PENDAL

Factsheet

Bond, Income & Defensive Strategies

July 2019

Pendal Global Fixed Interest Fund

ARSN: 099 567 558

About the Fund

The Pendal Global Fixed Interest Fund (**Fund**) actively seeks out investment opportunities within a broad portfolio of international fixed interest securities.

Fund Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the JP Morgan GBI Traded Index, hedged to AUD, over the medium term. The suggested investment timeframe is three years or more.

Investment Strategy

The Fund is an actively managed portfolio of international fixed interest. This Fund is designed for investors who want income and are prepared to accept some variability of returns. The Fund invests in a combination of fixed and floating rate debt and short-term money market securities. This may include investments in government, bank, corporate and structured finance securities. The Fund may also use derivatives.

Investment Process

Pendal's investment process for global fixed interest is based on a diversified approach which ultilises a combination of active and enhanced strategies. The Fund does not generally invest directly in traditional international fixed interest securities. The Fund gains benchmark returns through an index swap and excess returns through a variety of credit and duration strategies. The active strategies are managed by the Pendal Bond, Income & Defensive team.

The Bond, Income & Defensive team process has a strong quantitative underpinning which aims to systematically generate potential trade ideas through the use of over 100 proprietary models. The models are used to identify mispricing's in global markets that are based on an economic, market and technical basis to provide the highest probability of success. After this is the qualitative overlay which is based on the judgment and experience of the team and is used to ensure that the positions are optimal from a risk/return basis and also that they are not all exposed to a similar view or outcome. The strategy aims to meet its objective by taking a small number of lowly-correlated positions in global interest rate markets.

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[1]

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.78	0.83	0.68
3 months	4.46	4.59	3.84
FYTD	0.78	0.83	0.68
6 months	5.66	5.93	5.39
1 year (pa)	7.25	7.82	8.37
2 years (pa)	4.03	4.58	4.93
3 years (pa)	1.84	2.38	2.73
5 years (pa)	4.30	4.86	5.02

The benchmark for this Fund changed from the Barclays Capital Global Aggregate Bond Index Hedged to AUD to the JP Morgan GBI Global Traded Hedged to AUD from 4th January 2012. Performance before this date may not be directly comparable.

Country Allocation (as at 31 July 2019)

Belgium	1.9%
Denmark	0.4%
France	7.7%
Germany	5.2%
Italy	6.8%
Netherlands	1.5%
Spain	4.5%
Sweden	0.3%
United Kingdom	6.9%
Japan	20.0%
Canada	1.3%
USA	41.9%
Cash & other	1.6%

Other Information

Fund size (as at 31 Jul 2019)	$34 million
Date of inception[1]	July 2002
Minimum investment	$25,000
Buy-sell spread[2]	0.12% (0.06%/0.06%)
Distribution frequency	Half-yearly
APIR code	RFA0032AU

[1] The investment manager for this Fund changed on 4th January 2012. Performance before this date may not be directly comparable.

[2] 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[3]

Issuer fee[4]	0.53% pa

[3] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[4] 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.
- **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.
- **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

Global bond yields experienced a mixed month as three month US yields fell while the 10 year rate rose slightly. Moves at the very front-end were driven by a 25bps cut by the Federal Reserve, its first reduction in more than a decade. Further, the FOMC announced it would halt its quantitative tightening at the start of August. Data for the world's largest economy was mixed overall. The advance second quarter GDP reading revealed slower growth of only 2.1% annualised and core inflation of 1.8%. Similarly, the ISM Manufacturing gauge dropped from 52.1 to 51.7. However, at the same time retail sales, durable goods orders and the monthly payrolls report were more constructive and beat expectations. Elsewhere, ECB President Mario Draghi delivered a dovish post-meeting press conference during July. The prospect of new stimulus, including deeper negative interest rates, was raised in response to a sluggish economy (particularly evident in manufacturing) and persistent subdued inflation. Beyond monetary policy developments, trade war worries were less prevalent than previous months. A gathering of US and China trade officials was held in Shanghai during the month with little major progress. Finally on market movements, the US 2 and 10 year yields rose 12bps and 1bp to 1.87% and 2.02%.

Fund performance

The Fund outperformed its benchmark over the month of July. Over the month, the Duration strategy was the strongest performer while FX and Yield Curve strategies also contributed positively. The Cross-Market and Macro strategies were roughly flat. The portfolio risk level started at 3 risk units and stayed at a low level before ending the month at 4 risk units.

The Duration strategy was the largest contributor over the month. We maintained long duration positions in various markets through the month. The main contributors of the gains were long duration positions in the front end of the Australian, New Zealand and European curves. Positions in the US front end were down-sized earlier in the month. In Emerging Markets, we continued to hold the long positions in China and Korea, with the latter making significant profits over the month. In the middle of the month we initiated a long duration position in Singaporean front end with flat performance for the month.

The FX strategy added to performance over the month. For most of the month we held long USD short Emerging Market currencies. All positions contributed positively to the portfolio. The short position in SGD were closed earlier in the month, and short positions in KRW and TWD were closed towards month-end. As of the end of the month we held no FX positions.

The Yield Curve strategy contributed positively to the portfolio this month. All gains were from the flattening position in the front end of the Australian curve, which we continue to hold.

In the Macro strategy we added a modest sell protection position in iTraxx Australian with the expectation of tightening credit spread in the near future. The position were roughly flat in performance.

In the Cross-Market strategy we added a trade from our quantitative process at the end of the month.

There were no trades in Relative Value in the month.

Outlook

Accompanying the Fed's first rate cut in over a decade there was a message that it was an insurance measure amid a mid-cycle environment. The lucky thing for Chairman Powell is that outside of manufacturing, the US economy is healthy enough to buy the FOMC some time. However, it is unpredictable when weakness in manufacturing tips over to the rest of the economy (even one as consumption-driven as the US) and the tightness in labour markets suddenly reverses. At the same time Chinese tax cuts and talks of monetary reform to-date resemble something akin to moving the deck chairs around on the Titanic, whilst the trajectory of real economic activity continues to sink ever lower. The upshot of all of this for our positioning is that our long duration bias remains, but in more measured size as risk-reward has moved into more balanced territory for the near term. However, the forward-looking indicators remain sufficiently weak that we would welcome any meaningful sell off in yields to re-engage with the same themes at better prices.

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