PENDAL

Factsheet

Bond, Income & Defensive Strategies

November 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.60	-0.56	-0.51
3 months	-2.06	-1.93	-1.76
FYTD	1.75	1.97	1.83
6 months	3.20	3.48	3.12
1 year (pa)	8.90	9.47	9.34
2 years (pa)	4.13	4.68	4.93
3 years (pa)	3.42	3.97	4.29
5 years (pa)	3.41	3.96	4.45

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 November 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 Nov 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 rose in most developed markets outside Australia. Geopolitics continued to offer a large influence with optimism over a trade agreement causing safe-haven demand for bonds to wane. Meanwhile on monetary policy, the Fed did not meet during the month, however comments from FOMC officials suggested a patient approach in the near-term. At the same time, data from the world's largest economy continued to paint a picture of a soft manufacturing sector that has been offset by a resilient consumer. The ISM Manufacturing survey fell further into contraction (48.3) while retail sales rose 0.3% month-on-month. The monthly payrolls report beat expectations, however a relatively low increase (+128K) caused a tick higher in the unemployment rate to 3.6% (+0.1%). Turning to the Eurozone, there was no ECB gathering scheduled for the month, however Christine Lagarde spoke in her first address as President. She reiterated her predecessor's push for more support from fiscal policy as well as a commitment to the 2% inflation target. Finally on market movements, the US 2 and 10 year yield both rose by 9bps to 1.61% and 1.78% respectively.

Fund performance and activity

The Fund underperformed its benchmark over the month of November.

Over the month the Yield Curve strategy was flat, while FX and Duration strategies detracted. The Macro strategy was largely flat.

The Duration strategy slightly detracted in the month. Losses were mainly from the long duration positions in the US. The positions have been reduced in the second half of the month. Gains from other markets helped to offset the losses. In Australia, we increased our long duration position in the front end in the middle of the month and took profits before the month end. The long duration in New Zealand were reduced in the month and closed out by the end of the month, with a minor loss. In emerging markets, we took profits on the long duration position in China and initiated a long duration position in Korea, both of which added to performance. As of the month end, we retained small long duration positions in the US and Korea.

The FX strategy also detracted slightly from performance over the month. The majority of the losses were from a long BRL short USD position opened earlier in the month due to the contagion from surrounding Latin American countries. In other emerging market trades the performance was flat for the month. We went long INR, MXN and TWD against short USD earlier in the month. Those positions were closed and replaced with a small long USD against short KRW position held to the end of the month. In developed markets we closed the long AUD short USD position carried from last month with a small loss.

The Yield Curve strategy was flat over this month. Gains were from the flattening position in the Australian front end. We took profit on this position early in the month. During the month we added a steepening position along the KRW curve. The position detracted and was closed in the month and converted to an outright long duration in the front end of the curve, which was held to the end of the month.

There were no position changes for the Macro strategy this month. Performance was largely flat. Gains from iTraxx Australia offset the losses from the CDX EM.

The Cross-Market strategy was flat over the month. Gains were contributed by the trade from our quantitative process, which we continued to run through the month. At the end of the month we increased the size of this trade. We are running long duration positions in South Korea and Australia versus short duration positions in Sweden and the UK. Losses were from other markets where we held a long front end US vs short Australia that was carried forward from the end of last month.

There were no trades in Relative Value for the month.

Market outlook

Unlike 2019, central banks are unlikely to be in the driving seat for the duration trade in 2020. Instead, the data will lead and central banks will follow. Unfortunately for risk assets, when they eventually act to ease again, the smell of capitulation will be too heavy to buoy another round of re-rating for equities. In the meantime however, we are cautious of a bounded lift in the global cycle, and as such this portfolio has reduced its outright duration exposures. The one remaining market where we still favour outright long duration exposures is the US, where we continue to see signs that the manufacturing recession is starting to tip over to the rest of the economy, and where reasonable value remains in US yields. In Australia, we will continue to look for long duration opportunities in the range-bound environment that will likely persist over the near-term.

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

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