PENDAL

# Factsheet

Bond, Income & Defensive Strategies

July 2019

# Pendal 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 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 | 0.62 | 0.67 | 0.69 |
| 3 months | 3.86 | 3.99 | 3.39 |
| 6 months | 4.94 | 5.20 | 5.26 |
| 1 year (pa) | 6.09 | 6.62 | 7.95 |
| 2 years (pa) | 3.47 | 3.99 | 4.68 |
| Since Inception (pa) | 1.78 | 2.29 | 3.14 |

## Other Information

| | |
|---|---|
| Fund size (as at 31 Jul 2019) | $92 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 bond yields experienced a mixed month as three month US yields fell while the 10 year rate rose slightly. Moves at the very front-end were driven by a 25bps cut by the Federal Reserve, its first reduction in more than a decade. Further, the FOMC announced it would halt its quantitative tightening at the start of August. Data for the world's largest economy was mixed overall. The advance second quarter GDP reading revealed slower growth of only 2.1% annualised and core inflation of 1.8%. Similarly, the ISM Manufacturing gauge dropped from 52.1 to 51.7. However, at the same time retail sales, durable goods orders and the monthly payrolls report were more constructive and beat expectations. Elsewhere, ECB President Mario Draghi delivered a dovish post-meeting press conference during July. The prospect of new stimulus, including deeper negative interest rates, was raised in response to a sluggish economy (particularly evident in manufacturing) and persistent subdued inflation. Beyond monetary policy developments, trade war worries were less prevalent than previous months. A gathering of US and China trade officials was held in Shanghai during the month with little major progress. Finally on market movements, the US 2 and 10 year yields rose 12bps and 1bp to 1.87% and 2.02%.

## Fund performance

The Fund performed broadly in line with its benchmark over the month of July. Over the month, the Duration strategy was the strongest performer while FX and Yield Curve strategies also contributed positively. The Cross-Market and Macro strategies were roughly flat. The portfolio risk level started at 3 risk units and stayed at a low level before ending the month at 4 risk units.

The Duration strategy was the largest contributor over the month. We maintained long duration positions in various markets through the month. The main contributors of the gains were long duration positions in the front end of the Australian, New Zealand and European curves. Positions in the US front end were down-sized earlier in the month. In Emerging Markets, we continued to hold the long positions in China and Korea, with the latter making significant profits over the month. In the middle of the month we initiated a long duration position in Singaporean front end with flat performance for the month.

The FX strategy added to performance over the month. For most of the month we held long USD short Emerging Market currencies. All positions contributed positively to the portfolio. The short position in SGD were closed earlier in the month, and short positions in KRW and TWD were closed towards month-end. As of the end of the month we held no FX positions.

The Yield Curve strategy contributed positively to the portfolio this month. All gains were from the flattening position in the front end of the Australian curve, which we continue to hold.

In the Macro strategy we added a modest sell protection position in iTraxx Australian with the expectation of tightening credit spread in the near future. The position were roughly flat in performance.

In the Cross-Market strategy we added a trade from our quantitative process at the end of the month.

There were no trades in Relative Value in the month.

## Outlook

Accompanying the Fed's first rate cut in over a decade there was a message that it was an insurance measure amid a mid-cycle environment. The lucky thing for Chairman Powell is that outside of manufacturing, the US economy is healthy enough to buy the FOMC some time. However, it is unpredictable when weakness in manufacturing tips over to the rest of the economy (even one as consumption-driven as the US) and the tightness in labour markets suddenly reverses. At the same time Chinese tax cuts and talks of monetary reform to-date resemble something akin to moving the deck chairs around on the Titanic, whilst the trajectory of real economic activity continues to sink ever lower. The upshot of all of this for our positioning is that our long duration bias remains, but in more measured size as risk-reward has moved into more balanced territory for the near term. However, the forward-looking indicators remain sufficiently weak that we would welcome any meaningful sell off in yields to re-engage with the same themes at better prices.

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