

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

August 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 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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	2.56	2.60	2.20
3 months	4.83	4.96	4.24
6 months	7.77	8.03	7.51
1 year (pa)	8.55	9.09	10.00
2 years (pa)	4.31	4.83	5.32
Since Inception (pa)	2.59	3.10	3.80

Other Information

Fund size (as at 31 Aug 2019)	\$94 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 Costs²

Issuer fee ³	0.50% pa
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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 extended their rally in August as yields tumbled on a combination of factors. This included geopolitical risks with the further intensification of the trade war, as well as building concerns over weaker global growth. Trade fears were reignited at the outset of the month as President Trump announced an additional 10% tariff on the US\$300bn of remaining Chinese imports, to take effect on September 1st. Adding to investor worries were a litany of regional events; Hong Kong protests, Argentina default speculation, Brexit uncertainty and another Italian political drama. Beyond the politics, the Fed did not meet during the month after delivering a cut at the end of July, its first in more than a decade. Communication including an address by Chairman Powell at Jackson Hole was underwhelming, but suggested the central bank remained tilted towards further easing. Also in the US, a collection of leading indicators from the world's largest economy pointed to a further softening. Turning to market data, US yields experienced sizeable declines with the 2 and 10 year falling -37bps and -52bps to 1.51% and 1.50% respectively.

Fund performance

The Fund outperformed its benchmark over the month of August.

Over the month, the Duration strategy remained the strongest performer, while the Yield Curve strategy added small gains and the FX strategy detracted slightly. The Cross-Market and Macro strategies were roughly flat. The portfolio risk was maintained at the relatively stable level around 3 risk units throughout the month.

The Duration strategy was again the largest contributor over the month. We continued to hold long duration positions in various markets. This month the largest contribution was from the long duration positions in the front end of the New Zealand and Australian curves. We took profits in the long positions in Europe early in the month and reinitiated long duration positions in the US later in the month. In developing markets, we took profits in the long duration positions in Korea and Singapore in the beginning of the month and held the long duration position in China for the month. All three positions contributed positively this month.

The FX strategy detracted from performance over the month. Earlier in the month, losses were contributed by a short EUR vs USD position. As the US-China trade war escalated in the month we opened a short USD vs JPY position, expecting the risk-off sentiment to continue. The position was taken off once the risk sentiment around the trade war improved. Gains were made from a long USD vs CNH position as the currency pair broke above 7 for the first time in 10 years, offsetting the losses from other positions.

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

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

In the Cross-Market strategy, the trade from our quantitative process had a flat performance for the month.

Outlook

The "risk-off" environment in August saw safe-haven demand drive bonds higher, while stronger demand in certain countries caused even flatter yield curves. We believe there is still value at the front end including the US and New Zealand. Similarly with Australia, depending on how the data evolves. China is also a preferred area for long duration calls and short exposure to the Yuan against the Dollar given the economic slowdown and trade-related uncertainty. That said, we are running more modest exposure than in prior months. This is from profit-taking, some mixed signals from global data and wariness of a short-term correction in rates. We would see sell-offs as an opportunity to add risk at more attractive levels and our preference remains to be long duration over the medium-term.

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

PENDAL

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PFSL is the responsible entity and issuer of units in the Pental Sustainable International Fixed Interest Fund (**Fund**) ARSN: 612 664 945. An Information Memorandum (**IM**) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.pentalgroup.com. You should obtain and consider the IM before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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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.