

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

September 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	-0.99	-0.95	-0.56
3 months	2.17	2.30	2.34
6 months	4.74	5.00	5.08
1 year (pa)	8.52	9.06	9.81
2 years (pa)	4.10	4.62	5.25
3 years (pa)	2.33	2.84	3.57
Since Inception (pa)	2.19	2.70	3.51

Other Information

Fund size (as at 30 Sep 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 gave back some of their prior month's gains during September. This was amid a sell-off in rates at the long end of curves as investors shifted back into risk-assets. Meanwhile at the very front-end, yields were pulled slightly lower in several markets due to central bank action. This included in the US, where the Federal Reserve cut its benchmark rate by 25bps to 1.75%. However, the accompanying projections and address from Chairman Powell suggested a less dovish message than anticipated. Meanwhile, US data continued to paint a mixed picture with a weaker manufacturing sector at one end offset by a healthy consumer at the other. In Europe, the ECB also eased policy further with a 10bps cut to its deposit rate to -0.50% and unveiled a new open-ended quantitative easing programme. Beyond monetary policy developments and the economic data, investors appeared less concerned over geopolitics through most of the month. Finally in terms of market movements, the US 2 and 10 year added 12bps and 17bps to 1.62% and 1.67%, while the 3 month LIBOR rate fell 5bps to 2.09%.

Fund performance

The Fund underperformed its benchmark over the month of September.

Over the month, the Duration strategy was the largest detractor, giving back the gains from last month. FX strategy also detracted while Macro, Cross-Market and Yield Curve strategies were roughly flat over the month. The portfolio risk started with 3 risk units, increased closed to 4 units, and ended the month with 3 risk units.

The Duration strategy was the largest detractor of the month, giving back part of the gains from the previous month. Overall the portfolio maintained long duration positions through the month. The majority of the losses were from long positions in the US front end and a tactical short duration position in the long end. By the end of the month, we reduced our long positions in the front end and closed the tactical position in the long end after the FOMC meeting. In other markets, we added long duration positions in the Swedish and European front end with small losses in both positions. In Australia, we added long duration positions early in the month in the front end of the curve and ended the month slightly negative. We continued to hold the long duration position in China with roughly flat performance for the month.

The FX strategy detracted from performance over the month. Losses were mainly from short KRW positions vs long JPY and USD. We maintained short CNH vs long USD for the month as the US-China trade tension showed no sign of easing. We switched short TWD vs long USD to short SGD with the gains and losses offset each other for the month. As of the end of the month we continued to hold short Asian currencies vs long USD.

The Yield Curve strategy was roughly flat this month. We closed the flattening position in the front end of the Australian curve. As of the month end, we had no positions in this strategy.

In the Macro strategy we added a small sell protection position in the CDX EM, while continuing to hold the sell protection position in iTraxx Australia. Overall performance is largely flat. The gains from iTraxx Australia offset the losses from the CDX EM.

In the Cross-Market strategy, we continued to run the trade from our quantitative process, which had a flat performance for the month.

There were no trades in Relative Value in the month.

Market outlook

The bond rally decided to take a breather this month. After so much had been priced in, it was time to wait and see whether the central banks would deliver. However looking forward, the long duration trade is far from exhausted Tactical hedges were placed against our structural positions to insulate from further mark to market losses, but being only temporary and market price-action driven, we have been quick to take them off to allow the long duration bias to continue to play through on the portfolio. The extreme end points could be Fed Funds at zero and very deeply negative rates across all of Europe. But only a partial play-out of those end-points would be sufficient to support our current positioning.

For more information please call **1800 813 886**, contact your key account manager or visit [pendalgroup.com](https://www.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.pendalgroup.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.