PENDAL

Factsheet

Pendal Sustainable International Fixed Interest Fund

Bond, Income & Defensive Strategies

August 2020

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 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	-0.66	-0.61	-0.71
3 months	0.18	0.31	0.79
6 months	1.55	1.80	0.82
1 year (pa)	3.01	3.53	2.52
2 years (pa)	5.75	6.27	6.20
3 years (pa)	3.87	4.39	4.38
Since Inception (pa)	2.70	3.21	3.48

Other Information

Fund size (as at 31 Aug 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 bonds yields remained in their post March range throughout August. US 10 year yields have spent the majority of time since April between 0.6% and 0.8%, attempting a small break lower in early August before resuming the range.

Weak economic data and poor health outcomes with COVID-19 have meant central banks continue to be dovish and providing high levels of market support. This has pushed down yields. However the same rhetoric has supported risk markets, which has seen some capital leave bonds pushing up yields. These forces are expected to continue into year end.

Other developed markets have largely followed the US lead. The only large market that has seen a new trend develop since April is China. Ten year yields in China have risen from 2.5% in April to above 3% now. August continued this move. China has seen a quicker recovery than other economies. Ironically it's government and central bank, so often leading the way in market intervention, is actually about the only central bank not doing QE.

For now the talk of new countries moving to negative rates is confined to New Zealand. Large scale fiscal stimulus remains the preferred measure in Australia and the US, with central banks viewing negative rates as potentially doing more harm than good. Short end rates have therefore been largely stable again in August.

Fund performance

The Fund outperformed its benchmark over the month delivering a return of -0.61% (pre-fee) vs the benchmark return of –0.71%. Over the month, The Relative Value strategy performed well, while the Cross-Market, Duration, FX and Macro strategies detracted. August has been another strong month for equity markets, and by equity markets, we mean US equity markets specifically. The breadth, or lack thereof, in the stock market rally has been much discussed, with the growth tech names and stock splits fueling almost all the strength seen of late. For the key tech shares, it's also interesting to note that much of the buying volume seems to happen between midnight and 4am US time, suggesting that offshore investors have been frantically chasing these returns.

Partly fueled by risk-on sentiment, US 10-year yields have ranged from a low of 50 basis points to a high of 79 basis points, closing the month around 0.70% helped by month end bond index extensions. Similarly, in Australia, 10-year yields have backed up close to 25 basis points over the month, with recent new CGL issuance seeming to weigh on our bond market. We view this as a temporary absorption issue, as the relative steepness of the Australian yield curve continues to attract carry-hungry Japanese money into our markets.

Over the month, the Duration strategy detracted from performance. The long duration position bias was maintained through the month, but we reduced the position size across markets intra-month and re-risked in the second half of the month. Among the losses over the month, the majority were from long duration positions in the Australian front end. The long duration position in the China 5y was closed and we opened a short duration position (hedge) in the US long end of the curve, which performed well. Later in the month we replaced the outright hedge with put options and a payer swaption both in the long-end. The belly long duration position in New Zealand was reduced but the remaining position performed very well in the second half of the month and we added back the long duration position, albeit in the front end. As of the end of the month, we continued to hold long duration across the major markets while keeping an option hedge of short duration in the long end of US.

The FX strategy detracted from performance over the month. Losses were mainly from long USD short JPY position intra-month as part of the response to risk on sentiment due to the COVID-19 vaccine development. This position was only held for a short period of time and closed once the positive sentiment dissipated. During the month we closed the outright positions in USD vs AUD and KRW and replaced with a call option on USD against KRW. These positions recorded largely flat performance for the month.

The Macro strategy was the largest detractor over the month. Most losses were from the long gold position. While we still believe in the long in gold (real yield trade), the market fluctuations had made the position unprofitable. In the month we opened a short SPX position as the lack of breadth of the market rally increased the risk of a reverse. The position was closed with losses as the US market kept making new highs. The ASX dividend trade was unwound in the month with a positive return.

The Cross-Market strategy was slightly negative over the month. There are no positions in the strategy as of the month end.

The Relative Value strategy was the best performer over the month. All gains were from the long real yields positions in the US. The position suffered some drawdown within the month but fully recovered towards the end of the month.

Market outlook

Increasing focus on successful Vaccine trials is adding to the strong performance of risk assets, initially supported by massive government stimulus. Current poor health and economic outcomes are being discounted. Predicting when we get a Vaccine and how effective it will be is difficult but governments are reminding investors extraordinary support will remain in place long after economies begin to rebound. Near term this depresses bond yields but also lifts equities, a great result for investors. Medium term if inflation were to pick up pressure may come on term bond markets, challenging this consensus.

August saw a continuation on fiscal rather than monetary conditions. US budget measures remain bogged down in the usual partisan politics, made worse by the upcoming election. Focus on the election will be on Trump v Biden. Both will likely add fiscal stimulus post an election but the problem may be if the Houses remain split, blocking even reasonable attempts to help the economy.

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

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