PENDAL

Factsheet

Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

June 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	-0.08	-0.04	0.48
3 months	-0.12	0.01	2.27
6 months	5.20	5.47	3.57
1 year (pa)	6.02	6.56	5.18
2 years (pa)	5.51	6.03	6.20
3 years (pa)	4.20	4.72	4.72
Since Inception (pa)	2.75	3.26	3.55

Other Information

Fund size (as at 30 Jun 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

June overall continued the themes from May of range-bound bond markets. There was a small breakout to higher yields in early June as sharemarkets surged. However, a pickup in second wave COVID-19 cases and reminders from central bankers about the challenges ahead quickly saw yields move back into the range. For US 10 year bonds that range has been 0.80% to 0.60%. In fact, US 10 year bonds have ended April, May and June at the same level of 0.65%.

European markets have generally seen yields settle higher since March. The ECB lifted support for their bond buying programme by $600 billion, which provided some support, but bonds yields have now settled higher than they were in the 3rd Quarter last year. The ECB of course was unable to do any meaningful rate cuts through the crisis. Our theme of global rates converging near zero is working from the other side for these markets, having first seen negative yields in 2016.

Other markets were mixed. Asian markets, which are further into the recovery, saw slightly higher yields. Positive moves in credit helped higher yielding bond markets perform, especially in Europe. The chase for yield near term is outweighing any concerns over creditworthiness.

Fund performance

The Fund underperformed its benchmark over the month delivering a return of -0.04% (pre-fee) vs the benchmark return of 0.48%, giving back a small amount of the gains over the last six months. Over the month the Duration strategy was the largest detractor. Our long duration bias was maintained throughout the month. The losses were mainly from long duration positions in China 5y section of the curve. We closed the long duration position in Korea in the first few days of the month with a minor loss. In the US, profits were made from switching the long duration position out of the front end into the longer end. In Australia, we also tilted towards the long end while maintaining the overall long duration size and the resulted performance was flat. Throughout the month, we maintained the long duration positions in New Zealand and Germany front end, which contributed to small losses for the month. As of the month end, we retained the long duration bias in the across the DM countries and China.

The FX strategy detracted slightly from performance during the month. All losses were from a short AUD against long USD position we opened in the middle of the month. The position remained open as of the end of the month.

The Macro strategy detracted over the month. We started the month with buy protection positions in CDX HY index, Korea and Indonesia sovereigns. Losses were contributed by the buy protection positions in CDX HY and Indonesia sovereign, while the position in Korea was flat to performance. Earlier in the month, we closed the CDX HY position and reduced the Korea and Indonesia positions. In commodities we reopened, our much loved and high conviction, long gold position midmonth and this helped mitigate the losses from the credit positions.

As mentioned earlier, the Cross-Market strategy detracted from performance over the month. The losses were mainly from the long duration side, namely, in Korea and Norway.

There were no trades in the Relative Value and Yield Curve strategies over the month.

Market outlook

We expect markets to continue to be rangebound over the Northern Hemisphere summer. There are two opposing forces on markets at present. Positive economic data and optimism in equity markets will weigh on bond yields keep bonds. However, central banks will remind investors they remain committed to keeping rates here for years into the future. As well, output gaps remain very high and will not close for a number of years. We will continue to respect the range but prefer a bias to being long duration, as the road ahead will still have some major bumps.

As mentioned last month the key to the size of 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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