PENDAL

Factsheet

Bond, Income & Defensive Strategies

August 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	0.18	0.24	0.02
3 months	0.35	0.51	0.06
FYTD	0.72	0.83	0.04
6 months	-1.07	-0.74	0.14
1 year (pa)	-0.14	0.52	0.54
3 years (pa)	3.83	4.51	1.15
5 years (pa)	3.73	4.41	1.38

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/08/2020	0.07	29/02/2020	0.16
31/07/2020	0.07	31/01/2020	0.16
30/06/2020	*1.505	30/11/2019	0.16
31/05/2020	0.25	31/10/2019	0.16
30/04/2020	0.20	30/09/2019	0.16
31/03/2020	0.16	31/08/2019	0.16

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 August 2020)

Government bonds	3.9%
Semi-Government bonds	1.9%
Corporate bonds	58.5%
Mortgage backed	1.7%
Asset backed	0.5%
Australian shares	12.8%
Cash & other	20.7%

Other Information

Fund size (as at 31 Aug 2020)	$572 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

Credit markets continued to strengthen in August. Drivers of the strength came from stronger than expected US economic data (manufacturing, payrolls & CPI), progress on Covid-19 vaccines, and finally better than expected earnings results out of the US and Europe, offset by weaker Australian results.

Supporting risk markets were positive test updates on Covid-19 vaccines from a number of pharma companies, two of which were from Novovax and Moderna. The results showing positive immunity responses. Also the approval of the Abbott Labs rapid antigen Covid test is a positive for markets as it supports going back to work and education sooner. It provides a quick 15 minute result at a very cheap price of $5 with accuracy in the high 90% range. Finally the lower daily new cases for coronavirus in the US also help sentiment, from 67 thousand as at the end of July to 34 thousand by the end of August. The virus hospitalizations also fell in US.

Second quarter US company earnings saw 84% of businesses beating expectations by 23% on average, with actual earnings only falling 7% vs the previous corresponding period. European companies also surpassed expectations by 34% with earnings falling 19% pcp. On the flip side, the ASX200 underwhelmed with company earning falling 24% pcp.

The Australian iTraxx index (Series 33 contract) traded in an 13bp range finishing the month 12bps tighter to +64bps. Physical credit spreads also narrowed, on average tightening 5bps for the month. The best performing sectors were telcos, industrials and resources narrowing 14, 11 & 11bps respectively, whilst the worst performing sector was reits that only tightened 1bp. Semi-government bonds had a very strong month tightening 11bps to commonwealth government bonds.

Australian bond yields drifted higher in August, but remain largely rangebound. Ten year yields sold off 16 basis points on the month, from 0.84% to 1%.Three year yields remain supported by Yield Curve Control but also drifted higher, from 0.26 to 0.28% for a generic bond. The reason for higher bond yields was the continuation of a strong risk on sentiment in markets, despite the continuing drag on the economy from the Victorian lockdown. Also a new $21 billion 11 year bond from the AOFM weighed on markets into month end.

Spreads to Australian Government Bonds were generally in around 10 basis points across the board – semis, supranationals and credit. This was partly the risk on environment but also swap spreads fell further under government bonds. Banks continue to generate their new funding from the Reserve Bank, not the market, pushing down levels across the curve. This has a knock on effect to any bonds offering yield.

Fund Performance

The Fund delivered a positive return of 0.24% (pre-fee) over August. The key drivers was positive returns from Australian credit and equity markets whilst the back up in bond yields saw the government bond and duration components detract from returns. The Australian share allocation moved around as the early month market rises saw our models switch to a buy signal and we allocated an additional 5% as markets were range trading over the last few months, our sell signals and buy signals are very close together, so we hedged some of this with futures to maintain a lower cost exposure to equities until markets break through this range. Credit markets were stronger again in August as credit spreads rallied with BBB's especially those in sectors that have not rallied as much as other outperformed, late in the month and into September increased issuance saw some spreads widen slightly. The fund took advantage of new issuance to increase its credit exposure over the month, whilst also selling down some credit securities which had rallied quite strongly over the last few months.

The fund ended the month with an asset allocation weighting to Australian equities of 13%, weighting to Government bonds at 6%, with the remainder in cash (21%) and Australian Credit at 61%

Outlook

We continue to be constructive on investment grade credit on the back of the extraordinary support measures by global central banks and governments. Also from a fundamental perspective, companies across the globe are supporting their balance sheets and improving their credit quality through raising equity.

A technical factor that will continue to support credit markets in Australia is the excess liquidity in the banking system and wider credit spreads against a 0.25% cash rate will continue to attract buyers in the sector.

In relation to Covid-19, we believe a more educated/experienced global community will better manage mortality rates which will ultimately support markets.

However, we still have concerns around the uncertainty related to the flow on effect to the global economy and company earnings of Covid-19. We will continue to closely scrutinise developments and assess the potential ramifications as they occur. We are also focused on the US-China tensions and the follow on effect of global trade. However over the medium to longer term, policy measures should be supportive for risk assets which leaves us with a constructive stance on credit markets.

Australian equities and bonds continued to be supported by fiscal policy. The Federal Government has shown a willingness to continue to provide strong support to the economy through extending Jobkeeper beyond September. Criteria for Jobkeeper will be tightened, not surprisingly given the initial scheme had to be rushed and left many loopholes. Also the amounts paid will be gradually reduced. However, this avoids the fiscal cliff many were concerned about and should help see a strong rebound into the December quarter.

The RBA continues to provide support via Yield Curve Control. They have also extended the Term Funding Facility for banks. This is leaving the system more flushed with cash than ever, further depressing rates across the spectrum, both for retail and institutional investors. This will keep rates bid, spread product performing and at the margin will help long bonds even as inflation expectations pick up.

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

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