PENDAL

Factsheet

Bond, Income &
Defensive Strategies

October 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 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 25 years industry experience.

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	-0.59	-0.55	0.00
3 months	-0.60	-0.48	-0.35
6 months	-0.55	-0.30	1.43
1 year (pa)	4.47	5.00	3.76
2 years (pa)	6.35	6.88	6.71
3 years (pa)	4.00	4.52	4.49
Since Inception (pa)	2.60	3.11	3.43

Other Information

Fund size (as at 31 Oct 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

Offshore events were dominated by the upcoming US election and the lack of progress on a fiscal stimulus package. Also weighing on risk markets were increasing COVID19 cases and resultant lockdowns in Europe, Brexit negotiations, US earnings and the trials and tribulations as companies race to find a vaccine. Positive developments occurred with Moderna stating that their vaccine could be available for emergency use in December and AstraZeneca resuming its phase 3 trials in the US.

In the US risk sentiment waxed and waned during the month on fiscal stimulus talks, with no agreement able to be reached prior to the election. The election occurs in early November with Joe Biden favoured to take office from Donald Trump according to the polls. The close Senate race will also be watched as it will impact on the next President's ability to push through fiscal stimulus.

Key economic data out of the US included third quarter GDP, which rose by a better than expected annualised rate of 33.1%. The unemployment rate fell from 8.4% to 7.9%, largely due to the participation rate.

The ECB was more dovish than expected and has signalled that further monetary policy stimulus with occur at their December meeting. ECB President Christine Lagarde outlined a regional economy that was losing momentum and is now facing deeper downside risks, with the ECB to 'recalibrate its instruments' at its next meeting following the release of the ECB's economic projections.

The Bank of England continues to weigh up the case for negative rates. MPC member Vlieghe warned that the banks' ability to stimulate growth was beginning to wane and that negative rates need to be included in the BoE's armoury once technical issues were overcome. BoE Deputy Governor Ramsden stated that whilst there might be an appropriate time to use negative rates, now is not the time.

Risk sentiment, particularly in Europe, suffered as the number of COVID cases rose sharply and led to restrictions in Spain, Italy, Germany, France and the UK amongst others. German equities were down by almost 10% over the month, with software maker SAP falling 22% in one session on a disappointing outlook for the company. In the United States the S&P 500 fell by 2.8%, China's Shanghai Composite was little changed and in Australia, the S&P/ASX 200 ended 1.9% higher.

US treasury yields sold off late in the month despite the sharp fall in US equity markets late in the month with the 10 year bond yield ending 19 basis points higher at 0.87%. However, German 10 year yields fell by 11 basis points to -0.63%.

Fund performance

The Fund underperformed its benchmark over the month delivering a return of -0.55% (pre-fee) vs the benchmark return of 0.0%. Over the month, the Duration strategy detracted from returns as a long US treasury position ended the month in a loss. The key drivers of higher bond yields was stronger than expected data with third quarter GDP data played a part as positive surprises from the US (+33.1% QoQ SAAR), Europe (+12.7% QoQ) and a host of other countries lifted their respective regions out of recession. Growth was broad-based and reflected policymakers' pragmatic desire to strike a balance between preserving human life and minimising the commercial damage of quarantines and social distancing. The other more significant reason was the rising probability of a Democrat sweep in the US elections: a "Blue Wave". A Biden presidency is promising a new $4 trillion stimulus package beginning early 2021, doubling the $2 trillion CARES Act already passed. The additional issuance has prompted upward pressure on Treasury yields.

Whilst disappointing to see negative returns, we believe the selloff in bond yields is not sustainable. The learnings from the Taper Tantrum leave policymakers with little appetite for any sudden tightening in financial conditions. Already the Fed has ushered in a new inflation-targeting regime where inflation overshoots and labour tightness would be allowed.

Market outlook

As we write the US election remains unresolved, although a Biden win with a Republican Senate looks the most likely outcome. We expect some stimulus to finally get through early next year, likely in the range of $1.5 to $2 trillion. Whilst this will give the US economy a much needed boost the economy will continue to struggle. Further Fed action cannot be ruled out. This will keep a bid to bond markets and at the same time risk markets. The chase for yield and return is alive and well.

The global picture remains divided with Asia continuing a strong rebound but much of Europe struggling with COVID lockdowns. This mixed picture will mean we enter 2021 without a widespread global rebound, which will see governments and central banks looking for further ways to boost jobs and their economies. This will remain a bond friendly environment, at least for now.

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

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