PENDAL

Factsheet

Bond, Income & Defensive Strategies

September 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	0.28	0.33	0.08
3 months	1.52	1.69	0.25
FYTD	1.52	1.69	0.25
6 months	4.72	5.06	0.61
1 year (pa)	7.10	7.80	1.37
3 years (pa)	4.77	5.46	1.46
5 years (pa)	4.96	5.65	1.71

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
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
28/02/2019	0.20	31/08/2019	0.16
31/03/2019	0.20	30/09/2019	0.16

* Distribution is large due to year end distribution.

Sector Allocation (as at 30 September 2019)

Corporate bonds	57.6%
Mortgage backed	1.5%
Asset backed	0.4%
Australian shares	19.3%
Cash & other	21.2%

Other Information

Fund size (as at 30 Sep 2019)	$553 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 bonds gave back some of their prior month's gains during September. This was amid a global 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 Australia, where speculation of a cut by the RBA increased through the month and was ultimately delivered at the outset of October.

In his statement Governor Lowe cited increased downside risks, particularly tied to greater uncertainty over the global outlook. There was also a greater emphasis on the labour market and achieving full employment. The gap between the unemployment rate and that associated with full employment widened during September with a slight increase in the former of 0.1% to 5.3%. Broader domestic data was weaker overall. Among the leading indicators, the NAB Conditions and Confidence measures both retreated to +1 from +2 and +4 respectively.

In terms of market movements, Australian 3 and 10 year yields rose 6bps and 13bps respectively to 0.74% and 1.02%. However expectations for the RBA rate reduction saw 3 month BBSW fall 3bps to 0.95%.

In the local credit market, the area gave back some of its prior month's gains during September. This was tied to a global sell-off in rates. The climb in yields was related in part to more buoyant risk sentiment with investors less concerned over geopolitical factors through most of the month.

The Australian iTraxx index (Series 31 contract) traded in a 8bp range finishing the month 4.5bps tighter to +58.5bps. The new Series 32 contract finished the month at +67bps. Physical credit spreads underperformed with the average spread moving out 2bps. The worst performing sector was supranationals which widened out 4bps, whilst the best performing sector was utilities that were unchanged. Semi-government bonds outperformed tightening 1bp to government bonds.

Finally, Australian equities performed well with the ASX 300 Accumulation Index higher by 2.1%. Similar gains were enjoyed by major regional indices as anticipation over monetary policy easing helped investors return to risk assets.

Fund performance and activity

The Fund returned 0.33% (pre-fee) for the month and outperformed its benchmark by 0.25%. The equity component made a positive contribution thanks to a rebound in risk sentiment that supported the ASX 300. The fund's allocation to the area was retained at 19%. Meanwhile, the domestic credit and bond components were negative due to the retracement higher for underlying yields.

Outlook

The Reserve Bank cut the cash rate by 25 basis points at its meeting in early October. The statement was more dovish than what the market had expected and resulted in expectations for further monetary policy easing prior to year end rising.

The line in the statement that prompted this response was that 'it is reasonable to expect that an extended period of low interest rates will be required in Australia to reach full employment'. No reference to full employment was made in the September statement, rather that 'an extended period of low interest rates will be required in Australia to make progress in reducing unemployment'.

The current unemployment rate of 5.3% is a fair way from the 4.5% rate that the Reserve Bank sees as being the non-accelerating inflation rate of unemployment (NAIRU). With forward labour market indicators reflecting a slowing labour market it is more likely to the unemployment rate rises in the near term.

Given the sub-trend economic growth in the Australian economy and the risks to global growth being clearly tilted towards the downside further monetary policy easing appears likely, particularly if other central banks cut interest rates further. The Reserve Bank does not want to see an appreciating currency in the current environment.

For domestic credit, our overall 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 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. That said, we note the small improvement in house prices recently, along with the tax refund should provide a measure of support. Overall, 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**