PENDAL

Factsheet

Bond, Income &
Defensive Strategies

May 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.78	-0.74	0.27
3 months	1.36	1.49	0.02
6 months	4.86	5.13	2.78
1 year (pa)	7.79	8.33	6.03
2 years (pa)	5.85	6.38	6.03
3 years (pa)	4.08	4.60	4.46
Since Inception (pa)	2.83	3.34	3.50

Other Information

Fund size (as at 31 May 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

Global fixed interest markets had one of the tightest monthly ranges in years, an incredible outcome given the chaos of March. The anchoring of short rates around zero across the developed world has seen volatility crushed. US 10 year yields had a range of 0.61% in early May to 0.72% in mid May before ending unchanged at 0.65%. German 10 year bunds actually managed a slightly wider range as the ECB pushed stimulus packages through, causing a selloff in late May. Yields ended the month at -0.45% having started at -0.58%.

Whilst there is still fluidity in risk markets as health outcomes and economic data change the outlook, it seems investors are happy for now with rates where they are. Basically yields are supported to the upside by investors chasing carry and roll further out the curve. Any decent rally though is sold into as the term premium in bonds is held up by the improving risk markets. These two forces began in early April and look set to continue for some time. Similar to Australia, economic data globally will be weak as the initial impact of the crisis still comes through. However the bounce in June should be strong, but will still leave activity well down on pre-crisis levels.

Fund performance

The Fund underperformed its benchmark over the month delivering a return of -0.74% (pre-fee) vs the benchmark return of 0.27%, giving back a small amount of the gains over the last few months. Over the month, over half of the losses were from the Duration strategy, partially giving back the gains generated over the past few months. Macro, FX and Relative strategies also detracted while the Cross-Market strategy added to performance.

The Duration strategy contributed over half of the losses, as the long duration bias is maintained throughout the month. The losses are mainly shared between long duration positions in China 5y, the US long end and the European front end of the curves. The losses were partially mitigated by the gains in the long duration positions in the Korea front end. In Australia, we maintained long duration in the very front-end and took profit on positions in the 3-year tenor of the curve. Meanwhile, we rolled longer the long duration positions in New Zealand. As of the month end, we retained a long duration bias in US, Europe, Australian and selected EM countries.

The FX strategy detracted from performance during the month. Overall, our positioning centred around "risk off" with long USD and long JPY against other developed market currencies. Losses were mainly from a long JPY vs short EUR position held for a large part of the month. Performance of the long USD positions was largely flat. Early in the month we closed the long USD against short EUR and NZD, with the gains offset by the losses from a short AUD position later in the month. As of the month end all positions were closed.

The Macro strategy detracted over the month as risk sentiment improved approaching the end of the month. Through the month we maintained the buy protection positions in CDX HY, Korea and Indonesia sovereigns, which were carried forward from last month.

The Cross-Market strategy added to performance over the month. Similarly, to last month, the profits peaked in the middle of the month and retreated thereafter. However, this month the long duration positions were more impacted in the yield sell-off during the second half of the month, especially in Norway.

The Relative Value strategy detracted from performance this month. All losses were from the swap spread widening position maintained through the month. The position was stopped out early in the month. As of the end of the month, there are no positions in the strategy. There were no trades in the Yield Curve strategy in the month.

Market outlook

We expect markets to remain rangebound for the months ahead. The growing optimism in equity markets will keep bonds from rallying. Against this central banks remain committed to keeping rates here for years into the future, limiting the ability of bonds markets to sell off too far. Economic data will rebound, but the output gaps remain very high and will not close for a number of years. This is why we still prefer to have a bias to being long duration, whilst respecting the range.

The key to how long duration and in which markets has now switched to fiscal policy, not monetary policy. Governments who use fiscal policy aggressively will see their economies rebound the strongest. Those governments still held back by underlying fiscal conservatism will see the probabilities of a double dip recession next year increase. Of course the speed of a vaccine will play a part but given the uncertainty is not something we can time.

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

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