PENDAL

Factsheet

Bond, Income & Defensive Strategies

February 2020

Pendal Dynamic Income Fund

ARSN: 622 750 734

About the Fund

The Pendal Dynamic Income Fund (**Fund**) is an actively managed portfolio of fixed income securities, Australian and global credit indices and emerging market sovereign issuers.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate by 2-3% p.a. over the medium term. The suggested investment timeframe is three years or more.

Description of Fund

The Fund is designed for investors who seek income from a portfolio of fixed income securities across a range of market conditions and are prepared to accept some variability of returns.

The Fund is an actively managed portfolio that invests primarily in Australian issued investment grade corporate bonds[#]. The Fund may also invest in Australian and global credit indices and emerging market sovereign issuers to provide portfolio diversification and enhance returns when we believe market conditions are supportive. The Fund also has the ability to decrease its allocation to credit and invest in cash and interest rate duration strategies when we expect volatility to increase.

Pendal uses a combination of quantitative modelling and qualitative research to construct the Fund's portfolio.

The Fund's portfolio is constructed using the following three step approach:

1. Generate investment themes through quantitative models
2. Reaffirm investment themes with qualitative research
3. Asset Allocation

Investment Team

Pendal's Bond, Income & Defensive team comprises thirteen dedicated investment professionals with both global and domestic experience, invested across Income, Composite, Pure Alpha, Global and Australian Government strategies. 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 and 9 years at Pendal.

Other Information

Fund size (as at 29 Feb 2020)	$84 million
Date of inception	December 2017
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA8657AU

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.01	0.03	0.06
3 months	1.43	1.57	0.19
6 months	2.27	2.55	0.40
1 year (pa)	5.76	6.26	1.06
2 years (pa)	4.67	5.05	1.28
Since Inception (pa)	4.24	4.61	1.30

Asset Allocation (as at 29 February 2020)

Australian Credit	81.8%
Emerging Market Credit	16.7%
Cash	17.3%

Allocations may not add to 100% due to the use of derivatives to obtain credit exposure.

Top 10 Issuer Exposure

Macquarie Bank Limited	6.0%
National Australia Bank	4.9%
ANZ Banking Group Limited	4.7%
Westpac Banking Corp	3.8%
Pacific National Finance	3.4%
Coles Group Treasury Pty Ltd	3.4%
ConnectEast Finance Pty Ltd	3.4%
AusNet Services	3.2%
McDonald's Corp	2.9%
WSO Finance Pty Ltd	2.9%

Key Fund Metrics

Average Australian Credit Rating	A

Portfolio Characteristics

Benchmark	RBA Cash rate
Liquidity	Daily

Management Costs[2]

Issuer fee[3]	0.55% p.a.

[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.

[#]Corporate bonds held within the Fund are required to be rated investment grade at the time of investment. Downgraded securities can continue to be held up to 15% of the Fund (in aggregate). Investment grade bonds refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

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 security.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Interest rate duration 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.
- **Emerging markets risk** – The risk of asset price volatility and higher currency, default and liquidity risk from investments in emerging markets
- **Liquidity risk -** The risk that an asset may not be converted to cash in a timely manner.
- **Derivatives risk** – The risks 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 credit enjoyed another strong return for the month driven by a further fall in underlying yields. This was led by offshore developments, primarily growing fears over the spread of the coronavirus, which supported safe-haven demand for bonds.

In the primary market, volumes dropped over the month to A$6.2bn. The bulk of volume was driven by the financials once again including issuance of A$800m from SMBC. Corporate issuance was light with an A$300m deal from property developer GPT.

The Australian iTraxx index (Series 32 contract) traded in a wide 22bp range finishing the month 16bps wider to +69bps. Physical credit spreads were also 1bp wider on average. The best performing sectors were utilities and reits that tightening 3 and 2bps respectively, whilst the worst performing sector was resources that widened 24bps. Semi-government bonds also underperformed widening 1bp to commonwealth government bonds.

In emerging markets, sovereign spreads widened further in February. The continued deterioration in risk sentiment was driven by growing fears over the spread of the coronavirus.

Fund performance

The Fund returned 0.03% (gross of fees), which was an underperformance of -0.03% versus the benchmark. This brought the one year return to 6.26% (gross of fees) and an active return of 5.20%.

The underperformance for the month was driven by the emerging market exposure. This followed a significant widening in sovereign EM spreads on the growing fears related to the coronavirus. Meanwhile, the Australian credit allocation contributed positively as a large fall in underlying yields benefited the duration exposure. Sector-wise, utilities, where the fund is overweight outperformed other areas of Australian credit.

Outlook

Our overall credit view has shifted to a more cautious stance. We are positive on corporate fundamentals, but are wary that appetite for risk assets has deteriorated significantly due to the spread of the coronavirus.

From a bottom-up perspective, corporates in the US have demonstrated resilience with upside surprises to earnings growth in the most recent reporting season. 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. The compliance problems late last year appeared to have a short-term impact on spreads. Longer term, the negative effects should diminish with Improvements in culture, internal compliance as well as equity capital raisings.

From a macro standpoint, volatility has spiked considerably with the COVID-19 outbreak. While the action from central bankers is a significant positive, their ability to support sentiment in the near-term is questionable. Longer term, this is likely to re-emerge as tailwind as fears of the virus recede.

Of further consideration is the softening of domestic economic growth, even outside of the still unquantified virus impact. Weak wage growth continues to dampen consumption. That said, we note the rebound 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 emerging markets, the emergence of the coronavirus as a serious threat to broader economic growth is likely to remain a negative in the near-term. In turn, the earlier stabilisation in economic data is likely to deteriorate. At the same time, global core inflation trends will be weaker.

Looking longer-term, the strong response from global fiscal and monetary policymakers alike will likely return as a supportive factor for risk sentiment. However, the timing of an appreciation from market participants still carries considerable uncertainty.

As always, our disciplined asset allocation with a focus on timely de-risking will continue to form the backbone of our EM risk allocation decisions. Additionally, we overlay our qualitative assessments of EM fundamentals, as well as risks of contagion from idiosyncratic EM stories.

It is worthwhile keeping in mind that as an asset class, emerging market sovereigns exhibit more resilient characteristics than other EM asset classes. Unlike EM currencies, local debt, corporate credit or equities, a lot has to go right for those asset classes to perform, and shocks can lead to significant drawdowns and an evaporation of market liquidity. Meanwhile for EM sovereigns, negative events can also lead to shocks, but those events generally have to be larger and more systemic than simply lower corporate earnings or falling PMIs. Solvency and debt sustainability typically drive sovereign spread cycles, as well as the global environment for credit more broadly.

With these factors considered, our EM index exposure (that is diversified across a number of countries) has been reduced from 25%.

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