Pendal Monthly Income Plus Fund

ARSN: 137 707 996

Factsheet

Bond, Income & Defensive Strategies

July 2019

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	1.17	1.23	0.09
3 months	3.61	3.78	0.32
FYTD	1.17	1.23	0.09
6 months	6.82	7.17	0.69
1 year (pa)	7.14	7.84	1.45
3 years (pa)	4.77	5.45	1.49
5 years (pa)	4.84	5.53	1.76

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
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
30/11/2018	0.20	31/05/2019	0.40
31/12/2018	0.20	30/06/2019	0.8231
31/01/2019	0.20	31/07/2019	0.16

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 July 2019)

Corporate bonds	57.1%
Mortgage backed	1.6%
Asset backed	0.5%
Australian shares	19.7%
Cash & other	21.1%

Other Information

Fund size (as at 31 Jul 2019)	$545 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

It was another strong month for the local bond market as yields continued their slide. This was driven in part by the RBA's second consecutive rate cut as well as growing expectations of further easing by major central banks.

The labour market data during the month revealed the unemployment rate remained static at 5.2% with a meagre 0.5K jobs added over the period. Second quarter CPI was also soft with the RBA's preferred gauge, the trimmed mean, rising 0.4% over the quarter and 1.6% year-on-year.

Leading indicators were also weak with the NAB Business Confidence figure dropping back to +2 from its bounce to +7 in the prior month. Consumer confidence also dropped with a slide back below 100, the level separating optimism and pessimism. Similarly, Retail Sales rose by an anaemic 0.1% month-on-month.

Turning to market movements, the Australian 3 and 10 year yields fell by 15bps and 13bps to 0.80% and 1.20% respectively. At the very front-end, 90 day BBSW dropped by a larger 20bps to 1.01% in response to the RBA cut.

Australian credit generated another positive return in July, driven by the continued fall in yields and healthy accruals. The drop in yields was alongside the second consecutive RBA cut and growing expectations of further easing by global central banks.

Turning to issuance, July represented the largest volumes for calendar year 2019 thus far. Financials drove the bulk of new deals during the month as ANZ and a string of offshore issuers tapped the market. ANZ issued A$1.75bn, Macquarie raised A$1.35bn, TD bank did A$1.25bn while a number of others were were above the A$500m mark. In contrast, deals from non-financials were relatively light and included Ausnet (A$350m) and GPT (A$200m).

The Australian iTraxx index (Series 31 contract) traded in a tight 7.5bp range finishing the month 4.5bps tighter to +59ps. Physical credit spreads had a constructive month with most sectors performing strongly. The best performing sectors were domestic banks, real estate and telcos tightening 14, 9 & 9bps respectively. The worst performing sector was supranationals which widened 1bp. Semi-government bonds performed well tightening 3bps to government bonds.

Finally for the local equity market, performance was strong with the S&P/ASX 300 Accumulation index recording a 3% again. Whilst all sectors finished the month in the black, both index heavyweights Financials (+1.8%) and Materials (+1.2%) were the laggards. The latter's muted performance was also in a stark contrast to the stronger iron ore price over the period (+10%).

Fund performance and activity

The Fund returned 1.23% (pre-fees) over the month, an outperformance of 1.14% versus the cash benchmark. All components contributed positively to performance. The domestic credit and government bond allocations continued to perform well, thanks to another extension lower for underlying yields. The bond portfolio also added value from long duration positions in its alpha overlay. Meanwhile, the equities allocation again performed well amid the supportive environment for risk assets. Its weight remained at 19% after being increased in the first half of February 2019.

Outlook

After back-to-back cuts in June and July, the Reserve Bank left the cash rate unchanged at its meeting in early August. In their accompanying statement they referred to monitoring developments in the labour market closely and that they will ease monetary policy further if needed to support growth and achieve the inflation target over time. They do expect an extended period of low interest rates.

Our outlook remains consistent with prior months. Central banks globally have become more dovish, weighed down by slowing global trade and falling inflation expectations. The Reserve Bank's adjustment to monetary policy has to-date been in response to domestic factors.

The Reserve Bank sees the non-accelerating inflation rate of unemployment (NAIRU) as being 4.5%, well-below the current unemployment rate of 5.2%. A further increase in the unemployment rate would most likely be met with further policy easing. A deteriorating external environment would only add to the case for further monetary policy accommodation. The risks to global growth are clearly tilted towards growth disappointing. We expect further policy easing, most likely occurring in the fourth quarter.

For the domestic credit market, our 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 and Q2 reporting seasons. 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, volatility has quickly spiked then evaporated over the past year. Elevated levels during 2018 (particularly December), subsided in January and were relatively subdued until the flare-up in early August. This has been alongside shifting perspectives towards the trade war and central bank policy stance. While the more dovish tilt from central bankers is a significant positive, we are wary that attitudes towards these developments can shift quickly as the story evolves, particularly with geopolitical battles.

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.

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