PENDAL

Factsheet

Bond, Income &
Defensive Strategies

August 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	3.08	3.12	2.96
3 months	5.37	5.51	4.97
FYTD	3.88	3.97	3.66
6 months	9.25	9.54	8.70
1 year (pa)	10.39	10.97	11.40
2 years (pa)	5.07	5.62	5.87
3 years (pa)	2.94	3.49	3.82
5 years (pa)	4.60	5.15	5.31

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 August 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 Aug 2019)	$35 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 bonds extended their rally in August as yields tumbled on a combination of factors. This included geopolitical risks with the further intensification of the trade war, as well as building concerns over weaker global growth. Trade fears were reignited at the outset of the month as President Trump announced an additional 10% tariff on the US$300bn of remaining Chinese imports, to take effect on September 1st. Adding to investor worries were a litany of regional events; Hong Kong protests, Argentina default speculation, Brexit uncertainty and another Italian political drama. Beyond the politics, the Fed did not meet during the month after delivering a cut at the end of July, its first in more than a decade. Communication including an address by Chairman Powell at Jackson Hole was underwhelming, but suggested the central bank remained tilted towards further easing. Also in the US, a collection of leading indicators from the world's largest economy pointed to a further softening. Turning to market data, US yields experienced sizeable declines with the 2 and 10 year falling -37bps and -52bps to 1.51% and 1.50% respectively.

Fund performance

The Fund outperformed its benchmark over the month of August.

Over the month, the Duration strategy remained the strongest performer, while the Yield Curve strategy added small gains and the FX strategy detracted slightly. The Cross-Market and Macro strategies were roughly flat. The portfolio risk was maintained at the relatively stable level around 3 risk units throughout the month.

The Duration strategy was again the largest contributor over the month. We continued to hold long duration positions in various markets. This month the largest contribution was from the long duration positions in the front end of the New Zealand and Australian curves. We took profits in the long positions in Europe early in the month and reinitiated long duration positions in the US later in the month. In developing markets, we took profits in the long duration positions in Korea and Singapore in the beginning of the month and held the long duration position in China for the month. All three positions contributed positively this month.

The FX strategy detracted from performance over the month. Earlier in the month, losses were contributed by a short EUR vs USD position. As the US-China trade war escalated in the month we opened a short USD vs JPY position, expecting the risk-off sentiment to continue. The position was taken off once the risk sentiment around the trade war improved. Gains were made from a long USD vs CNH position as the currency pair broke above 7 for the first time in 10 years, offsetting the losses from other positions.

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

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

In the Cross-Market strategy, the trade from our quantitative process had a flat performance for the month.

Outlook

The "risk-off" environment in August saw safe-haven demand drive bonds higher, while stronger demand in certain countries caused even flatter yield curves. We believe there is still value at the front end including the US and New Zealand. Similarly with Australia, depending on how the data evolves. China is also a preferred area for long duration calls and short exposure to the Yuan against the Dollar given the economic slowdown and trade-related uncertainty. That said, we are running more modest exposure than in prior months. This is from profit-taking, some mixed signals from global data and wariness of a short-term correction in rates. We would see sell-offs as an opportunity to add risk at more attractive levels and our preference remains to be long duration over the medium-term.

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

PENDAL