PENDAL

Factsheet

Bond, Income & Defensive Strategies

April 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	0.73	0.78	0.12
3 months	3.10	3.27	0.37
FYTD	3.84	4.40	1.26
6 months	3.83	4.17	0.75
1 year (pa)	4.77	5.45	1.51
3 years (pa)	4.47	5.15	1.53
5 years (pa)	4.52	5.20	1.82

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
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
31/10/2018	0.20	30/04/2019	0.30

* Distribution is large due to year end distribution.

Sector Allocation (as at 30 April 2019)

Corporate bonds	57.7%
Mortgage backed	1.4%
Asset backed	0.7%
Australian shares	18.8%
Cash & other	21.4%

Other Information

Fund size (as at 30 Apr 2019)	$519 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 at the front-end leading the curve to steepen during April. This was driven largely by growing expectations of a rate cut from the RBA. The Board's communication during the month was perceived as relatively dovish, including the discussion of a low-inflation and higher unemployment scenario that would require lower rates. Later in the period, a weaker-than-expected first quarter CPI print fanned expectations further and by month-end the market was pricing a roughly 50% chance of such a move. The first quarter inflation data revealed headline CPI was flat at 0.0%, while the RBA's preferred gauge (the trimmed mean) rose a sluggish 0.3% over the same period. Meanwhile, labour market data was mixed. On market movements, the Australian 3 year yield fell by 12bps while the 10 year rose 3bps to 1.28% and 1.80% respectively. At the very front-end, 3 month BBSW dropped a more substantial 21bps to 1.56%. The BBSW-OIS spread also narrowed further and funding pressures eased with the continued decline in repo rates.

Australian credit generated another positive return in April, driven by a fall in yields, tightening of credit spreads and healthy accruals. The drop in yields was alongside increased expectations of an RBA rate cut. At the same time investors looked past the noise of trade war headlines and ongoing Brexit rumblings in the global arena.

Despite a reasonable backdrop for risk assets, issuance was again relatively light over the period and the lowest month for the year so far. Following issuance in January and February, none of the Big Four domestic banks issued paper during March or April. The largest deal was from offshore financial, Bank of China with a A$600m deal. Local regional banks issued similar amounts with Bank of Queensland and Suncorp both conducting A$500m deals. The largest general corporate issuance was from Woolworths with a A$400m green bond.

The Australian iTraxx index (Series 31 contract) traded in a 10bp range finishing the month 9.5bps tighter to +66bps. Physical credit spreads narrowed 2bps over the month, with the best performing sectors being utilities and domestic banks tightening 7 and 5bps respectively. The worst performing sectors were supranationals and offshore banks that were unchanged and 2bps narrower respectively. Semi-government bonds were basically unchanged to government bonds.

Turning to domestic equities, the strong performance of the Australian market extended in April, with the S&P/ASX 300 Accumulation index advancing by 2.5% over the month. We saw a general rotation between Materials (-2.1%) and Financials (+4.4%), particularly from miners (-3.9%) to the banks (+4.4%). As a result, Industrials (+3.8%) outperformed; whereas Resources (-2.5%) were the laggard.

Fund performance and activity

The Fund returned 0.78% (pre-fees) over the month, an outperformance of 0.66% versus the cash benchmark. The domestic credit allocation made a positive contribution thanks to the fall in underlying yields, as well as tighter spreads and healthy accruals. The equities allocation was also positive and its weight was retained at 19% after being increased in the first half of February. Finally, the government bond component also added value with strong outperformance versus its benchmark.

Outlook

In its April statement that accompanied the Reserve Bank's monetary policy decision they stated they will 'continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time'. Whilst there was no explicit easing bias in their April statement the weaker first quarter inflation data is likely to see them either ease monetary policy at their May meeting or move to an easing bias which sets up a likely rate cut shortly thereafter. Whilst inflation has been below target for an extended period now the first quarter inflation data cannot be ignored: it was weak and trending the wrong way. Their forecasts in the Statement on Monetary Policy released on 10th May will reflect an even more benign inflationary environment against a backdrop of slowing economic growth – if the Reserve Bank does not ease policy in that environment then questions will be asked over how bad things really need to get before they act. Household consumption weakened noticeably in the latter half of 2018, weighed down by low income growth and high household debt levels. The hurdle for further easing was high given the cash rate is at 1.50% but that point has been reached.

The Reserve Bank has been upbeat on the outlook for the labour market with increasing tightness feeding into wage inflation and in turn generating higher underlying inflation. An unemployment rate of 5% does not suggest a surge in wage inflation is likely to occur anytime soon however. Forward indicators are providing mixed signals with job vacancies data indicating ongoing strength and the ANZ job ads series reflecting slowing labour demand. Inflation from a tightening labour market will not occur quickly enough to see the Reserve Bank on hold for an extended period.

We expect the Reserve Bank to ease monetary policy twice before the end of 2019.

Our overall credit view remains cautiously constructive. We are positive on corporate fundamentals, but are wary that appetite for credit has demonstrated varying sensitivity to geopolitical developments and the ongoing trade war.

From a bottom-up perspective, corporates in the US have demonstrated resilience with upside surprises to earnings growth in the Q1 reporting season. Similarly, domestic fundamentals remain relatively healthy as issuers have not increased balance sheet leverage materially over the past several years. The major Australian banks also 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. That said, recent results from the majors have revealed challenges as a result of the Commission as well as slowing mortgage growth.

From a macro standpoint, the elevated levels of volatility that were evident in 2018 (particularly December) have subsided. Investors have taken a more optimistic perspective towards trade wars and sentiment has been lifted by more dovish central banks. However, we are wary that attitudes towards these developments can shift quickly as the story evolves, particularly with geopolitical flare-ups.

Of further consideration is the softening of domestic economic growth, where there is likely further risk 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