

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

December 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	-0.40	-0.36	-0.28
3 months	-1.36	-1.24	-0.76
6 months	0.78	1.03	1.56
1 year (pa)	5.64	6.17	7.19
2 years (pa)	3.28	3.80	4.38
3 years (pa)	2.88	3.40	4.06
Since Inception (pa)	1.61	2.11	3.01

Other Information

Fund size (as at 31 Dec 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 outlook

Central banks played a great part in 2019 returns, which were to a large extent a result of the dire returns and market pressures experienced in 2018. To the extent that the same central bank generosity cannot be replayed without a similar if not worse episode of market and economic stress, it would be overly optimistic to expect a 2020 that could beat 2019. In the bull case of a sustained rather than bounded economic lift that lasts through the year, the rise in yields would eventually compromise the longevity of such a recovery. The weight of the world's debt load is such that there is very limited tolerance for any meaningful rise in yields. In the case where Chinese stimulus continues to be modest, inwardly focused, and the inventory cycle is restored to neutral with no sustained rebound in business optimism, recession probabilities would start to rise again in the second half of 2020. Whilst the US-China agreement on "Phase 1" is certainly promising, we do not think it is a sufficient condition to ignite a new and sustained bout of global economic reflation on its own. With sequencing in mind, the portfolio currently continues to run only small net duration positions.

Market review

Global bond yields rose at the long-end and the curve steepened during the final month of 2019. This was tied to a Sino-US trade agreement that saw safe-haven demand for bonds dissipate. The "phase one" deal saw tariffs slated for December suspended, the rollback of some existing tariffs, as well as the suspension of future increases. This overshadowed concerns over the impeachment of President Trump later in the month. Meanwhile Chairman Powell left rates on hold at the Federal Reserve's December meeting. Market pricing for future cuts faded to only one in 2020 while the Fed's communication suggested a high hurdle for an increase. On market movements, the US 2 year fell -4bps to 1.57% and the 10 year rose 14bps to 1.92%.

Fund performance

The Fund underperformed its benchmark over the month. The largest detractor was the Duration strategy and exposures in the US and New Zealand. The Macro strategy suffered a smaller loss on a European Xover position. Meanwhile the Yield Curve strategy was flat from a curve position in Australia. In contrast, the FX strategy saw large gains from EM exposures including USDBRL and USDMXN. Finally, the Cross-Market strategy added value from European versus US and New Zealand versus South Korea positions.

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.