Factsheet

Bond, Income & Defensive Strategies

January 2019

Pendal Monthly Income Plus Fund

Previously known as 'BT Wholesale Monthly Income Plus Fund'

ARSN: 137 707 996

About the Fund

The Pendal Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

Investment Process

Pendal's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.56	0.61	0.13
3 months	0.71	0.87	0.38
FYTD	0.71	1.10	0.89
6 months	0.29	0.62	0.76
1 year (pa)	1.77	2.44	1.51
3 years (pa)	3.64	4.32	1.58
5 years (pa)	4.32	5.01	1.87

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
28/02/2018	0.25	31/08/2018	0.20
31/03/2018	0.30	30/09/2018	0.20
30/04/2018	0.35	31/10/2018	0.20
31/05/2018	0.50	30/11/2018	0.20
30/06/2018	1.4354	31/12/2018	0.20
31/07/2018	0.20	31/01/2019	0.20

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 January 2019)

Corporate bonds	59.9%
Mortgage backed	0.2%
Asset backed	0.0%
Australian shares	8.1%
Cash & other	31.8%

Other Information

Fund size (as at 31 Jan 2019)	$492 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Monthly
APIR code	BTA0318AU

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management costs[2]

Issuer fee[3]	0.65% pa

[2] You should refer to the latest Product Disclosure Statement 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 asset.
- **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.
- **Derivative risk –** The risk 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 Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

Australian bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. The swings were driven predominantly by a combination of offshore developments including a more dovish Fed. Meanwhile domestic monetary policy news was limited with no RBA gathering during January. This left the market continuing to price a greater chance of a cut over the next year, rather than a hike by the Board. Local data was mixed through the month. The top-tier release was CPI data that revealed a 0.4% quarter-on-quarter increase in the RBA's preferred measure of inflation, the trimmed mean. In turn, the year-on-year rate remained at 1.8%, well below the midpoint of its target 2-3% band. Employment data indicated 22k jobs were added and the unemployment rate fell by 0.1% to 5.0%. Leading indicators were mostly weaker as business conditions fell 9 points to +2 and consumer confidence dropped from 104.4 to 99.6. Finally turning to market movements, Australian 3 and 10 year yields both fell by 8bps to 1.76% and 2.25% respectively. At the very front-end, 3 month BBSW declined by a marginal 2bps to 2.07%, however its spread to OIS remained relatively elevated.

Domestic credit generated another positive return for the month. This was on the back of a fall in underlying yields, tightening of credit spreads and strong accruals. A strong recovery in risk appetite led the narrowing for spreads as the Fed signalled a more patient and flexible path for policy normalisation. Sentiment was also bolstered by a constructive US fourth quarter earnings season and a temporary resolution to the US Government shutdown.

Although the risk backdrop improved, issuance remained relatively light - which was likely owing to seasonally low liquidity. The domestic banks accounted for the majority of issuance with CBA, WBC and ANZ all tapping the market for debt capital. Meanwhile, there were no deals from general corporates.

The Australian iTraxx index (Series 30 contract) traded in a very wide 24p range finishing the month 18bps tighter to +77bps. On average, physical credit spreads closed the month slightly narrower, with the best performing sectors being telecoms and resources both tightening 2bps. The worst performing sector was domestic banks which widened 2bps. Semi-government bonds slightly underperformed widening 1bp to government bonds over the month.

Fund performance and activity

The Fund returned 0.61% (pre-fees) over the month, an outperformance of 0.48% versus the cash benchmark. Both the domestic credit and equities components made positive contributions. The former was tied to a fall in underlying yields, a tightening in spreads and strong accruals. The latter also benefited from the return of risk-appetite, which drove the rebound in the local share market. The allocation to equities was retained at its minimum 8%.

Outlook

The Reserve Bank left the cash rate unchanged at its meeting in early February, although the list of downside risks seems to be increasing. Global economic growth forecasts continue to be revised down, weighed down by trade tensions between the United States and China. The secondary effect of these is also clearly weighing on Europe with Italy now in technical recession and the German economy also stalling. Brexit is unlikely to be resolved anytime soon.

Domestically, household spending showed signs of deteriorating in the latter part of 2018 despite the improving labour market. The Reserve Bank sees the unemployment rate falling further and leading to a rise in wage inflation. The housing market, particularly in Sydney and Melbourne, continues to fall however needs to be kept in context against the significant appreciation that has been witnessed since the GFC. The Reserve Bank did not tighten monetary policy despite a rampant property market and similarly we do not expect them to ease monetary policy in response to a weakening housing market. If inflation disappoints however it may be a different story. Inflation pressures are contained and a long way from the mid point of the Banks' 2 to 3% target band - something that is highly unlikely to change over the rest of 2019. The Reserve Bank is reluctant to ease policy further given the already accommodative stance - a further deterioration of the inflation landscape may however force their hand.

Our overall credit view is cautiously constructive. We have been constructive on corporate fundamentals, but are also wary that sentiment towards credit has been weaker in recent months. This has been driven by broader macro concerns as well as fears that troubles for specific US corporates, such as GE, could reflect broader systemic issues. However, we believe corporate fundamentals on balance are healthy for the bulk of investment grade issuers. Balance sheets are generally strong and earnings are improving as evidenced by solid corporate earnings seasons in the US and Europe. Further, Australian domestic issuers have not increased balance sheet leverage over the past number of years. The major Australian banks have stronger capital ratios than previous years which should support domestic financial stability.

From a macro standpoint, we acknowledge that risks have risen due to increasing volatility across markets. This has been driven in part by flare-ups of geopolitical risks, such as the ongoing trade war ructions, where troubles have been exacerbated by less forgiving markets. That said, the impact of developments such as trade wars and attitudes towards monetary policy normalisation have shown a tendency to shift quickly as the story evolves. For example, the headwind to risk-assets from the Fed's hike in December was quickly replaced by a tailwind as greater policy flexibility was subsequently emphasised.

Meanwhile, domestically we expect the Australian economy to exhibit improving growth that has become more balanced in recent years. However, soft wage growth and a house price correction threaten to dampen consumption. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as Utilities and Infrastructure that provide higher yield to index returns.

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

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