Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Factsheet

Bond, Income & Defensive Strategies

August 2020

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	-1.20	-1.15	-1.08
3 months	-0.28	-0.14	0.07
FYTD	-0.26	-0.17	-0.14
6 months	0.30	0.56	1.06
1 year (pa)	1.84	2.38	2.66
2 years (pa)	6.03	6.59	6.94
3 years (pa)	3.98	4.53	4.79
5 years (pa)	3.54	4.09	4.73

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 August 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 Aug 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

Global bonds yields remained in their post March range throughout August. US 10 year yields have spent the majority of time since April between 0.6% and 0.8%, attempting a small break lower in early August before resuming the range.

Weak economic data and poor health outcomes with COVID-19 have meant central banks continue to be dovish and providing high levels of market support. This has pushed down yields. However the same rhetoric has supported risk markets, which has seen some capital leave bonds pushing up yields. These forces are expected to continue into year end.

Other developed markets have largely followed the US lead. The only large market that has seen a new trend develop since April is China. Ten year yields in China have risen from 2.5% in April to above 3% now. August continued this move. China has seen a quicker recovery than other economies. Ironically it's government and central bank, so often leading the way in market intervention, is actually about the only central bank not doing QE.

For now the talk of new countries moving to negative rates is confined to New Zealand. Large scale fiscal stimulus remains the preferred measure in Australia and the US, with central banks viewing negative rates as potentially doing more harm than good. Short end rates have therefore been largely stable again in August.

Fund performance

The Fund returned -1.15% (pre-fee) during the month and slightly underperforming by 0.07% versus its benchmark, which returned -1.08%.

Over the month, the Yield curve, duration and cross market strategies detracted whilst the Macro, Physical portfolio and FX strategies added value.

A key detractor this month has been the cross-market duration positions. The systematic process has led us to be short rates in New Zealand and Europe against being long in South Korea and Switzerland. The sell off in the European curve was more than offset by the sell off in the Swiss curve. The New Zealand short suffered on the back of a very dovish RBNZ, whilst a very reluctant BoK meeting towards month-end caused a sell-off that went against the South Korean position. It has been the third detracting month from the cross-market model. We have decided to halve the size of risk committed to this model whilst we explore the sub-components of the model to ascertain which aspects are key to contributing to its negative performance in this environment. It is likely to be a result of large expectation ranges on inflation causing conflicting signals between the value in real yields versus the carry from the steepness of curves. However, we believe that since short end rates have nowhere to go, the convergence in longer end yields is a theme that will prevail for the medium term, and are therefore choosing to downsize the cross-market positions rather than shut them down completely.

Elsewhere in the portfolio, we maintain a long duration bias mainly through Australia, complemented by front end positions in New Zealand and Asia, as well as a flattener in Singapore. The Singapore dollar flattener has sold off this month in sympathy with global yield curve steepening. However, as mentioned in prior months, we believe every episode of steepening will be limited both by what central banks are willing to tolerate as well as by the natural mechanism of markets (too steep a curve leads to financial conditions tightening). We therefore maintain our core long duration and flattener positions, but have tactically shorted US duration over the course of this month to provide some offset. The short USD bias of the portfolio also provided some cushion.

Going into September, our core long duration bias, small long in Australian credit and short USD biases will continue to run. We have taken profits on our short US duration positions for now but are likely to continue to use this tactically as needed depending on the backdrop for global bonds.

The Duration strategy detracted over the month. The portfolio maintained long duration bias for the month. Most of the losses came from long duration positions in the Australian front end. Another contributing component of the losses was the positions in the emerging markets, where we maintained the long duration positions in China 5y and the Korean front end. The losses were mitigated by the gains in the US, where we added tactical short duration positions in the long end. Later in the month we added a long duration position in the New Zealand front end with a flat performance.

The FX strategy performed well over the month. Throughout the month we maintained short US dollar versus long emerging market currencies. From the existing positions carried forward from last month, i.e. long Indonesia rupiah, India rupee and Chinese yuan, we added to the long Chinese yuan position. All these positions added to performance. Towards the end of the month, we initiated a position of long Korean won with flat performance.

The Yield Curve strategy detracted this month. All losses were from the Singapore curve flattener.

In the Relative Value strategy, the received real yield position in the US continued to perform well.

Market outlook

Increasing focus on successful Vaccine trials is adding to the strong performance of risk assets, initially supported by massive government stimulus. Current poor health and economic outcomes are being discounted. Predicting when we get a Vaccine and how effective it will be is difficult but governments are reminding investors extraordinary support will remain in place long after economies begin to rebound. Near term this depresses bond yields but also lifts equities, a great result for investors. Medium term if inflation were to pick up pressure may come on term bond markets, challenging this consensus.

August saw a continuation on fiscal rather than monetary conditions. US budget measures remain bogged down in the usual partisan politics, made worse by the upcoming election. Focus on the election will be on Trump v Biden. Both will likely add fiscal stimulus post an election but the problem may be if the Houses remain split, blocking even reasonable attempts to help the economy.

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

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