PENDAL

Factsheet

Bond, Income &
Defensive Strategies

April 2020

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

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 RESPONSIBLE INVESTMENT®
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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.75	0.79	1.50
3 months	4.09	4.22	0.97
6 months	5.04	5.31	2.30
1 year (pa)	10.39	10.95	7.20
2 years (pa)	6.78	7.31	6.08
3 years (pa)	4.57	5.10	4.58
Since Inception (pa)	3.12	3.63	3.51

Other Information

Fund size (as at 30 Apr 2020)	$92 million
Date of inception	August 2016
Minimum investment	$500,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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 Costs[2]

Issuer fee[3]	0.50% pa

[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

April saw relative calm after an extraordinary March. Risk markets had a positive month as the massive monetary and fiscal support announced in March underpinned assets. Bonds however traded largely sideways as the more positive risk news was met with equally negative economic news. US 10yrs had relatively narrow 20bp range, between 0.57% and 0.77% ending the month midrange at 0.66%. Bunds had more volatility as the European Union structure prevented the large scale action, speed and decisiveness of other markets. The ECB partly got there eventually and 10yr Bund yields ended the month on the lows of -0.58%, having traded as high as -0.30% in early April.

Short ends of markets were even more stable as all central banks have said they have cash rates on full throttle. The Fed and the RBA are extremely reluctant to go negative, the RBNZ is willing but not there yet whilst the ECB does not want to go further negative. None of these are written in stone but markets are reluctant to price further moves but on the other side they realise short rates are here for a number of years. We expect this to continue but with the risk still to lower rates are happy to remain long duration.

Fund performance

The Fund underperformed its benchmark over the month delivering a return of 0.79% (pre-fee) vs the benchmark return of 1.50%, giving back a small amount of the gains over the last few months. Over the month, most of the gains were from Duration strategy and the Cross-Market strategy was slightly positive. On the flipside, the FX, Relative Value and Macro strategies detracted from performance.

The Duration strategy was the strongest performer for the month as the portfolio maintained its long duration bias through the month. The largest gains were from the long duration positions in the New Zealand front end. During the month added to our long positions in Australia in the front end of the curve which contributed positively to the portfolio. In the emerging markets, our long duration position in 5yr China performed equally well. In the US, we were stopped on our tactical & technical long duration trades in Eurodollars in the early part of the month. As at month-end we retained out long duration positions across the markets.

The FX strategy detracted from performance in the month. Overall, long our positioning was centred around "risk off" with an overall long USD bias through the month. Among the positions, the largest loss was from short NZD against long USD, with the short positions in CAD and EUR also contributing to the losses. In the emerging markets the exposure in short KRW against long USD was closed early in the month and the position was switched to short SGD later in the month. Approaching the end of the month we opened a long JPY against short AUD position and held to the end of the month.

The Macro strategy retreated from the profits early in the month and end the month detracting. Throughout the month we maintained the buy protection positions in CDX HY, Korea and Indonesia sovereigns, which were carried forward from last month. Losses were spread across the positions as risk sentiment improved on easing of Covid-19 and the stabilization of oil prices.

The Cross-Market strategy was slightly positive over the month with all gains contributed our yield convergence theme. Profits peaked in the middle of the month but retreated as falling yields impacted the short duration positions in Sweden and the US, while the long duration positions remained in the money.

The Relative Value strategy detracted from performance this month. All losses were from the swap spread widening position maintained through the month. Performance peaked in the middle of the month but retreated since and closed the month negative.

Market outlook

As the COVID health and economic crisis collided with liquidity this month, equity markets found some support. Our portfolios position shifted to lower risk levels, and more diversified between lowly correlated positions. Duration positions moved back once again into front ends, with focus on policy space and/or willingness. We retain a bias to be long duration further out the curve in the US and other markets but are aware markets may range trade for a few months before heading lower in yields. This is due to some expected optimism as lockdown and shutdowns end, optimism that will fade as the slow speed of the recovery and the structural problems left behind by the crisis become apparent. Cash rates will be stuck at zero or lower for at least the first half of this decade, meaning there is good carry and roll down opportunities further out the curve.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**

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