PENDAL

Factsheet

Bond, Income & Defensive Strategies

February 2020

Pendal Monthly Income Plus Fund

ARSN: 137 707 996

About the Fund

The Pendal Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

Investment Process

Pendal's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

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

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-1.18	-1.12	0.06
3 months	-0.43	-0.27	0.19
FYTD	2.19	2.64	0.57
6 months	0.94	1.27	0.40
1 year (pa)	6.50	7.19	1.06
3 years (pa)	5.03	5.72	1.36
5 years (pa)	4.02	4.70	1.56

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/03/2019	0.20	30/09/2019	0.16
30/04/2019	0.30	31/10/2019	0.16
31/05/2019	0.40	30/11/2019	0.16
30/06/2019	0.8231	31/12/2019	0.16
31/07/2019	0.16	31/01/2020	0.16
31/08/2019	0.16	29/02/2020	0.16

* Distribution is large due to year end distribution.

Sector Allocation (as at 29 February 2020)

Corporate bonds	55.6%
Mortgage backed	1.9%
Asset backed	0.7%
Australian shares	18.3%
Cash & other	23.5%

Other Information

Fund size (as at 29 Feb 2020)	$597 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Monthly
APIR code	BTA0318AU

[1] 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[2]

Issuer fee[3]	0.65% pa

[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.

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.
- **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

Australian bond yields fell and the curve flattened further in February. The downward direction was dominated by global developments, chiefly 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.

Amid the more subdued market volatility at the outset of the month, the RBA left its policy rate unchanged at 0.75%. Its statement downplayed the potential negative effects of the virus on economic growth as its path was still uncertain.

The Board's forecasts released in its quarterly Statement on Monetary Policy (SoMP) indicated a projection of 2.75% annual GDP growth in 2020. Alongside the upbeat outlook by the central bank other communication suggested some hesitation to cut the cash rate further. Data-wise, the unemployment rate missed expectations and rose by 0.2% to 5.3%, partly as a result of a rise in the participation rate. Finally on market movements, Australian 3 and 10 year yields fell by 12bps and 16bps to 0.51% and 0.81% respectively. At the very front-end, 3 month BBSW dropped by 7bps to 0.81%.

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.

Fund performance and activity

The Fund returned -1.12% (pre-fee) for the month and underperformed its benchmark by -1.18%. Performance was driven by the Australian equity allocation, which suffered a substantial fall in February. The fund's exposure to the asset class was reduced from 25% to 19% over the month. This helped mitigate the impact on the portfolio's return. The Australian credit allocation also helped with a positive contribution due to the large fall in underlying yields.

Outlook

The Reserve Bank performed a backflip that an Olympian would have been proud of. Their February statement and the forecasts contained in the Statement on Monetary Policy indicated an overly optimistic outlook with little chance of a change in monetary policy in the near term. At the end of February the market priced around a 15% chance of any change at their March meeting. At the Reserve Bank's meeting in early March they eased monetary policy by 25 basis points to 0.50%. In the United States the Federal Reserve eased intra meeting by 50 basis points in early March as fears over the coronavirus and its impact on economic growth weighed on markets and sentiment.

It won't be the last time the Fed eases this cycle and it is likely that the Reserve Bank eases further despite almost having run out of bullets. How effective will this latest bout of easing be? It is the effect on supply chains that will weigh on economic growth, not a lack of demand. The Reserve Bank can always reverse the policy easing moves once the fear over the virus subsides.

It is coming up to ten years since monetary policy was last tightened domestically so it is not unreasonable to expect that policy won't be reversed anytime soon. Fiscal policy also needs to provide support, something that the Government has been reluctant to do. How the Reserve Bank managed to forecast growth of 2.75% for 2020 is anyone's guess. It will come in well below that and rates are likely to remain low for the remainder of the year.

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

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