PENDAL

Factsheet

Bond, Income & Defensive Strategies

August 2020

Pendal Enhanced Cash Fund

ARSN: 088 863 469

About the Fund

The Pendal Enhanced Cash Fund (**Fund**) is an actively managed portfolio of debt securities such as short-term money market instruments and medium term notes. Key features of the Fund include next day access to funds and quarterly distribution.

The Fund invests in medium-term securities that are investment graded rated and short-term securities with a credit rating of A-3 or higher by Standard and Poor's or equivalent rating agency. Duration is managed in a range of +/- 0.5 year around the index.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Bank Bill Index. The recommended investment time frame is 12 months or more.

Investment Approach

The Fund aims to add value through active management by exploiting market inefficiencies through the shape of the money market curve and the mispricing of credit securities. Research is focused on assessing economic factors, the likely direction of interest rates and credit analysis. Credit margin relative value is assessed with reference to rating, sector, maturity, liquidity and underlying credit fundamentals.

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 portfolio manager of the Fund is George Bishay, who has more than 23 years industry experience.

Portfolio Characteristics

Weighted average maturity	+/- 0.5 years around the index
Minimum credit rating	BBB- (Long term rating) A-3 (Short term rating)
Liquidity	Following day access (before 2.30pm)

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.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.17	0.19	0.01
3 months	0.79	0.85	0.03
FYTD	0.51	0.55	0.02
6 months	0.92	1.05	0.18
1 year (pa)	1.79	2.04	0.66
2 years (pa)	2.07	2.33	1.24
3 years (pa)	2.23	2.48	1.44
5 years (pa)	2.43	2.68	1.66

Post-fee return is based on management fees deducted from the unit price: currently 0.25% (pa).

Sector Allocation (as at 31 August 2020)

Money market	25.9%
Corporate	70.1%
Residential mortgage backed	4.0%
Government bond	0.0%
Other asset backed securities	0.0%

Security Credit Ratings (as at 31 August 2020)

AAA	6.3%
AA	32.1%
A	21.7%
BBB	14.0%
Money market	25.9%

Statistics (as at 31 August 2020)

Modified duration	0.19 years

Other Information

Fund size (as at 31 Aug 2020)	$750 million
Date of inception	January 1994
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	WFS0377AU

[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]	0.25% 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.

Market review

Bond yields moved higher over the month as positive risk sentiment saw equity markets perform well. In the United States the Federal Reserve announced that it would move to a 2% average inflation targeting regime. In addition the Fed announced that they will only respond to shortfalls of employment, rather than a deviation above or below the maximum level. Essentially the Federal Reserve are prepared to see the labour market run hot without any change to monetary policy unless inflation is above their 2% target for a period of time. Details on how long the Fed would be prepared to see inflation above 2% before they would respond were light on, disappointing the market.

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 the generic bond. A new $21 billion 11 year bond from the AOFM weighed on markets into month end.

The RBA also began small levels of purchases in August, the first since May. This was driven by a small drift higher in three year yields above their 0.25% target. Also large scale Australian Government issuance drained money from banks Excess Reserves, which get topped up when the RBA conducts QE. The RBA now holds $60 billion of bonds, an increase of $10 billion on the month.

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.

Fund performance and activity

The Fund had a strong month outperforming the benchmark by 18bps (pre-fee) in August. Financials and industrials drove the performance.

Activity during the month included increasing exposure to financials funded out of infrastructure and cash.

As at the end of the month, the portfolio had a credit spread of 68bps over bank bills, interest rate duration of 0.19 years and credit spread duration of 2.20 years.

Outlook

Our outlook remains unchanged. The RBA has now reached the lower bound of monetary policy, or Effective Lower Bound (ELB). They believe negative rates do more harm than good so any further action by the RBA must come through the QE side. Markets have priced in an optimistic outlook for the speed and size of the recovery later this year from COVID-19. Whilst we cannot predict medical outcomes we view the damage done as partly structural, not just all cyclical. When the recovery occurs it is likely to be quick initially, given the large scale of the falls in employment and GDP; however medium term the economy will take years to return to pre crisis levels. With short rates anchored well into the future, possibly for the first half of this decade, investors will continue to chase further along the curve and further out the risk spectrum. The term funding facility will reduce the amount of primary market issuance in Australia and will see credit spreads for bank paper continue to contract. Non-bank corporate issuers do not benefit from this facility and their spreads will reflect the economic reality of the economy.

Bond yields will continue to be well supported as anchored short rates, massive central bank buying and economies in hibernation see bonds in demand. There will be massive supply but central banks will be soaking it all up. Modern Monetary Theory may not be technically here but many of its principles are now policy.

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.

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

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