Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Factsheet

Bond, Income & Defensive Strategies

February 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 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	1.93	1.97	1.73
3 months	3.67	3.81	3.41
FYTD	5.48	5.85	5.31
6 months	1.54	1.81	1.59
1 year (pa)	10.93	11.52	10.43
2 years (pa)	6.52	7.09	7.08
3 years (pa)	4.62	5.18	5.24
5 years (pa)	3.62	4.16	4.57

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 29 February 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 29 Feb 2020)	$35 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 fell further in February with the downward direction dominated by developments related to COVID-19. Concerns had been relatively contained through the first half of the month before fear levels later became elevated, which drove investors to the safety of government bonds. An increase in case numbers outside of China fanned investor fears in the second half of February. This followed a spike in patients diagnosed with the virus in South Korea, Iran and Italy. The prospect of a continued escalation damaged risk sentiment substantially and resulted in large falls in regional equity indices and a dramatic decline in sovereign bond yields. At month-end, the negative economic impact became more apparent after a gauge of Chinese manufacturing activity plunged to its lowest on record. In the US, the Federal Reserve did not meet during the month and data from the world's largest economy was mixed. Finally on market movements, the US 2 year fell 40bps to 0.92% and the 10 year declined by 36bps to 1.15%.

Fund performance and activity

The Fund returned 1.97% (pre-fee) during the month and outperformed by 0.24% versus its benchmark.

Over the month, the Duration strategy was the best performing strategy. The Cross-Market and Macro strategies also added while the Yield Curve and FX strategies detracted from performance.

The Duration strategy was the best performing strategy over the month. We maintained long duration positions through the month and added to the longs toward the end of the month, which generated significant performance as the concern about Coronavirus spreading increased exponentially. Long duration was maintained in the front end of the US market. To the end of the month we added new long positions further out along the curve. The long duration position in NZD was maintained for the whole month. In China we added back a long duration position as well. In the middle of the month, we took profit on the long duration position in the Australian front end. Over the month, the only loss was a tactical short duration position trade in German Bunds, which was stopped in the middle of the month. As of the end of the month we hold long duration positions in the United States, New Zealand and China.

The Yield Curve strategy detracted from performance this month. Loss was from the curve steepening position in Korean Won we held over the month. The yield curve flattened as the Bank of Korea disappointed the market by holding the interest rate at its meeting near the end of February, although the extent of flattening was limited.

The FX strategy underperformed in the month. Losses were mainly from short USD positions against emerging market currencies, including BRL and KRW. The long emerging market bias was carried forward from the previous month. The worsening of global sentiment led to long emerging market exposures to be stopped out. Losses were partly mitigated by tactical short USD against TWD positions taken intra-month, and a new long position in USD against IDR.

The Macro strategy added to performance over the month. The majority of the gains were contribution by the long protection position on Brazil CDS, which we held to the end of the month. We followed our Macro Scorecard and replaced the long protection in iTraxx Xover index with the long protection in the iTraxx Asia Ex-Japan index, which was then closed out before the end of the month.

The Cross-Market strategy performed well over the month with gains from the position in line with our quantitative process. The profits were mainly from long positions in Korea and Sweden.

There were no trades in Relative Value in the month.

Market outlook

The COVID-19 outbreak still carries considerable uncertainty in terms of its spread and ultimate economic impact. However, there is more certainty over the material damage it has done to risk sentiment. This has been evident across risk assets, most notably equities and higher risk credit. Efforts to support appetite for these markets by monetary and fiscal authorities alike have fallen short so far and further monetary easing will be a positive for government bonds. There is every reason to remain defensive in overall positioning for the near term and our preference remains to regions with the most room to move. In Australia, the market is now pricing a terminal rate below the RBA's stated 25bps, and New Zealand's pricing has followed along in step. We believe there are better duration opportunities offshore, and continue to favour the US.

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

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