics pertaining to the Fund’s overall sustainability strategy. These metrics may include Weighted Average Carbon Intensity (WACI), carbon footprint, SDGs, stewardship activity and other measures supporting the sustainability objectives of the Fund.

The underlying funds are also assessed for their ongoing suitability for the Fund. The investment team is responsible for monitoring the sustainability characteristics of the underlying funds and the overall Fund. The following table outlines the frequency of monitoring for each sustainability characteristic.

Sustainability Characteristic	Monitoring Frequency
ESG exclusions (total portfolio)	Daily (monitoring), monthly (review)
WACI / Carbon Footprint (underlying funds and total portfolio)	Quarterly
SDG revenue alignment (underlying funds and total portfolio)	Quarterly
Engagement activity (underlying funds and total portfolio)	Quarterly
Proxy Voting activity (total portfolio)	Daily (monitoring), quarterly (review)
Underlying investment funds Strategic Sustainability Review	Annually

The underlying Fund Selection DDQ must be reviewed at least annually by the investment team, as part of the Strategic Sustainability Review. Wherever possible, evidence of investment activity, stewardship activity and tracking against sustainability objective should be sought.

If we determined that an investment no longer meets the Fund's sustainability criteria, we may choose to engage with the underlying investment fund manager, company or issuer to address the issue. If the engagement is unsuccessful, we will divest the holding (usually within six months) having regard to the interests of investors. The time it takes for divestment depends on factors including but not limited to the size and liquidity of the investment (which may have an impact on the Fund's performance returns), and the time it takes for Pandal to assess suitable replacement investments that meet the Fund's exclusionary screens and sustainability criteria.

Adverse Impacts Assessment against the Sustainability Objective

At overall Fund level we will use external ESG data providers to track sustainability factors such as overall WACI and carbon footprint. We will identify the underlying funds and/or securities with the largest contribution towards these portfolio measures and assess that alongside the underlying investments' purpose and overall contribution to the Fund (e.g. financial, risk management, stewardship etc.). We will disclose this in our Annual Fund Sustainability report along with the rationale for our assessments.

Governance over Sustainability Objective

The Fund's holdings and engagement activity are monitored against its Sustainability Objective on a quarterly basis by the Active Ownership Panel (AOP).

The Governance and Oversight Report of the Fund monitors the following information:

- Compliance with exclusionary screens
- Portfolio WACI versus the benchmark
- Proportion of the Fund by FUM that supports the transition to a more sustainable economy
- Assessment of engagement activity of the Fund and the underlying funds against the Fund's Sustainability Objective

Specifically in regard to WACI, the Multi-Asset team aims to manage the portfolio with a weighted average carbon intensity (WACI) 30% below that of the benchmark. The portfolio manager can utilise several methods to manage this, including:

- applying the sustainability tilting process, reducing or exiting the problematic stocks held
- engagement with the managers of the underlying strategies, and
- changing the underlying strategy(s).

Should the WACI score of the Fund exceed that of the benchmark relative target at any point in time, the manager will aim to reduce this to 30% below the benchmark WACI (being the target) as soon as it is practicable, having consideration for market timing, the likelihood of the issue being due to short term factors rather than a longer term expected portfolio characteristic, and the impact this may have on other portfolio characteristics including risk factor exposures and overall portfolio diversification.

Responsibilities

The investment team, assisted by the Investment Solutions and Oversight (ISO) team, is responsible for assessing, selecting and monitoring underlying funds for their alignment with sustainability criteria outlined in the Fund's DDQ.

The investment team will review the investment holdings, investment process and stewardship approach of each underlying manager at least annually to determine if the strategy still aligns with the Fund's Sustainability Objective.

The investment team will monitor the WACI and carbon footprint of the Fund, as well as the same metrics for each underlying fund, at least quarterly and document the reasons for any increases in the WACI score or where the WACI exceeds the Fund's aim of achieving a WACI of 30% below that of the benchmark.

The investment team will monitor other sustainability characteristics of the Fund as well as of the underlying funds such as alignment of revenues with the Sustainable Development Goals (SDG's). This is not the explicit target of the fund but will be used as an indicator of the Fund's overall alignment with its Sustainability Objective.

The ISO team is responsible for producing the Annual Sustainability Report for the Fund, collating the quarterly engagement evidence from the underlying funds, and supporting the investment team (as an internal client) with the interaction and collation of ad hoc information on the underlying funds as needed.

Conclusion

Our investment philosophy at Pendal is founded on the belief that ESG factors are crucial for achieving sustainable, long-term investment success across multiple asset classes. By incorporating



ESG considerations into our investment process at both top-down and bottom-up levels, we strive to deliver superior risk-adjusted returns while contributing to a more sustainable and equitable world.

We hold ourselves accountable to these objectives at both the individual portfolio level and the overall portfolio level through rigorous position-level scrutiny. This approach helps us identify companies that can be targeted for engagement, ensuring that our investments align with our ESG principles and drive positive change.



Appendix

Exclusionary screens for the Pendal Sustainable International Equities Fund

Excluded business activities are outlined in the Additional Information Booklet accompanying the Fund PDS:

[Insert Link]

For more information, please visit pendalgroup.com

PENDAL

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