Factsheet

Bond, Income & Defensive Strategies

October 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	-0.56	-0.51	-0.53
3 months	1.56	1.70	1.67
FYTD	2.36	2.54	2.35
6 months	6.09	6.37	5.57
1 year (pa)	9.93	10.51	10.65
2 years (pa)	4.55	5.11	5.34
3 years (pa)	2.94	3.49	3.85
5 years (pa)	3.95	4.50	4.85

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 October 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 Oct 2019)	$33 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 retraced higher during the month alongside a steepening of the curve. Global sentiment and repositioning were again key factors behind the move, which has followed in the wake of a strong run for bonds over most of the calendar year. Attitudes towards geopolitical risks improved, particularly trade tensions and Brexit. Meanwhile, central banks were perceived as putting a pause on further easing. This included the Federal Reserve after it cut rates by 25bps as widely expected - bringing the lower bound of its target range to 1.50%. Among the more highly-publicised US data points through the month, the September US ISM Manufacturing gauge missed expectations and fell further into contractionary territory at 47.8. In contrast lagging data like employment illustrated a more constructive picture with a fall in the unemployment rate to 3.5%. On geopolitics, investors were more optimistic over a potential US-China trade deal as headlines featured discussions that a "phase one" agreement was drawing closer. Finally on market movements, the US 2 year was lower by -10bps to 1.53% while the 10 year rose 3bps to 1.69%.

Fund performance and activity

The Fund returned -0.51% (pre-fee) during the month and outperformed by 0.02% versus its benchmark.

Over the month the Cross-Market and Macro strategies contributed positively, while the Yield Curve, Duration and FX strategies detracted slightly. The portfolio risk remained relatively light. It started with 3 risk units and declined to 2 units by the end of the month.

The Duration strategy slightly underperformed in the month. Losses were from long duration positions in China in Europe, including the front end of the Swedish curve. Our long duration positions in Europe were closed out in the middle of the month, but we have held on to our long duration position in China. Despite some volatility over the course of this month from our long duration position in New Zealand, we used the intra-month rally in yields to reduce the size of that position, thereby avoiding further losses as yields rose once again at the end of the month. We have been using tactical shorts on the long end of the US Treasury curve to help insulate against unfavourable market moves on our conviction US front-end position. Those tactical shorts contributed positively to the performance of the Duration strategy this month. In Australia gains were made from being positioned long duration at the very front end of the curve, which were insulated from broader market moves in bond yields later in the month. Intra-month, we rotated this outright long duration trade into a front-end yield curve trade which now sits in the Yield Curve strategy.

The FX strategy also detracted slightly from performance over the month. Losses were mainly from short CHN vs long USD, as the sentiment improved on the trade talk between China and the United States. The size of the position has remained small, and the direction remains consistent with our core scorecard signals as well as our assessment of fundamental valuation. The majority of losses in CNH were offset by gains we made positioning long on other Asian currencies against the US dollar, including KRW and TWD. Whilst we have taken profits on KRW, we established new positions going long INR and AUD against short USD into the end of the month. The balance of positioning expresses our current tactical short-USD bias.

The Yield Curve strategy detracted for performance over this month. All losses were from the reopened flattening position in the front end of the Australian curve. This position takes advantage of the asymmetric risk-reward that exists in both legs of the curve trade given the odds of rate cuts that are currently priced into the market. We continue to hold this position.

There were no position changes for the Macro strategy this month. Both sell protection positions in the CDX EM and the iTraxx Australia indices performed well as the risk sentiment improved over the month.

In the Cross-Market strategy, we continued to run the trade from our quantitative process, which contributed positively to performance this month. The positions from the quantitative process remain unchanged as of month-end. We are running long duration positions in South Korea and Australia versus short duration positions in Sweden and the UK.

There were no trades in Relative Value in the month.

Market outlook

Following a significant fall in yields and flattening of the curve earlier in the year, the driving force of central bank action has been running out of momentum, or even running into roadblocks. This month we have seen both a "hawkish cut" from the Fed, as well as a "dovish hold" from the ECB. As confusing as this may sound, what it amounts to for the next few months is a duration market that is unlikely to be led by the central banks in the same way as it has been for most of 2019. Whether it is the uncertainty in the economic data that allows central banks (including the RBA) an excuse to pause, or whether it is their own need to preserve what little policy space they have left, we expect duration markets to enter a period of consolidation within a range for the next little while. As such, our duration risk sizing has been adjusted to be more modest and nimble. At the same time we continue to let our long duration bias play out in the form of being ready to fade any large retracements in yield, whilst respecting the ranges established by the market's price action.

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

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