

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

November 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	-0.61	-0.57	-0.20
3 months	-1.95	-1.82	-1.03
6 months	2.79	3.05	3.16
1 year (pa)	7.39	7.92	9.04
2 years (pa)	3.44	3.96	4.66
3 years (pa)	2.98	3.49	4.27
Since Inception (pa)	1.77	2.28	3.18

Other Information

Fund size (as at 30 Nov 2019)	\$100 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 bond yields rose in most developed markets outside Australia. Geopolitics continued to offer a large influence with optimism over a trade agreement causing safe-haven demand for bonds to wane. Meanwhile on monetary policy, the Fed did not meet during the month, however comments from FOMC officials suggested a patient approach in the near-term. At the same time, data from the world's largest economy continued to paint a picture of a soft manufacturing sector that has been offset by a resilient consumer. The ISM Manufacturing survey fell further into contraction (48.3) while retail sales rose 0.3% month-on-month. The monthly payrolls report beat expectations, however a relatively low increase (+128K) caused a tick higher in the unemployment rate to 3.6% (+0.1%). Turning to the Eurozone, there was no ECB gathering scheduled for the month, however Christine Lagarde spoke in her first address as President. She reiterated her predecessor's push for more support from fiscal policy as well as a commitment to the 2% inflation target. Finally on market movements, the US 2 and 10 year yield both rose by 9bps to 1.61% and 1.78% respectively.

Fund performance and activity

The Fund underperformed its benchmark over the month of November.

Over the month the Yield Curve strategy was flat, while FX and Duration strategies detracted. The Macro strategy was largely flat.

The Duration strategy slightly detracted in the month. Losses were mainly from the long duration positions in the US. The positions

have been reduced in the second half of the month. Gains from other markets helped to offset the losses. In Australia, we increased our long duration position in the front end in the middle of the month and took profits before the month end. The long duration in New Zealand were reduced in the month and closed out by the end of the month, with a minor loss. In emerging markets, we took profits on the long duration position in China and initiated a long duration position in Korea, both of which added to performance. As of the month end, we retained small long duration positions in the US and Korea.

The FX strategy also detracted slightly from performance over the month. The majority of the losses were from a long BRL short USD position opened earlier in the month due to the contagion from surrounding Latin American countries. In other emerging market trades the performance was flat for the month. We went long INR, MXN and TWD against short USD earlier in the month. Those positions were closed and replaced with a small long USD against short KRW position held to the end of the month. In developed markets we closed the long AUD short USD position carried from last month with a small loss.

The Yield Curve strategy was flat over this month. Gains were from the flattening position in the Australian front end. We took profit on this position early in the month. During the month we added a steepening position along the KRW curve. The position detracted and was closed in the month and converted to an outright long duration in the front end of the curve, which was held to the end of the month.

There were no position changes for the Macro strategy this month. Performance was largely flat. Gains from iTraxx Australia offset the losses from the CDX EM.

The Cross-Market strategy was flat over the month. Gains were contributed by the trade from our quantitative process, which we continued to run through the month. At the end of the month we increased the size of this trade. We are running long duration positions in South Korea and Australia versus short duration positions in Sweden and the UK. Losses were from other markets where we held a long front end US vs short Australia that was carried forward from the end of last month.

There were no trades in Relative Value for the month.

Market outlook

Unlike 2019, central banks are unlikely to be in the driving seat for the duration trade in 2020. Instead, the data will lead and central banks will follow. Unfortunately for risk assets, when they eventually act to ease again, the smell of capitulation will be too heavy to buoy another round of re-rating for equities. In the meantime however, we are cautious of a bounded lift in the global cycle, and as such this portfolio has reduced its outright duration exposures. The one remaining market where we still favour outright long duration exposures is the US, where we continue to see signs that the manufacturing recession is starting to tip over to the rest of the economy, and where reasonable value remains in US yields. In Australia, we will continue to look for long duration opportunities in the range-bound environment that will likely persist over the near-term.

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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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.