

### Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

January 2020

#### 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](http://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	1.95	2.00	1.81
3 months	0.92	1.05	1.32
6 months	2.11	2.37	2.69
1 year (pa)	7.16	7.69	8.09
2 years (pa)	4.55	5.07	5.69
3 years (pa)	3.67	4.19	4.80
Since Inception (pa)	2.14	2.65	3.48

#### Other Information

Fund size (as at 31 Jan 2020)	\$102 million
Date of inception	August 2016
Minimum investment	\$500,000
Buy-sell spread <sup>1</sup>	0.14% (0.07%/0.07%)
Distribution frequency	Quarterly
APIR Code	BTA0509AU

<sup>1</sup> 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<sup>2</sup>

Issuer fee <sup>3</sup>	0.50% pa
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<sup>2</sup> You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

<sup>3</sup> 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

Ahead of the coronavirus outbreak reaching global news reports, markets were shaping up for an "OK" 2020. Nothing as strong as 2019, where the benevolence of central banks allowed both equities and bonds to perform strongly, but good enough as the lagged effects of rate cuts and some easing of global trade tensions helped to provide marginal support to global growth. When asking the question of how much of the recovery story has now been derailed by 2019n-CoV, it bears in mind to note the diverse range of price and volatility reactions across asset classes during January 2020. Whilst the commodities universe has completely priced out recovery and is on its way to pricing global recession again, developed market equities' moves over the month have been much more benign. China and US rates have made close to 2-standard deviation moves over the month and are pricing in a similar story to commodities. Whilst equities may be "right" ultimately, the richer valuations versus an already fragile global macro backdrop would point to at least a more cautious stance to the asset class, whereas the dent to Chinese and Asian growth in Q1 from the virus outbreak should mean that fixed income remains a 'buy-on-dip' asset class.

## Market review

Global bond yields fell and the curve flattened in the first month of 2020. This occurred as safe-haven flows drove yields lower in the second half of January. A risk-on environment earlier in the period was spurred by a "phase one" US-China trade agreement, however this was eroded towards month-end as fears over the Novel coronavirus spread. Amid the headlines focused on the coronavirus, the Fed's first meeting for 2020, which took place at month-end, proved relatively uneventful with no changes to its key policy rate. There was little offered from Chairman Powell's communication to change expectations over the remainder of the year. Among the major US data points, the US ISM Manufacturing survey fell from 48.1 to 47.2, its softest since February 2016. Non-Farm Payrolls was also weak with only 145K job additions versus 160K expected. On market movements, the US 2 year and 10 year yield fell 26bps and 41bps to 1.32% and 1.51% respectively.

## Fund performance

The Fund outperformed its benchmark over the month. The largest driver was the Duration strategy and exposures in the US and New Zealand. The Macro strategy generated a smaller gain on European Xover and Brazil CDS positions. Meanwhile the Yield Curve strategy was negative from a curve position in Korea. The FX strategy also detracted from EM exposures including USDBRL and USDCNH. Finally, the Cross-Market strategy that included quantitative-driven trades suffered small loss.

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