PENDAL

Factsheet

Bond, Income & Defensive Strategies

July 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.95	0.99	0.95
3 months	0.84	0.98	0.98
FYTD	0.95	0.99	0.95
6 months	3.47	3.74	3.93
1 year (pa)	6.24	6.81	6.86
2 years (pa)	6.75	7.31	7.61
3 years (pa)	4.76	5.32	5.57
5 years (pa)	3.93	4.48	4.95

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 July 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 Jul 2020)	$32 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 bond markets generally drifted lower in yield in July as the health crisis failed to improve. US 10-year yields finished the month at 55bp, a 13bp rally which puts them at the bottom of the post March range of 55bp to 85bp. Other markets also pushed to the lower end of recent yield ranges, with the exception of China which saw a decent push higher in yields.

Against this backdrop credit and equity markets continued their moves back to pre COVID levels. US equities, buoyed by their tech sector, at now near or even above all time highs. Better than expected earnings results contrasted to the overall state of the US economy, which saw an annualised contraction in the June Quarter of 32.9%. Credit markets likewise benefited from ongoing government support, strong equites and a general chase for yield.

The story across markets remains one of massive government stimulus to deal with the health and economic crisis. This stimulus is depressing bond yields whilst lifting equities and credit. Asset owners are major beneficiaries and so far in 2020 are largely immune from the worst economy in almost a century. The duration and extent of this government support remains the main focus, apart from of course medical breakthroughs.

Fund performance

The Fund returned 0.99% (pre-fee) during the month and slightly outperformed by 0.04% versus its benchmark which returned 0.95%.

Over the month, the Yield Curve strategy added to performance, while the Duration, Cross-Market and FX strategies detracted. The Relatives Value strategy was largely flat. The portfolio risk level started at 4 risk units and rose steadily towards 6 units by month-end.

The Duration strategy detracted slightly over the month. Our long duration bias has been maintained and we increased the size of the bias towards the end of the month. The long China 5yr position caused more than half of the losses in this strategy. Most of the gains came from the long duration positions in the front end of the Australian swap curve which were gradually added from mid-month onwards. In other markets, we reduced the long duration position in the Korean front end and closed the position in the Eurodollar front end early in the month. As of the month end, our main positions were long duration in Australia, China and Korea.

The FX strategy detracted slightly from performance in the month. Most of the losses were caused by our long USD against short CNH position, which was closed halfway through the month as stop losses were hit. Since then the portfolio turned to short USD bias against emerging market currencies including IDR, INFR, KRW, and SGD as the USD weakness continues. The gains from these positions help to mitigate the losses from CNH. Later in the month, we added a position of short USD against CNH with a flat performance as of the end of the month.

The performance of the Cross-Market strategy was slightly negative over the month. The portfolio continued to run the trades recommended by the systematic quantitative process. This month, the gains from the received legs roughly balanced out the losses from the paid legs. Some position switches were triggered by the quantitative process and as of month end, this strategy is long duration in Korea and Switzerland and short duration in Europe and New Zealand.

The Yield Curve strategy added to performance this month. All gains were from the Singapore curve flattener that we entered last month. This position had a steady climb of performance over the month.

In the Relative Value strategy, we added a received real yield position in the US later in the month as a way of providing some medium term inflation protection as inflation expectations are likely to rise from current depressed levels. The performance of the position is roughly flat.

Market outlook

Talk of successful virus trials is helping investors remain optimistic overall, despite terrible health and economic outcomes today. Predicting if and when we get a virus is difficult but governments are reminding investors extraordinary support will remain in place long after economies begin to rebound. This is depressing bond yields but also lifting equities, a great result for investors.

July saw markets focus more on the potential long term impacts of stimulus. Gold prices, cryptocurrencies and anything with fixed supply is being grabbed as protection against possible inflation. Near term deflation remains a higher risk but markets generally try to look further out. The interplay between a recovery and timing of easing of government support will remain the focus, but the expectation is governments will be slow and cautious doing so, possibly driving another strong risk on event. Fear of missing out on that rally is keeping investors in markets in the face of terrible current economic data.

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

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