Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Factsheet

Bond, Income & Defensive Strategies

September 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 fifteen 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 26 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	0.65	0.69	0.37
3 months	0.92	1.05	0.68
6 months	0.80	1.05	2.96
1 year (pa)	4.72	5.25	3.47
2 years (pa)	6.60	7.14	6.59
3 years (pa)	4.31	4.83	4.66
Since Inception (pa)	2.81	3.32	3.50

Other Information

Fund size (as at 30 Sep 2020)	$93 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

During September global bonds yields remained firmly stuck in recent ranges. There were small gains as yields fell 5 to 10 bp but closing levels were at or near six month averages.

In the United States the Federal Reserve formally adopted outcome-based forward guidance. Rates will rise when three conditions have been met: the labour market has reached maximum employment, inflation has risen to 2% and is on track to moderately exceed 2% for some time. This leaves the Fed with considerable room to maintain rates at their current setting – as the Fed pointed out in a strategy paper in August maximum employment can't be precisely estimated. Terms such as moderately and sometime are also sufficiently vague.

The Bank of England (BoE) left current monetary policy settings steady but detailed further its preparation for the operational aspects of negative rates. The BoE will begin formal talks with financial institutions on the operational logistics surrounding negative rates later this year. BoE Governor Bailey subsequently downplayed the probability of negative rates when he commented that they are "in the toolbag but it doesn't imply anything about the probability of us using negative interest rates at the moment".

The prospect of new lockdowns in Europe saw a decent bid return for their bonds. Yields ended up around 10 bp lower for German 10 year bonds, finishing at -52 bp, which is 6 bp below the six month average. Despite wider corporate credit spreads second tier European bonds actually rallied harder on the prospect of further ECB intervention.

Finally Asian bond markets bucked the trend, with most being unchanged on the month. The more positive economic outlook in China continued to weigh on their bonds, with 10 years finishing up 12 bp on the month.

Overall it remains government action, both fiscal and monetary, driving markets. Keeping a close eye on these actions is proving more successful than monthly variances in economic data. Ultimately the two will move back in line but that will be well into 2021.

Fund performance

The Fund outperformed its benchmark over the month delivering a return of 0.69% (pre-fee) vs the benchmark return of 0.37%. Over the month, the Duration strategy performed strongly. The long duration position bias was maintained through the month. Majority of the gains were from long duration positions in the Australian and New Zealand front-ends. During the month we placed some tactical trades in the US long and Australian front end with positive gains. As of the month end, we kept the Australia and NZ front end as our core long duration positions.

The FX strategy was flat for the month. We closed the US dollar vs Korea won call option early in the month, and there were no more trades for the month.

The Macro strategy detracted over the month. All losses were from the long gold position. The position was closed later in the month. As of the month end there was no positions in the strategy.

There are no trades in the Cross-Market strategy for the month.

The Relative Value strategy underperformed over the month. Losses were from the long real yields positions in the US. Towards the end of the month, we started to reduce the position.

Market outlook

After a difficult September risk markets will be looking for more positive news in October. Uncertainty around vaccines, virus outbreaks, presidential elections and the technology sector have all weighed on sentiment in September. However markets will jump on any good news given the massive stimulatory backdrop of governments globally.

To quote Donald Rumsfeld these are "known unknowns" so whilst they can still surprise the wrong way the amount of money in the system leaves markets vulnerable to a risk on month. Bond markets are expected to maintain the six month range but the prospect of further RBA stimulus in November will keep a bid tone. Any risk off will be met by further stimulus.

Overall though central banks will not want to see yields drift too much higher at a time when low rates are needed, capping any selloff and once again providing opportunities to go overweight duration.

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

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