PENDAL

Factsheet

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

February 2019

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 Bond, Income & Defensive 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 Bond, Income & Defensive Strategies who has more than 24 years industry experience.

CERTIFIED BY RIAA

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	-0.13	-0.09	0.07
3 months	1.62	1.75	2.48
6 months	0.73	0.98	2.32
1 year (pa)	2.31	2.82	3.65
2 years (pa)	1.51	2.02	2.78
Since Inception (pa)	0.08	0.58	1.59

Other Information

Fund size (as at 28 Feb 2019)	$89 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

The Fed's tilt to a more neutral stance in January continued to buoy risk appetite and lift global equities during the month. This was alongside optimism over a positive outcome to US-China trade negotiations that took place in Washington towards month-end. Although there was no formal agreement between both sides, some perceived progress and the delay of a proposed US tariff increase indefinitely was well-received by markets. Economic data was less supportive for risk assets. US GDP figures revealed a softer 2.6% annualised growth rate for the fourth quarter and Eurozone GDP growth printed at a preliminary 0.2% quarter-on-quarter. German GDP figures revealed the region's largest member had narrowly avoided a technical recession, while its Italian counterpart was not as fortunate. In terms of market movements, the US 2 and 10 year yields increased by 6bps and 9bps to 2.52% and 2.72% respectively.

Fund performance and activity

The Fund underperformed its benchmark over the month of February. Over the month, the Duration and FX strategies were the main detractors, while Macro, Relative Value and Cross-Market strategies slightly underperformed, and the Yield Curve strategy was largely flat. The portfolio risk level started at 4 risk units and increased to 9 risk units before finishing the month at 6 risk units.

The Duration strategy was the largest detractor over the month. The long duration position in China suffered the largest loss due to growing positive sentiment on US-China trade negotiations. We added long duration positions in the front end of New Zealand after the weak labour market data. In Europe losses were from long duration positions in the front end of the Euro and Swedish krona curves, although the losses were partially offset by a long position in German Bunds and a short position in Italian BTP's. Similarly in the US we incurred losses in long positions in the front end of the curve while the profit from a tactical short in 10-year treasuries helped to mitigate the losses. In Australia the performance of our long positions were largely flat. Later in the month we added a long duration position in the Korean long end with roughly flat performance for the month.

The FX strategy detracted from performance over the month, due to our long USD bias which has been reflected in FX positions in both emerging and developed markets. In EM we closed the short USD long CNH position early in the month and established a long position on USD against CNH in options. Late in the month we were stopped out of short positions in PHP and KRW. In the developed markets, losses were mainly from short EUR positions. As of month end, we retained small positions in long USD against EUR, CNH and KRW which are all in options.

The Yield Curve strategy added to performance. Profits were mainly from the steepener in NZD. During the month we opened a US 5y-30y steepening position with flat performance for the month.

The Macro strategy detracted from performance over the month. Losses were mainly from the Xover-Main decompression position as Xover index tightened more aggressively than Main. In the middle of the month we reduced the CDX IG leg in the HY-IG decompression position, expecting the HY leg to widen out. Performance of this position is flat over the month. Facing the rosy sentiment in the upcoming Trump-Kim meeting in Hanoi, we closed the buy protection position in Korea CDS. Our curve flattening position in CDX HY kept a steady performance as expected.

The Relative Value strategy experienced a minor loss over the month from the received position in US real yields.

The Cross-Market strategy slightly underperformed over the month. Losses were from long New Zealand vs short Australia in the front end of the curves.

Market outlook

Although the weakening growth backdrop was not the focus of attention in February, we believe it is still the core narrative that will continue to weigh on risk assets over the course of this year. For this reason, the Duration strategy will be playing an increasingly dominant role in our portfolio. While the combination of a more dovish Fed and receding tail risks is giving risk assets a boost for now, if its pivot was because of growth concerns, then we should be wary of the bounce back in risk assets. Similarly, the dialing back of trade war escalation removes immediate threats, but the trade and electronics cycle still looks sick. Additionally, the impact of Chinese stimulus is far harder to predict (and control) than stimulating via infrastructure investment. As such, in spite of current optimism around trade deals and commodity prices, we expect ongoing growth challenges to resurface in China and Australia, and we may even see greater downside surprises later this year from the US.

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

PENDAL