

Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Bond, Income &
Defensive Strategies

December 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	-0.60	-0.56	-0.65
3 months	-1.75	-1.62	-1.69
FYTD	1.13	1.40	1.16
6 months	1.13	1.40	1.16
1 year (pa)	6.41	6.98	6.70
2 years (pa)	3.87	4.42	4.52
3 years (pa)	3.21	3.76	3.97
5 years (pa)	3.05	3.60	4.09

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 December 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 Dec 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 Costs³

Issuer fee ⁴	0.53% pa
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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 at the long-end and the curve steepened during the final month of 2019. This was tied to a Sino-US trade agreement that saw safe-haven demand for bonds dissipate. The "phase one" deal saw tariffs slated for December suspended, the rollback of some existing tariffs, as well as the suspension of future increases. This overshadowed concerns over the impeachment of President Trump later in the month. Meanwhile Chairman Powell left rates on hold at the Federal Reserve's December meeting. Market pricing for future cuts faded to only one in 2020 while the Fed's communication suggested a high hurdle for an increase. On market movements, the US 2 year fell -4bps to 1.57% and the 10 year rose 14bps to 1.92%.

Fund performance

The Fund returned -0.56% (pre-fee) during the month and outperformed by 0.09% versus its benchmark.

Over the month the FX and Macro strategies performed strongly. The Duration strategy was slightly positive while the Yield Curve and Cross-Market strategies were largely flat. The portfolio risk remained at the lower end, starting the month with 2 risk units, rising to 3 units before declining back to 2 units by the end of the month.

The Duration strategy was slightly positive for the month. Gains were from short duration positions in Australian front end in the earlier part of the month. The position was closed and replaced with a short duration position in the German Bunds, which was an equally profitable trade. On the flip side, the losses from long duration positions in US Treasuries and Korean front end nearly offset the gains, rendering the strategy slightly positive for the month. As of the end of the month, we hold long duration positions in the US, Australia and New Zealand, while maintaining a short duration position in Europe.

The Yield Curve strategy was flat for the month. The flattening position in the Australian front end was closed in the middle of the month. There were no new trades in the strategy.

The FX strategy was the best performing strategy in the month. Gains were from the short USD bias we maintained through the month. Of those long emerging market positions we carried forward from the previous month, we took profit from the long position in MXN and kept the long position in BRL which performed steadily through the month. We also initiated a long AUD position and added to it near the end of the month.

The Macro strategy was one of the best performing strategies for the month. We maintained long spread duration in iTraxx Australia and CDX EM. During the month we reduced the exposure as the spread tightened to historical low levels and volatility in the other markets started to creep higher. As the risk sentiment stabilised, we restored the sell protection exposure in CDX EM.

The Cross-Market strategy was flat over the month. We continued to hold the cross-market trades from our quantitative process. The losses from this trade were offset by the gains from a long US vs short Australia in the front end of the curve.

There were no trades in Relative Value in the month.

Market outlook

Central banks played a great part in 2019 returns, which were to a large extent a result of the dire returns and market pressures experienced in 2018. To the extent that the same central bank generosity cannot be replayed without a similar if not worse episode of market and economic stress, it would be overly optimistic to expect a 2020 that could beat 2019. In the bull case of a sustained rather than bounded economic lift that lasts through the year, the rise in yields would eventually compromise the longevity of such a recovery. The weight of the world's debt load is such that there is very limited tolerance for any meaningful rise in yields. In the case where Chinese stimulus continues to be modest, inwardly focused, and the inventory cycle is restored to neutral with no sustained rebound in business optimism, recession probabilities would start to rise again in the second half of 2020. Whilst the US-China agreement on "Phase 1" is certainly promising, we do not think it is a sufficient condition to ignite a new and sustained bout of global economic reflation on its own. With sequencing in mind, the portfolio currently continues to run only small net duration positions.

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

PENDAL

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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.