PENDAL

Factsheet

Bond, Income & Defensive Strategies

March 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	1.03	1.09	0.13
3 months	2.93	3.10	0.37
FYTD	3.09	3.59	1.13
6 months	2.28	2.61	0.75
1 year (pa)	4.26	4.94	1.51
3 years (pa)	4.32	5.00	1.55
5 years (pa)	4.52	5.20	1.84

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
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
30/09/2018	0.20	31/03/2019	0.20

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 March 2019)

Corporate bonds	58.3%
Mortgage backed	1.5%
Asset backed	0.7%
Australian shares	18.3%
Cash & other	21.2%

Other Information

Fund size (as at 31 Mar 2019)	$508 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 experienced a significant fall that was shared by global peers over the month. The decline appeared tied to more dovish messaging from central banks, as well as emerging concerns over the outlook for the US economy. These developments overshadowed wavering trade war and Brexit-related headlines. In Australia, the RBA left rates unchanged at 1.50% as widely-expected and its accompanying March statement offered few changes. Subsequent communication highlighted weakness in house prices and the negative effects on household consumption. In turn, expectations for a rate cut increased further with two reductions now priced by year-end. Data-wise, fourth quarter GDP figures revealed a weak 0.2% pace of growth over the quarter, which brought the year-on-year rate to 2.3%. Labour data was mixed with only 4.6K jobs added, yet a drop in participation helped the unemployment rate fall by 0.1% to 4.9%. Meanwhile, leading indicators were weak with business and consumer confidence both falling as well as retail sales growing a meagre 0.1%. In terms of market movements, Australian 3 and 10 year yields fell 23bps and 33bps to 1.40% and 1.77% respectively. 3 month BBSW saw a more modest decline of 10bps to 1.77% and the OIS-BBSW spread narrowed further.

Australian credit realised a strong positive return in March, driven by a large fall in underlying yields, tightening of credit spreads and healthy accruals. The drop in yields was alongside a more dovish shift from global central banks. At the same time investors looked past the noise of trade war headlines and Brexit rumblings.

The Australian iTraxx index (Series 30 contract) traded in a 6bp range finishing the month 2.5bps tighter to +66.5bps. The new Series 31 contract finished the month at +75.5bps. Physical credit spreads also closed the month 2.5bps narrower, with the best performing sectors being domestic banks and utilities tightening 6 and 3bps respectively. The worst performing sector were resources and telecoms which only narrowed 1bp each. Semi-government bonds underperformed widening 1bp to government bonds.

Turning to domestic equities, the area orchestrated a meaningful turnaround in the first quarter of CY2019, despite a somewhat less sanguine reporting season in February. A few factors contributed to the general improvement of investor sentiment: In the US there has been a material shift in rhetoric from the Fed; comments now indicate a more dovish stance suggesting the board is not as deaf to market feedback as many feared. Whilst, we are still facing an environment of reduced liquidity, investors are now less concerned that a sharp liquidity crunch could drive a more sustained correction. Domestically, the implications of Vale's tailings dam tragedy provided the iron ore miners a tailwind: the Brazilian miner's new 2019 volume estimates take into account the effect of mine closures and disruptions from the review into the safety of its tailings dams. New guidance suggests that, even with some deployment of existing inventory, the cut in volumes will be at the upper end of the market's range of expectations. Overall, the S&P/ASX 300 index capped its strongest quarter since September 09, with a gain of 10.9%. Large cap Resources (+16.5%) outperformed strongly; whereas large cap Industrials (+7.8%) were the laggard.

Fund performance and activity

The Fund returned 1.09% (pre-fees) over the month, an outperformance of 0.96% versus the cash benchmark. The largest contribution to returns was made by the credit allocation, which performed strongly on the fall in underlying yields, as well as tighter spreads and healthy accruals. The equities allocation was also positive with an additional return from the active portion of the exposure. The allocation to equities was retained at 18% after being increased in the first half of February.

Outlook

The Reserve Bank left the cash rate unchanged at its meeting in early April. A slight tweak in the statement was seen to indicate a move towards potential easing with a note that it will "set monetary policy to support sustainable growth in the economy". As recent economic growth numbers have disappointed the next move in the near term for monetary policy is more likely an easing.

However with the cash rate at 1.50% the hurdle for further policy easing is high. Previously the catalyst was most likely to come from inflation disappointing or the labour market deteriorating. A deteriorating global economic environment can be added to the mix. Economic growth prospects for Europe in particular look poor and the inversion of the US yield curve, albeit briefly, has garnered headlines about the possibility of the US heading into recession in the near to medium term. Global trade data does not indicate positive momentum.

The Reserve Bank remains upbeat on the outlook for the labour market and increasing tightness feeding into wage inflation and in turn generate increasing underlying inflation. With the unemployment rate at 4.9% 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. The risk is more likely that inflation continues to undershoot the Reserve Bank's forecast. The economy continues to be supported by elevated commodity prices and a large pipeline of infrastructure investment. The upcoming Federal election will likely see the Reserve Bank on hold in the near term however further monetary policy easing in the latter half of the year cannot be ruled out.

On the domestic credit outlook, our overall view is cautiously constructive. We have been constructive on corporate fundamentals, but are also wary that appetite for credit has demonstrated varying sensitivity to geopolitical developments. 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.

From a macro standpoint, we acknowledge that risks have risen due to increasing volatility across markets in the past six months. This has been driven in part by flare-ups of geopolitical risks, such as the ongoing trade war ructions. 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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