CLIMATE TRANSPARENCY REPORT 2020

Pendal

Principles for Responsible Investment

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-E1505EAA-7CEA-4C66-A632-B8D6E76C20DB/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Public				
SG 07.6 CC	✓	Public				
SG 07.7 CC	✓	Public				
SG 07.8 CC	✓	Public				
SG 13.1	✓	Public				
SG 13.2	-	Public				
SG 13.4 CC	-					
SG 13.5 CC	-					
SG 13.6 CC	-					
SG 13.7 CC	-					
SG 13.8 CC	-					
SG 14.1	✓	Public				
SG 14.2	✓	Public				
SG 14.3	✓	Public				
SG 14.6 CC	✓	Public				
SG 14.7 CC	-	Public				
SG 14.8 CC	✓	Public				
SG 14.9 CC	✓	Public				
SG 15.1	✓	Private				
SG 15.2	✓	Private				
SG 15.3	✓	Private				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation

Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	Pendal
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ > 50 billion AUM
Main Asset Class	Multi-Asset
Signed PRI Initiative	2016
Region	Oceania
Country	Australia
Disclosure of Voluntary Indicators	87% from 38 Voluntary indicators

Pendal

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation’s investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

We actively consider climate-related risks and acknowledge that the escalating nature of climate change is impacting the time horizons over which many of these risks are becoming financially material. Where any risk is deemed to be material, it is factored into investment decision making.

Transition risks centre around regulatory and policy changes; technological developments; and changing market dynamics such as consumer preferences as the global economy moves to net zero. The transition pathway (orderly vs disorderly) also needs to be considered as this is likely to result in stronger policy responses being enacted rapidly, and market forces reacting accordingly. As such, we monitor policy and regulatory developments around the world.

Further, we monitor changing market dynamics, such as demand changing in response to carbon pricing elevating costs, or consumers actively seeking climate-friendly products. Changes in both regulations and market dynamics will increase the likelihood of stranded assets; and we actively monitor this risk.

Transition risks are particularly relevant to companies and issuers from jurisdictions that are more carbon-intensive and/or at risk of increased carbon-related regulation. Companies with higher emissions, for example energy or airline companies, have a greater exposure to regulatory and litigation risks due to having direct liabilities. They are most affected by mechanisms such carbon taxes and, as they have direct operational control of emissions, any harm caused by their business can be more readily traced.

The physical impacts of climate change can have many and varied direct implications for both equity and debt investments. Extreme weather events can disrupt operations and thus destroy value - cyclones may halt mining production, floods can cut off rail supply routes. Longer term shifts in the climate - such as permanent changes in rainfall patterns and increased temperatures - can often present risks that are more challenging to mitigate against. We continue to strive to better understand country/regional and asset-level physical risk exposure. For example, our dedicated ESG research team Regnan has been working with a number of our investment teams to better understand physical related risks. Our Fixed Income team's focus this year was on water-related risk, while our Listed Property team enhanced their framework to assess company and asset level resilience to extreme weather events.

Our climate-related research (e.g. changing policy, technology and consumer preferences) also informs portfolio construction, asset allocation (such as Australia vs international, or DM vs EM exposures) and product development processes (e.g. introducing thematic tilts in equity portfolios to renewable energy and sustainable building or active allocations to green and sustainable bonds across fixed income funds).

Further to the ESG integration undertaken across all our asset classes and strategies, we also offer low-carbon and impact investment products. Within these products, a greater emphasis is placed on identifying climate opportunities as well as companies whose products and services positively contribute to the transition or adaptation efforts.

Some of these opportunities and climate-positive activities include energy efficiency initiatives; R&D into lower carbon products; renewable energy; water security; low carbon transport; and sustainability-linked lending.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

	Describe the associated timescales linked to these risks and opportunities.

Many climate change impacts are expected to increase or emerge over time. Thus, impacts that are more distant may be much more significant than near term impacts although we have less certainty about how they will play out. However, within our investments, given the time horizons of our strategies, greater attention is given to near term impacts and these weigh more heavily in valuations.

In assessing exposure to an impact, analysis considers the timeframes over which the impact is likely to materialise and provide greater weight to impacts the closer they are. What constitutes short or near term will vary somewhat depending on the industry and asset class. We reference short, medium and long term risks, and as a guide these timeframes are: short term = 1-2 years; medium term = 3-5 years; long term = >5 years. This draws on our work done with our in-house ESG specialist team Regnan, as well as external sources. Generally, impacts that are not expected to be significant within a 20-year time horizon are be ignored, we consider these impacts to be incapable of having a material effect on valuation.

We consider it important to view ESG issues in light of the chosen method of implementation and investment time horizon. For example, ESG issues will have much more importance for directly or indirectly held securities where the holding period may be three years or more, than for a short term momentum-based trade using futures

○ No

SG 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.9 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

◉ Yes

	Describe

Consistent with our approach to managing any investment risk, material climate risks are identified in line with investment risk frameworks. Pendal Australia operates under a boutique model with four investment teams: Australian equities; global equities; fixed income and multi-asset. Each team applies its own investment processes to identify and manage material climate-related risks as appropriate to the asset class.

Material climate risks (or opportunities) are identified as part of our fundamental security analysis processes and thus are an input to investment decisions. Our investment teams have been increasingly utilising a range of sources, including ESG research covering climate risks, to form a view of companies'/issuers' exposure to and management of climate-related risks and opportunities.

Especially given we are an active manager, we also focus on the role that engagement and other stewardship practices can play in identifying and managing climate-related risks and opportunities. Not only does our active engagement program support increased understanding of the issues, but it allows us to use our influence as a large investor to achieve climate-related objectives at investee companies.

Investment governance processes provide oversight to climate risk management across Pendal. The Investment Solutions and Oversight team, led by the Investment Director, ensures a consistent approach. The Investment Director reports directly to the Pendal Australia CEO.

We note that we are actively evolving our processes around climate-risk and opportunity management, in line with the recommendations of the TCFD. This is an iterative process, and one that we expect will take a number of years before we achieve a comprehensive response and establish ongoing practices to ensure our approach continually evolves in line with climate science, as well as regulatory and stakeholder expectations.

More information on how the Pendal Group business, of which Pendal Australia is a subsidiary, considers climate-related risks to our operations, please see our most recent Annual Report and Corporate Sustainability and Responsibility Report. Both are available on our website here: https://annual-report-2019.pendalgroup.com/

○ No

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☐ Public PRI Climate Transparency Report

☑ Annual financial filings

☑ Regular client reporting

☐ Member communications

☑ Other

	specify

Ad hoc client requests on portfolios or specific companies.

☐ We currently do not publish TCFD disclosures

Governance and human resources

SG 07 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 07.5 CC	Indicate the roles in the organisation that have oversight, accountability and/or management responsibilities for climate-related issues.

	Board members or trustees

☑ Oversight/accountability for climate-related issues

☐ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Chief Executive Officer (CEO), Chief Investment Officer (CIO), Chief Risk Officer (CRO), Investment Committee

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Other Chief-level staff or heads of departments

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Portfolio managers

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Investment analysts

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	Dedicated responsible investment staff

☑ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

	External managers or service providers

☐ Oversight/accountability for climate-related issues

☑ Assessment and management of climate-related issues

☐ No responsibility for climate-related issues

SG 07.6 CC	For board-level roles that have climate-related issue oversight/accountability or implementation responsibilities, indicate how these responsibilities are executed.

Climate-related risks and opportunities for our business are considered by the Board within Pendal Group's broader risk management framework. Climate-related investment risk and opportunities are considered within our investment governance processes. These processes include a series of forums dedicated to responsible investment (including ESG integration) and include representatives from investment teams, across all asset classes. This framework is publicly outlined in the 2019 Pendal Group Corporate Sustainability and Responsibility (CSR) Report - https://annual-report-2019.pendalgroup.com/csr/

Oversight on climate-related issues also comes through the Pendal Australia RI Governance Structure, approved by Pendal Australia CEO in 2018. This governance structure sets out the board's role in overseeing implementation of Pendal's RI strategy, including the incorporation of climate-related considerations within the investment decision making process. As outlined in the RI Governance Structure, the Pendal Boards have delegated some of their Australian responsibilities (including RI) to the Australian Executive Committee. The Committee is made up of Pendal Australia's senior management including the Chief Executive Officer (CEO), Chief Financial Officer (CFO), Investment Director, Head of Risk & Compliance, Head of Legal, Head of Sales & Marketing, Head of Corporate Development, and the Head of Employee Experience.

SG 07.7 CC	For management-level roles that assess and manage climate-related issues, provide further information on the structure and processes involved.

The Executive Committee approved Pendal's Responsible Investment Philosophy which, with respect to climate change, commits us to "consider the impacts of risks and opportunities more broadly and across all sectors". Under the governance model investment and corporate teams are required to support implementation of the framework and identify and manage material climate-related risks and opportunities.

Responsible Investments (RI) team is part of the investments arm of the business reporting through the Pendal Australia Investment Director to the Pendal Australia CEO. The RI team's role is focused on the development and implementation of Pendal Australia's RI framework and strategy. Key areas of responsibilities include:

• working with investment teams to build upon the strong foundation of ESG integration and active ownership practices. This includes ensuring relevant climate-related information is communicated along the investment chain in order to most effectively leverage the skills and knowledge available across our multi-boutique structure - from company specific issues to market wide themes.

• working with Product and Strategy on RI related product development and innovation including the evolution of existing product and the launch of new climate-aware RI products

• supporting Group Company Secretary & Head of Corporate Governance and Head of Risk & Compliance to develop and implement ESG (including climate / TCFD aligned)-related risk management, measurement and reporting policies and frameworks

• working with Regnan (Pendal's in-house ESG team) to build out investment team's RI capabilities and supporting frameworks, including ESG integration, sustainability, impact investing and active ownership.

In addition to the focused RI team, Pendal Australia has established the Responsible Investments Working Group (RI Group) to facilitate knowledge sharing and provide input into RI guidelines, strategy and solutions. The RI Group consists of senior members of the investments (all asset classes) and corporate teams (Risk & Compliance, Legal, Sales and Marketing) and its responsibilities are set out in the Responsible Investments Governance Structure.

The objective of the RI Group is to oversee the development and application of Pendal Australia's Responsible Investment (RI) process across offerings and communications to ensure alignment with Pendal Australia's RI philosophy as well as client expectations and needs.

The RI Group does not replace prior risk management and compliance processes, rather it serves to enhance the existing controls already in place. Our RI Group meets at least quarterly and more frequently if required. The RI Group sets high level annual RI objectives as well as quarterly RI objectives. Specific objectives range from the development and maintenance of Pendal Australia's RI process and products as well as considerations of broader industry trends, standards and practices - with a particular focus on the RI needs of our clients.

Key RI initiatives of the RI Group are shared with the Executive Committee via the Executive Risk & Operations Group which meets on a monthly basis to discuss key risk issues and initiates across the business.

SG 07.8 CC	Indicate how your organisation engages external investment managers and/or service providers on the TCFD recommendations and their implementation.

☐ Request that external managers and/or service providers incorporate TCFD into mainstream financial filings (annual financial reports, other regulatory reporting or similar)

☑ Request incorporation of TCFD into regular client reporting

☐ Request that external managers complete PRI climate indicator reporting

☑ Request responses to TCFD Fund Manager questions in the PRI Asset Owner Guide

☐ Other

☐ We do not engage with external managers and/or service providers on the TCFD recommendations and their implementation

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☐ Yes, in order to assess future climate-related risks and opportunities

☑ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.3	Additional information. [OPTIONAL]

We are in the process of advancing our response to the recommendations of the TCFD. We have commenced with some limited climate analysis modelling through pilot programs and testing a subset of our portfolios, but not systematically across the whole Pendal Australia portfolio. To date, we have focused on stock-specific assessments of exposure to transition risks and physical risks, as well as measuring the carbon intensity of portfolios. For example in the past 12 months our Fixed Income team collaborated with Regnan on a water-risk assessment project and we are in the process of expanding the scope of the research to equities.

However, we are actively working on securing a service provider in CY2020 to support our capacity to undertake scenario analysis and stress testing thoroughly and consistently across all of our holdings and are trialling a number of providers to support a tailored in-house and asset class specific approach.

We also conduct scenario analysis based on financial risk factors (including market & liquidity risk).

SG 14	Mandatory to Report Voluntary to Disclose	Public	Additional Assessed	PRI 1

SG 14.1	Some investment risks and opportunities arise as a result of long term trends. Indicate which of the following are considered.

☑ Changing demographics

☑ Climate change

☑ Resource scarcity

☑ Technological developments

☑ Other, specify(1)

	other description (1)

Enhanced geopolitical risk

☑ Other, specify(2)

	other description (2)

Transitioning economies and economic dispersion

☐ None of the above

SG 14.2	Indicate which of the following activities you have undertaken to respond to climate change risk and opportunity

☑ Established a climate change sensitive or climate change integrated asset allocation strategy

☑ Targeted low carbon or climate resilient investments

	Specify the AUM invested in low carbon and climate resilient portfolios, funds, strategies or asset classes.

	trillions	billions	millions	thousands	hundreds
Total AUM		2	280	747	000
Currency	AUD				
Assets in USD		1	544	977	128

Specify the framework or taxonomy used.

Strategies:

- Exclusion screening: we have been managing 'low-carbon' investment strategies since 2014. Our dedicated Sustainable Series funds have a thermal coal and oil sands exclusion framework across the sector funds. We also have strategies that include oil and gas exclusions (in addition to thermal coal).
- Best of Sector / Sustainability ratings: we actively tilt holdings towards more sustainable companies such as renewable energy and green tech.
- In 2019 we collaborated with a client to introduce a portfolio level carbon target

Asset classes:

- Through our Sustainable Australian Fixed Income strategy Pendal targets an active overweight exposure to Green and Climate Bond holdings. A number of our "mainstream" portfolios also now invest in these Green and Climate Bond securities.

Other:

- Our multi-asset team has incorporated climate-related factors in their secular themes taxonomy that feeds into the strategic AA framework.
- We measure client portfolio carbon intensity and make this information available to clients, including for use in their own reporting. This also enables us to undertake internal benchmarking, for instance the carbon intensity of our low carbon (fossil fuel free) Australian share strategy, launched during 2018, was 37 per cent below benchmark for the index as a whole (as at 30 September 2019).

☐ Phase out your investments in your fossil fuel holdings

☑ Reduced portfolio exposure to emissions intensive or fossil fuel holdings

☑ Used emissions data or analysis to inform investment decision making

☑ Sought climate change integration by companies

☑ Sought climate supportive policy from governments

☑ Other, specify

other description

Physical risk assessments

☐ None of the above

SG 14.3	Indicate which of the following tools the organisation uses to manage climate-related risks and opportunities.

☐ Scenario analysis

☑ Disclosures on emissions risks to clients/trustees/management/beneficiaries

☐ Climate-related targets

☑ Encouraging internal and/or external portfolio managers to monitor emissions risks

☑ Emissions-risk monitoring and reporting are formalised into contracts when appointing managers

☑ Weighted average carbon intensity

☑ Carbon footprint (scope 1 and 2)

☑ Portfolio carbon footprint

☑ Total carbon emissions

☑ Carbon intensity

☑ Exposure to carbon-related assets

☐ Other emissions metrics

☑ Other, specify

	other description

Physical risk assessments

☐ None of the above

SG 14.5	Additional information [Optional]

SG 14 CC	Voluntary	Public		General

SG 14.6 CC	Provide further details on the key metric(s) used to assess climate-related risks and opportunities.

Metric Type	Coverage	Purpose	Metric Unit	Metric Methodology
Weighted average carbon intensity	☐ All assets ☑ Majority of assets ☐ Minority of assets	Risk management, transparency, client reporting	tons CO2e / $M sales	Measures portfolio's exposure to carbon intensive companies. Since companies with higher carbon intensity are likely to face more exposure to carbon related market and regulatory risks, this metric indicates a portfolio's exposure to potential climate change related policy risks relative to other portfolios or a benchmark. Agnostic to ownership share, it also facilitates comparison with non-equity asset classes.
Carbon footprint (scope 1 and 2)	☐ All assets ☑ Majority of assets ☐ Minority of assets	Risk management, transparency, client reporting	metric tons	Carbon emissions - This figure represents the company's most recently reported or estimated Scope 1 + Scope 2 greenhouse gas emissions (if available). Scope 1 emissions are those from sources owned or controlled by the company, typically direct combustion of fuel as in a furnace or vehicle. Scope 2 emissions are those caused by the generation of electricity purchased by the company.
Portfolio carbon footprint	☐ All assets ☑ Majority of assets ☐ Minority of assets	Risk management, transparency, client reporting	tons CO2e	Measures the carbon footprint of a portfolio – i.e. the total carbon emissions for which an equity portfolio is responsible – by summing up the proportionate carbon emissions of portfolio companies based on the investor's ownership share.
Total carbon emissions	☐ All assets ☑ Majority of assets ☐ Minority of assets	Risk management, transparency, client reporting	tons CO2e/$m revenue	Total Carbon Emissions measures the absolute tons of CO2e (Scope 1 + 2) for which an investor is responsible. It is apportioned to the investor based on an equity ownership perspective.
Carbon intensity	☐ All assets ☑ Majority of assets ☐ Minority of assets	Risk management, transparency, client reporting	tons CO2e/$m sales	This figure represents the company's most recently reported or estimated Scope 1 + Scope 2 greenhouse gas emissions normalized by sales in USD, which allows for comparison between companies of different sizes.
Exposure to carbon-related assets	☐ All assets ☐ Majority of assets ☑ Minority of assets	Risk management, transparency, client reporting	$m sales	This figure represents the company's sales (USD) used for calculating the most recent Carbon Intensity.

SG 14.8 CC	Indicate whether climate-related risks are integrated into overall risk management and explain the risk management processes used for identifying, assessing and managing climate-related risks.

⦿ Processes for climate-related risks are integrated into overall risk management

PRI Principles for Responsible Investment

	Please describe

Governance of climate-related risk sits within Pendal's broader risk management framework. The primary oversight responsibility sits with the Pendal Australia Executive Team with items referred to the Group CEO and Board as required. This Executive Team includes the Head of Risk & Compliance, enabling the consideration of climate-related risks across the business more broadly, including potential operational and credit risk implications.

○ Processes for climate-related risks are not integrated into overall risk management

SG 14.9 CC	Indicate whether your organisation, and/or external investment manager or service providers acting on your behalf, undertake active ownership activities to encourage TCFD adoption.

◉ Yes

	Please describe

We undertake engagement on a direct basis as part of active management approach for all our Australian asset classes (equities, fixed income and property). We actively encourage transparent and investor-useful disclosure around climate-related risks, and endorse the TCFD framework. This information is used by our analysts to assess when, where and how real and financial asset markets may be affected. This includes issues of business resilience to climate-related transition and physical risks.

Both directly and via Regnan, in CY2019 we conducted **44** engagements with **34** companies on TCFD disclosures specifically. This most typically involved in-depth discussions with senior leaders in high risk sectors, including finance, mining and energy to provide companies with insight on the risk analysis and disclosure investors require.

○ No, we do not undertake active ownership activities.

○ No, we do not undertake active ownership activities to encourage TCFD adoption.