PENDAL

Factsheet

Bond, Income & Defensive Strategies

June 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	-0.02	0.03	0.21
3 months	0.37	0.50	0.68
FYTD	6.07	6.63	6.57
6 months	4.88	5.15	5.34
1 year (pa)	6.07	6.63	6.57
2 years (pa)	5.89	6.45	6.95
3 years (pa)	4.53	5.08	5.31
5 years (pa)	4.10	4.65	5.07

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 30 June 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 30 Jun 2020)	$31 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

June overall continued the themes from May of range-bound bond markets. There was a small breakout to higher yields in early June as sharemarkets surged. However, a pickup in second wave COVID-19 cases and reminders from central bankers about the challenges ahead quickly saw yields move back into the range. For US 10 year bonds that range has been 0.80% to 0.60%. In fact, US 10 year bonds have ended April, May and June at the same level of 0.65%.

European markets have generally seen yields settle higher since March. The ECB lifted support for their bond buying programme by $600 billion, which provided some support, but bonds yields have now settled higher than they were in the 3rd Quarter last year. The ECB of course was unable to do any meaningful rate cuts through the crisis. Our theme of global rates converging near zero is working from the other side for these markets, having first seen negative yields in 2016.

Other markets were mixed. Asian markets, which are further into the recovery, saw slightly higher yields. Positive moves in credit helped higher yielding bond markets perform, especially in Europe. The chase for yield near term is outweighing any concerns over creditworthiness.

Fund performance

The Fund returned 0.03% (pre-fee) during the month and underperformed by 0.18% versus its benchmark. Over the month, the Macro strategy added to performance and the Duration, Cross-Market and FX strategies detracted while the Yield Curve strategy was largely flat. The portfolio risk level started at 5 risk units, declined to 4 units and stabilised around this level until the end of the month.

The Duration strategy was the largest detractor over the month. Our long duration bias was maintained throughout the month. The losses were mainly from long duration positions in China 5Y section of the curve. The position was reduced early in the month and partially upweighted again later in the month. In other EM countries, we increased long duration positions in the Korean front end with a minor loss as of the end of the month. In the US we maintained long duration in the front end and traded a tactical short position in the long end of the curve. The short bias aligns with our core duration scorecard which has been gaining in bearish momentum over the past few weeks. US rates positions the month with flat performance. We took profits in the long duration position in the Australian bank bills which helped offset the losses in the 3-year point of the curve. The long duration position in the European front end was closed early in the month. As of the end of the month we retained the long duration bias in the US, Australia and selected EM countries.

The FX strategy detracted from performance in the month. Most of the losses were from short CNH against long USD. We entered long EM currencies in IDR and SGD with both positions being flat on performance. The long MXN position, carried over from last month, was closed earlier in the month with a small profit contribution to June's performance.

The Macro strategy continued its momentum from last month and added to performance this month. Gains were contributed by the sell protection position in iTraxx Australia position, which we took profit in the first half of the month. Meanwhile we opened a tactical buy protection position for a brief period, which was flat to the performance for the month. This short was aligned with the triggers on the macro scorecard. As of the end of the month, we held no positions in the strategy. The Cross-Market strategy detracted from performance over the month. The portfolio continued to run the trades recommended by the systematic quantitative process. Losses were mainly from the long duration side, namely, in Korea and Norway.

In Yield Curve strategy we added a flattening position in SGD curve with a flat performance for the month.

Market outlook

We expect markets to continue to be rangebound over the Northern Hemisphere summer. There are two opposing forces on markets at present. Positive economic data and optimism in equity markets will weigh on bond yields keep bonds. However central banks will remind investors they remain committed to keeping rates here for years into the future. As well output gaps remain very high and will not close for a number of years. We will continue to respect the range but prefer a bias to being long duration, as the road ahead will still have some major bumps.

As mentioned last month the key to the size of 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.

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

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