

Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Bond, Income &
Defensive Strategies

September 2019

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 utilises 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.

Performance¹

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.92	-0.87	-0.73
3 months	2.93	3.07	2.90
FYTD	2.93	3.07	2.90
6 months	6.01	6.29	5.88
1 year (pa)	10.43	11.02	11.19
2 years (pa)	4.99	5.55	5.86
3 years (pa)	2.65	3.19	3.56
5 years (pa)	4.37	4.92	5.17

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 30 September 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 30 Sep 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 Costs³

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 gave back some of their prior month's gains during September. This was amid a sell-off in rates at the long end of curves as investors shifted back into risk-assets. Meanwhile at the very front-end, yields were pulled slightly lower in several markets due to central bank action. This included in the US, where the Federal Reserve cut its benchmark rate by 25bps to 1.75%. However, the accompanying projections and address from Chairman Powell suggested a less dovish message than anticipated. Meanwhile, US data continued to paint a mixed picture with a weaker manufacturing sector at one end offset by a healthy consumer at the other. In Europe, the ECB also eased policy further with a 10bps cut to its deposit rate to -0.50% and unveiled a new open-ended quantitative easing programme. Beyond monetary policy developments and the economic data, investors appeared less concerned over geopolitics through most of the month. Finally in terms of market movements, the US 2 and 10 year added 12bps and 17bps to 1.62% and 1.67%, while the 3 month LIBOR rate fell 5bps to 2.09%.

Fund performance

The Fund underperformed its benchmark over the month of September.

Over the month, the Duration strategy was the largest detractor, giving back the gains from last month. FX strategy also detracted while Macro, Cross-Market and Yield Curve strategies were roughly flat over the month. The portfolio risk started with 3 risk units, increased closed to 4 units, and ended the month with 3 risk units.

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

The Duration strategy was the largest detractor of the month, giving back part of the gains from the previous month. Overall the portfolio maintained long duration positions through the month. The majority of the losses were from long positions in the US front end and a tactical short duration position in the long end. By the end of the month, we reduced our long positions in the front end and closed the tactical position in the long end after the FOMC meeting. In other markets, we added long duration positions in the Swedish and European front end with small losses in both positions. In Australia, we added long duration positions early in the month in the front end of the curve and ended the month slightly negative. We continued to hold the long duration position in China with roughly flat performance for the month.

The FX strategy detracted from performance over the month. Losses were mainly from short KRW positions vs long JPY and USD. We maintained short CNH vs long USD for the month as the US-China trade tension showed no sign of easing. We switched short TWD vs long USD to short SGD with the gains and losses offset each other for the month. As of the end of the month we continued to hold short Asian currencies vs long USD.

The Yield Curve strategy was roughly flat this month. We closed the flattening position in the front end of the Australian curve. As of the month end, we had no positions in this strategy.

In the Macro strategy we added a small sell protection position in the CDX EM, while continuing to hold the sell protection position in iTraxx Australia. Overall performance is largely flat. The gains from iTraxx Australia offset the losses from the CDX EM.

In the Cross-Market strategy, we continued to run the trade from our quantitative process, which had a flat performance for the month.

There were no trades in Relative Value in the month.

Market outlook

The bond rally decided to take a breather this month. After so much had been priced in, it was time to wait and see whether the central banks would deliver. However looking forward, the long duration trade is far from exhausted Tactical hedges were placed against our structural positions to insulate from further mark to market losses, but being only temporary and market price-action driven, we have been quick to take them off to allow the long duration bias to continue to play through on the portfolio. The extreme end points could be Fed Funds at zero and very deeply negative rates across all of Europe. But only a partial play-out of those end-points would be sufficient to support our current positioning.

PENDAL

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Global Fixed Interest Fund (Fund) ARSN: 099 567 558. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.pentalgroup.com. You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.