Factsheet

Bond, Income & Defensive Strategies

May 2020

Pendal Global Fixed Interest Fund

ARSN: 099 567 558

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	-0.09	-0.04	-0.17
3 months	0.57	0.71	0.99
FYTD	6.09	6.60	6.35
6 months	4.27	4.54	4.44
1 year (pa)	7.61	8.18	7.69
2 years (pa)	6.28	6.84	7.01
3 years (pa)	4.38	4.93	5.13
5 years (pa)	3.72	4.27	4.78

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 May 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 May 2020)	$34 million
Date of inception[1]	July 2002
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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 fixed interest markets had one of the tightest monthly ranges in years, an incredible outcome given the chaos of March. The anchoring of short rates around zero across the developed world has seen volatility crushed. US 10 year yields had a range of 0.61% in early May to 0.72% in mid May before ending unchanged at 0.65%. German 10 year bunds actually managed a slightly wider range as the ECB pushed stimulus packages through, causing a selloff in late May. Yields ended the month at -0.45% having started at -0.58%.

Whilst there is still fluidity in risk markets as health outcomes and economic data change the outlook, it seems investors are happy for now with rates where they are. Basically yields are supported to the upside by investors chasing carry and roll further out the curve. Any decent rally though is sold into as the term premium in bonds is held up by the improving risk markets. These two forces began in early April and look set to continue for some time. Similar to Australia, economic data globally will be weak as the initial impact of the crisis still comes through. However the bounce in June should be strong, but will still leave activity well down on pre-crisis levels.

Fund performance

The Fund outperformed its benchmark over the month of May.

Over the month, the FX and Cross-Market and Macro strategies added to performance while the Duration strategy detracted. The portfolio risk level started at 3 risk units, peaked at 7 risk units and declined to 5 risk units at the end of the month.

The Duration strategy was the only strategy which detracted over the month. Our long duration bias was maintained throughout the month. The losses were mainly from long duration positions in China 5y and European front end of the curve. The losses were partially mitigated by the gains in long duration positions in Korea and New Zealand front end. In the US we partially switched the position in the long end to the front end with both positions largely flat for the month. In Australia, we maintained long duration in the front end and had a tactical position in the long end during the month, with the total performance being slightly negative. As of the month end, we closed the position in New Zealand and retained the long duration bias in US, Europe, Australian and selected EM countries.

The FX strategy added to performance in the month. Over the month we maintained an overall long USD bias against EM currencies. However, the selective long position in MXN has continued to contribute significant gains. In the other currencies we kept long USD against short CNH and THB, with the gains in the CNH trade outweighing the losses in THB trade.

The Cross-Market strategy added to performance over the month. Similarly to last month, the profits peaked in the middle of the month and retreated thereafter. However, this month the long duration positions were more impacted in the yield sell-off during the second half of the month, especially in Norway.

Market outlook

We expect markets to remain rangebound for the months ahead. The growing optimism in equity markets will keep bonds from rallying. Against this central banks remain committed to keeping rates here for years into the future, limiting the ability of bonds markets to sell off too far. Economic data will rebound, but the output gaps remain very high and will not close for a number of years. This is why we still prefer to have a bias to being long duration, whilst respecting the range.

The key to how long duration and in which markets has now switched to fiscal policy, not monetary policy. Governments who use fiscal policy aggressively will see their economies rebound the strongest. Those governments still held back by underlying fiscal conservatism will see the probabilities of a double dip recession next year increase. Of course the speed of a vaccine will play a part but given the uncertainty is not something we can time.