

### Pendal Sustainable International Fixed Interest Fund

ARSN: 612 664 945

Bond, Income & Defensive Strategies

November 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.

#### Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.49	0.54	0.53
3 months	0.55	0.68	0.90
6 months	0.73	0.99	1.70
1 year (pa)	5.63	6.17	4.52
2 years (pa)	6.51	7.04	6.76
3 years (pa)	4.17	4.69	4.61
Since Inception (pa)	2.67	3.18	3.49

#### Other Information

Fund size (as at 30 Nov 2020)	\$241 million
Date of inception	August 2016
Minimum investment	\$500,000
Buy-sell spread <sup>1</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>
Distribution frequency	Quarterly
APIR Code	BTA0509AU

<sup>1</sup> 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<sup>2</sup>

Issuer fee <sup>3</sup>	0.50% pa
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<sup>2</sup> You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

<sup>3</sup> 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.



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](http://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.

## 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

The big news in November in the United States was Joe Biden being elected as the 46th President, with his inauguration due to take place on the 20th January 2021. The focus will now move onto the 2 Georgia senate runoff elections to be held in early January. The Democrats will need to win both elections for the Democrats and Republicans to have 50 seats each. Vice President elect Kamala Harris would then serve as a tie-breaker. If the Republicans can retain one seat they will retain control of the senate.

The Federal Reserve reiterated its forward guidance from September, stating that the fed funds rate will be held at 0% - 0.25% until the economy is back to maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time, reflecting their move to average inflation targeting. Later in the month it was announced that eight emergency lending programs due to end at the end of the year would not be extended.

ECB President Christine Lagarde all but ruled out lowering rates any further (the ECB deposit rate is at -0.50%). Further monetary policy easing is more likely to be via bond buying and long-term loans to banks being the preferred tools to support the economy. Market expectations that the ECB would announce something on this at their next meeting on the 10th December rose following the comments.

For more information please call **1800 813 886**, contact your key account manager or visit [pendalgroup.com](http://pendalgroup.com)

**PENDAL**

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PFSL is the responsible entity and issuer of units in the Pental Sustainable International Fixed Interest Fund (**Fund**) ARSN: 612 664 945. An Information Memorandum (**IM**) is available for the Fund and can be obtained by calling 1800 813 886 or visiting [www.pentalgroup.com](http://www.pentalgroup.com). You should obtain and consider the IM before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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Performance figures are calculated in accordance with the Financial Services Council (**FSC**) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.

The Reserve Bank of New Zealand wrote their own chapter on what not to do at their MPS meeting. Over the past 6 months, the RBNZ had prepared the market for negative interest rates in early 2021. They now see their Funding for Lending Program (similar to the RBA's term funding facility) as now being the best way to provide additional monetary stimulus although remain prepared to lower the cash rate further if necessary. Stepping back from moving into negative interest rate territory, along with the NZ Finance Minister asking for house prices to be considered in monetary policy decisions, resulted in New Zealand yields selling off aggressively during the month. The 5-year swap rate ended the month 35 basis points higher in yield – not exactly what you want when trying to provide accommodative financial conditions.

Risk sentiment from the vaccine announcement was positive and saw equity markets rally and credit spreads contract. The Australian dollar and the trade weighted index were up 4.8% and 3.4% respectively. Bond yields, as would be expected, moved higher in this environment. Australian 10 year bond yields ended the month 7 basis points higher in yield at 0.90%. US 10-year yields outperformed their global peers, ending the month 4 basis points lower at 0.84%.

## Fund performance

The Fund slightly outperformed its benchmark over the month delivering a return of 0.54% (pre-fee) vs the benchmark return of 0.53%. Over the month, the Duration strategy added small gains as the long US duration position benefitted from a late month rally to end lower.

Whilst the market focused on the positive developments surrounding vaccines, bond yields initially sold off then rallied as the bond market started to digest the Biden win and the split house which may result in a delay to the stimulus or scaling back all together. This is seen as a positive and saw US bond markets outperform the rest of the world which is still on course to deliver large-scale fiscal stimulus.

## Market outlook

Positive vaccine news, a market flush with money and US elections behind us meant the strong risk on sentiment should continue into December, albeit the magnitude of moves should slow down. Bond yields will remain rangebound as central bank buying supports markets where risk on sentiment tries to push yields higher. Whilst the data will be strong, it is still rebound strength and with the exception of China economies will struggle to reach activity levels pre COVID for at least another year. Hurdles for rate hikes are very high so if curves continue to steepen opportunities for carry and roll style trades should emerge.

The chase for yield remains a major theme which will continue to support investment grade spreads globally. Swap spreads may come under a bit more pressure though as corporate paying emerges against central bank buying supporting bond markets.