

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

February 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 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	1.89	1.93	1.21
3 months	3.46	3.59	2.75
6 months	1.45	1.70	1.69
1 year (pa)	9.32	9.87	9.33
2 years (pa)	5.76	6.29	6.45
3 years (pa)	4.05	4.57	4.92
Since Inception (pa)	2.64	3.15	3.75

Other Information

Fund size (as at 29 Feb 2020)	\$104 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

The COVID-19 outbreak still carries considerable uncertainty in terms of its spread and ultimate economic impact. However, there is more certainty over the material damage it has done to risk sentiment. This has been evident across risk assets, most notably equities and higher risk credit. Efforts to support appetite for these markets by monetary and fiscal authorities alike have fallen short so far and further monetary easing will be a positive for government bonds. There is every reason to remain defensive in overall positioning for the near term and our preference remains to regions with the most room to move. In Australia, the market is now pricing a terminal rate below the RBA's stated 25bps, and New Zealand's pricing has followed along in step. We believe there are better duration opportunities offshore, and continue to favour the US.

Market review

Global bond yields fell further in February with the downward direction dominated by developments related to COVID-19. Concerns had been relatively contained through the first half of the month before fear levels later became elevated, which drove investors to the safety of government bonds. An increase in case numbers outside of China fanned investor fears in the second half of February. This followed a spike in patients diagnosed with the virus in South Korea, Iran and Italy. The prospect of a continued escalation damaged risk sentiment substantially and resulted in large falls in regional equity indices and a dramatic decline in sovereign bond yields. At month-end, the negative economic impact became more apparent after a gauge of Chinese manufacturing activity plunged to its lowest on record. In the US, the Federal Reserve did not meet during the month and data from the world's largest economy was mixed. Finally on market movements, the US 2 year fell 40bps to 0.92% and the 10 year declined by 36bps to 1.15%.

Fund performance and activity

The Fund outperformed its benchmark over the month. The largest driver was the Duration strategy and exposures in the US and New Zealand. The FX strategy also added value from USDKRW and USDTWD positions. The Macro strategy generated a smaller gain largely from a Brazil CDS exposure. The Cross-Market strategy, which included quantitative-driven trades also enjoyed a small gain. Meanwhile the Yield Curve strategy was negative from a curve position in Korea.

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.