

### Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Bond, Income &  
Defensive Strategies

January 2020

#### 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.

#### Performance<sup>1</sup>

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	2.33	2.37	2.32
3 months	1.10	1.24	1.13
FYTD	3.49	3.81	3.51
6 months	2.68	2.96	2.82
1 year (pa)	8.49	9.06	8.36
2 years (pa)	5.38	5.93	6.14
3 years (pa)	4.23	4.78	4.97
5 years (pa)	2.91	3.46	4.04

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 January 2020)

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 Jan 2020)	\$34 million
Date of inception <sup>1</sup>	July 2002
Minimum investment	\$25,000
Buy-sell spread <sup>2</sup>	0.12% (0.06%/0.06%)
Distribution frequency	Half-yearly
APIR code	RFA0032AU

<sup>1</sup> The investment manager for this Fund changed on 4th January 2012. Performance before this date may not be directly comparable.

<sup>2</sup> 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<sup>3</sup>

Issuer fee <sup>4</sup>	0.53% pa
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<sup>3</sup> You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

<sup>4</sup> 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 fell and the curve flattened in the first month of 2020. This occurred as safe-haven flows drove yields lower in the second half of January. A risk-on environment earlier in the period was spurred by a "phase one" US-China trade agreement, however this was eroded towards month-end as fears over the novel coronavirus spread. Amid the headlines focused on the coronavirus, the Fed's first meeting for 2020, which took place at month-end, proved relatively uneventful with no changes to its key policy rate. There was little offered from Chairman Powell's communication to change expectations over the remainder of the year. Among the major US data points, the US ISM Manufacturing survey fell from 48.1 to 47.2, its softest since February 2016. Non-Farm Payrolls was also weak with only 145K job additions versus 160K expected. On market movements, the US 2 year and 10 year yield fell 26bps and 41bps to 1.32% and 1.51% respectively.

## Fund performance

The Fund returned 2.37% (pre-fee) during the month and outperformed by 0.05% versus its benchmark.

Over the month the FX, Macro, Yield Curve and Cross-Market strategies detracted while the Duration strategy added to performance. The portfolio risk remained at a low level of roughly two risk units for the month.

The Duration strategy performed well over the month. Our long duration bias was maintained and with some positions sizes being increased in the second half of the month. Gains were mainly from

long duration positions in the front end of Australian, New Zealand and the US curves. Among them the Australian position was closed in the middle of the month. Approaching the end of the month we added back front end duration positions in Australia before the Reserve Bank's February meeting.

The Yield Curve strategy detracted from performance this month. We started the month with no position. In the month we built up a curve steepening position in Korean Won. The position incurred a minor loss in the month.

The FX strategy was the worst performer in the month. Losses were from short USD positions vs long AUD and BRL. The BRL positions has been closed in the first half of the month. The losses were mitigated by gains from long USD vs short EM currencies in SGD and KRW. In the month we also had short positions in CNH and MXN, both of which were closed with flat performance. We continued to hold the long AUD position as of the end of the month.

The Macro strategy underperformed in the month. Losses were from our long exposure in CDX EM. During the month we opened a buy protection position in the iTraxx XOver as signalled by our new Macro Scorecard, which was subsequently closed in profit. Against our long in CDX EM, we initiated a short on Brazil CDS based on stretched relative valuations.

The Cross-Market strategy detracted from performance over the month. Losses were mainly from the position from our quantitative process. Our tactical long Australia vs short Germany position was closed out with flat performance.

There were no trades in Relative Value in the month.

## Market outlook

Ahead of the coronavirus outbreak reaching global news reports, markets were shaping up for an "OK" 2020. Nothing as strong as 2019, where the benevolence of central banks allowed both equities and bonds to perform strongly, but good enough as the lagged effects of rate cuts and some easing of global trade tensions helped to provide marginal support to global growth. When asking the question of how much of the recovery story has now been derailed by 2019n-CoV, it bears in mind to note the diverse range of price and volatility reactions across asset classes during January 2020. Whilst the commodities universe has completely priced out recovery and is on its way to pricing global recession again, developed market equities' moves over the month have been much more benign. China and US rates have made close to 2-standard deviation moves over the month and are pricing in a similar story to commodities. Whilst equities may be "right" ultimately, the richer valuations versus an already fragile global macro backdrop would point to at least a more cautious stance to the asset class, whereas the dent to Chinese and Asian growth in Q1 from the virus outbreak should mean that fixed income remains a 'buy-on-dip' asset class.

For more information please call 1800 813 886, contact your key account manager or visit [pendalgroup.com](http://pendalgroup.com)

**PENDAL**

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