PENDAL

Factsheet

Income & Fixed Interest Strategies

October 2018

Pendal Sustainable International Fixed Interest Fund

Previously known as 'BT Sustainable International Fixed Interest Fund'

ARSN: 612 664 945

About the Fund

The Pendal Sustainable International Fixed Interest Fund (**Fund**) is an actively managed portfolio of international fixed interest securities. Investments are selected on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg Barclays Global Aggregate Index AUD hedged by 1% p.a. over rolling 3 year periods.

Description of the Fund

The Fund offers investors access to a diversified portfolio of international fixed interest securities and seeks exposure to issuers that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to issuers with activities that we consider to negatively impact the environment or society.

The Fund will not invest in issuers with material business involvement in the following activities:

- production of tobacco or alcohol,
- manufacture or provision of gaming facilities,
- manufacture of weapons or armaments,
- manufacture or distribution of pornography,
- directly mine uranium for the purpose of weapons manufacturing,
- extraction of thermal coal and oil sands production.

We consider that an issuer has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

The Fund uses a security selection process that combines sustainable and ethical criteria with Pendal's credit analysis. This process takes advantage of investment opportunities based on an assessment of major economic themes and/or financial markets which are considered to be mispriced.

Investment Team

Pendal's Income and Fixed Interest team includes thirteen dedicated investment professionals. The team also draws on a wide range of knowledge resources including Pendal's other specialist investment teams: Equity and Multi-Asset. The Fund is managed by Vimal Gor, Head of Income & Fixed Interest who has more than 24 years industry experience.

The Pendal Sustainable International Fixed Interest Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.11	-0.07	-0.23
3 months	-0.84	-0.72	-0.32
6 months	0.26	0.51	0.24
1 year (pa)	-0.53	-0.04	0.19
2 years (pa)	-0.14	0.36	0.95
Since Inception (pa)	-0.74	-0.25	0.49

Other Information

Fund size (as at 31 Oct 2018)	$88 million
Date of inception	August 2016
Minimum investment	$500,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Quarterly
APIR Code	BTA0509AU

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest in the Fund, and may vary from time to time without notice.

Management Costs[2]

Issuer fee[3]	0.50% pa

[2] You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

[3] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Risks

An investment in the Fund involves risk, including:

- **Market risk -** The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk –** The risk associated with an individual security.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Interest rate risk -** The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Credit risk -** The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk -** The risk that an asset may not be converted to cash in a timely manner.
- **Valuation risk -** The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Derivatives risk** – The risks arising from use of derivatives to manage exposures to investment markets.
- **Counterparty risk -** The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Global bonds experienced a relatively volatile month. After yields rose in the first half of the month they retraced most of their move in the second half as risk appetite soured and investors flocked to safe-havens. There was no specific driver behind the deterioration in sentiment; however, the combination of several factors likely played a part. These included continued trade war tensions, ongoing monetary policy normalisation, political uncertainty in Europe and stretched market valuations. Looking at data for the world's largest economy; US third quarter real GDP grew a healthy 3.5% annual rate, the monthly Non-Farm Payrolls print was weak at only 134,000, however, the 6-month average remained above 200,000. The unemployment rate also dropped from 3.9% to 3.7%, the lowest level since 1969. Regarding monetary policy abroad, the Fed did not meet during the month; however, comments from Chairman Powell were perceived as hawkish. Similarly, the post-meeting press conference with European Central Bank (ECB) President, Mario Draghi, was interpreted as more positive. On market movements, the US the 2- and 10-year yields retraced most of their earlier increase to respectively finish only 5bp and 8bp higher at 2.87% and 3.14%.

Fund performance

The Fund outperformed its benchmark over the month of October.

Over the month, the Duration and Relative Value strategies contributed to returns while the Macro and FX strategies detracted. Cross-Market and Yield Curve strategies had a neutral impact.

Most of the gains in the Duration strategy were from the long duration position in the European front end. We also made small gains in the long duration position in German Bunds. Losses were incurred from short duration position in the long end of Japan's yield curve. During the month we reached our limits on a short duration position in China and closed the position. The long duration positions in Australia and the US earlier in the month had also contributed to some losses. During the month we closed positions in Italian bonds, German 5-year Federal notes (Bobls) and in the New Zealand front end, with a largely neutral outcome.

The FX strategy detracted from performance over the month. We maintained a long US dollar bias through the month against both developed market and emerging market currencies, expressed in both outright positions and options. Gains and losses offset each other. The gains from EUR and KRW positions offset losses from TWD and CNH. Within emerging market currencies, small losses occurred in a long SGD against INR position. In long volatility positions, losses were mainly from CAD/JPY, which was mitigated by gains from NZD/USD. As at month end we maintained a long bias in USD and JPY, while keeping a short bias in EUR and emerging market currencies.

The Yield Curve strategy had a neutral impact in October. Gains were sourced from steepening positions in the US 5y-30y and in the Japanese long end. These gains were offset by losses from curve flattening position in the Europe long end. Toward the end of the month we opened a steepening position in New Zealand.

The Macro strategy was the largest detractor over the month. We reduced our explicit buy protection positions as the risk aversion sentiment eased. The majority of the losses were from buy protection positions in Brazil which were closed out in the middle of the month. There was also a small loss on the flattening position along the CDX high yield curve. On the other side, gains were made in the buy protection positions in the larger European markets and Turkey. Earlier in the month we also closed the positions in South Africa and Indonesia after accruing small gains.

The Relative Value strategy contributed to performance this month. Most of the gains were from the US 5-year invoice spread, while small profits were also made from the Australian 3-year EFP spread positions.

The Cross-Market strategy was roughly flat over the month. We closed long Bund vs BTP positions to take profits and the gains were partially offset by losses from a long New Zealand vs short Australian front end position.

Strategy and outlook

October's US equity market correction has perhaps been one of the most widely anticipated in recent history, yet the volatility has not been evenly reflected across other asset classes. Their sensitivity seems to have diminished in response to US equity market weakness, for which there are a number of theories currently being offered. However, this does not mean that the traditional correlations have broken. Our medium term themes on liquidity and volatility continue to hold, alongside which we maintain non-consensus views on regional and fundamental macroeconomic trends. As central banks step back, these fundamental trends will continue to offer alpha opportunities, for which we are positioned across a number of our strategies. As carry returns to the front end of the US curve, investors' tolerance for volatility and related spikes will diminish. At the extremes, the correlations between equities and their risk proxies still hold.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.