PENDAL

Factsheet

Bond, Income & Defensive Strategies

February 2019

Pendal 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.32	1.37	0.12
3 months	2.31	2.47	0.37
FYTD	2.04	2.48	1.00
6 months	0.99	1.31	0.75
1 year (pa)	3.18	3.85	1.51
3 years (pa)	4.01	4.69	1.56
5 years (pa)	4.36	5.04	1.85

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
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
31/08/2018	0.20	28/02/2019	0.20

* Distribution is large due to year end distribution.

Sector Allocation (as at 28 February 2019)

Corporate bonds	59.7%
Mortgage backed	0.1%
Australian shares	18.4%
Cash & other	21.8%

Other Information

Fund size (as at 28 Feb 2019)	$501 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 fell during the month as the Reserve Bank shifted its communication to suggest the outlook for rate changes was "more evenly balanced". The central bank also downgraded its projection for economic growth and lowered its inflation forecast in its quarterly Statement on Monetary Policy. In turn, markets are now pricing at least one cut from the Board over the next twelve months. Meanwhile, local economic data was mixed over the month. Labour data was stronger-than-expected with 39K jobs added, which was attributed to a strong increase in full-time positions. A small rebound in consumer confidence and business conditions was also encouraging. In contrast, retail sales slipped 0.4% and building approvals fell a sizeable 8.4% month-on-month. Wage data revealed a 0.5% increase over the quarter, which brought the year-on-year rate to 2.3%. Finally, the Australian 3 and 10 year yields fell -13bps and -15bps to 1.63% and 2.10% respectively. At the very front-end, 3 month BBSW dropped a more sizeable -20bps to 1.87%.

Domestic credit generated another positive return for the month. This was driven by the combination of a fall in underlying yields, tightening of credit spreads and strong accruals. A strong recovery in risk appetite led the narrowing for spreads after the Fed signalled a more patient and flexible path for policy normalisation in January. Sentiment was also bolstered by perceived progress on a US-China trade agreement and the indefinite delay of a tariff increase.

Against a stronger risk backdrop, issuance also returned. NAB was the largest issuer with an A$3bn deal split between A$400m fixed and the remainder in floating. It followed in the wake of issuance from the three other major Australian banks in January. General corporates returned to the market for the first time this year with noteworthy deals from from General Motors (A$400m) and McDonald's (A$1.4bn).

The Australian iTraxx index (Series 30 contract) traded in a 10bp range finishing the month 8bps tighter to +69bps. Physical credit spreads also closed the month narrower, with the best performing sectors being domestic banks, infrastructure and utilities all tightening 7bps. The worst performing sector was supranationals which only narrowed 1bp. Semi-government bonds performed well tightening 2bps to government bonds.

Turning to the domestic share market, Australian equities extended gains through February, despite the latest reporting season seeing more earnings downgrades than the historical average – the market environment is tougher; however investors were braced for poor news. The S&P/ASX 300 Accumulation Index was up by 6.0%.

There was a marked rotation away from defensives over the month, towards cyclicals and the unloved as some of the macro fears receded. Financials outperformed, up +9.1% (S&P/ASX 300 Financials), with the banks outperforming despite lacklustre updates as the overhang from the Royal Commission disappeared. Resources (S&P/ASX 300 Resources) were up +6.9% as cyclicals shifted back in to favour.

Fund performance and activity

The Fund returned 1.37% (pre-fees) over the month, an outperformance of 1.25% versus the cash benchmark. The largest contribution to returns was made by the equity allocation, which performed strongly on the continued strength for the local share market. The domestic credit component also performed well on the combination of a fall in underlying yields, tightening of credit spreads and healthy accruals. The allocation to equities was increased from its minimum 8% to 18% in the first half of the month.

Outlook

The Reserve Bank left the cash rate unchanged at its meeting in early March and delivered a neutral statement. However, broader communication from the Board and softening economic data has stoked market expectations for a cut from the central bank over the next year. This was reinforced by fourth quarter GDP data released the day after the RBA's meeting. Of particular interest within the numbers was household consumption; the area has remained weak despite solid employment growth.

With the cash rate at 1.50% the hurdle for further policy easing is still high with the catalyst most likely to come from inflation disappointing or the labour market deteriorating. The Reserve Bank is looking for labour market tightness to feed into wage inflation and in turn see underlying inflation increase. With the unemployment rate at 5% and according to the RBA's forecasts expected to fall only to 4.75% by June 2021 it is difficult to envisage wage inflation pressure rapidly increasing. The labour force participation rate is however around historically high levels that has kept the unemployment rate more elevated than would otherwise be the case.

Inflation has continued to disappoint, with the trimmed mean remaining below the Reserve Bank's 2-3% target band since March 2016. Its forecasts imply that underlying inflation will only rise above 2% in the second half of 2020. Such a benign environment does not require the Reserve Bank to be pre-emptive. The economy continues to be supported by elevated commodity prices and a large pipeline of infrastructure investment.

Our overall credit view is cautiously constructive. We have been constructive on corporate fundamentals, but are also wary that appetite for credit has proven highly sensitive to geopolitical developments in recent months. This has been driven by macro concerns including trade wars 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. Moreover the weight of the Royal Commission has finally been lifted from their shoulders.

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 in January.

On the domestic economy, growth has softened, but is more evenly balanced than previous years. There are further risks to the downside as weak wage growth and the 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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