

### Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

March 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	1.40	1.44	-1.72
3 months	5.33	5.46	1.27
6 months	3.89	4.15	0.50
1 year (pa)	8.81	9.36	5.61
2 years (pa)	6.04	6.57	5.09
3 years (pa)	4.56	5.08	4.31
Since Inception (pa)	2.97	3.49	3.16

#### Other Information

Fund size (as at 31 Mar 2020)	\$91 million
Date of inception	August 2016
Minimum investment	\$500,000
Buy-sell spread <sup>1</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>
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
-------------------------	----------

<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 review

March saw the escalating COVID-19 crisis become truly a global pandemic. Risk markets collapsed and bond yields by the end of the month had plummeted. However bonds had a rollercoaster ride getting there. The Fed began the month with an expected 25bp cut and as risk markets deteriorated quickly 10yr US yields fell 60bp in a week. The low of 54bp was reached on March 9th but then massive redemptions kicked in pushing yields up to 1.2% even as the Fed cut 100bp. However massive Fed buying and continuing poor risk sentiment pushed them back to 65bp by month end.

German Bunds also saw early month rallies from -60bp to -85bp before the mid month selloff pushed them back to -20bp before finishing the month at -50bp. Interestingly that was still higher in yield than the start of the month, reflecting our theme that bonds markets globally are converging.

Interestingly due to yield curve control the market which first started the global trend towards zero, Japanese bonds, ended the month at 0bp. The range on the month was -15bp to +5bp. Maybe the Japanese model, once thought of as strange and isolated, is going to become a global standard.

## Fund performance

The Fund outperformed its benchmark over the month delivering a strong return of 1.44% (pre-fee) vs the benchmark return of -1.72%. This is particularly pleasing given it occurred during a large equity market drawdown and when the benchmark produced negative returns. Over the month, the Duration and Macro strategies were the most successful while the Cross-Market and Yield Curve strategies also performed well. The FX strategy was the only strategy that detracted.

The Duration strategy had an extremely strong month as bond yields rallied to new historical lows. We maintained significantly long duration throughout the month. Although the sizes were reduced in the middle of the month after the panic rally in yields, as we booked some profits, long duration positions were restored soon after that. Earlier in the month we took profit on long positions in China 5y, Eurodollar and a large part of the NZD front end. Later in the month we added long duration positions in the US and Australia, in both the front end and the long end of their markets. As of the month end we kept the long duration positions in the US, Australia and New Zealand.

The Yield Curve strategy performed well over the month. Gains were predominantly from a well-timed steepening position in the US, which we closed off close to the intra-month high in US 10 yields.

The Macro strategy contributed to over half of the fund performance this month. Coming into the month we carried over the buy protection positions in Korea, Indonesia and CDX HY. In the month we increased the position in Korea and opened a new CDX IG position. We took profit on the CDX IG position and kept holding the others until the end of the month.

## Outlook

The global pandemic has seen every country experience its own health crisis but also different responses fiscally. Traditional monetary policy is now exhausted but unconventional is in full flight. Countries like Australia and the United States have put in place massive fiscal stimulus, anywhere from 10% to 30% of GDP. This should see them recover quicker than Europe where the structure of the European Union means far greater restrictions on what can be achieved with fiscal policy.

However for the next few months bond yields will continue to be well supported as anchored short rates, massive central bank buying and economies in hibernation see bonds in demand. There will be massive supply but central banks will be soaking it all up. Modern Monetary Theory may not be technically here but many of its principles are now policy.

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

**PENDAL**

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

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.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

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.