PENDAL

Factsheet

Bond, Income & Defensive Strategies

September 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 fifteen 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 26 years industry experience.

Performance[1]

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.76	0.81	0.70
3 months	0.50	0.64	0.56
FYTD	0.50	0.64	0.56
6 months	0.87	1.14	1.25
1 year (pa)	3.56	4.11	4.14
2 years (pa)	6.94	7.51	7.61
3 years (pa)	4.51	5.07	5.28
5 years (pa)	3.46	4.01	4.65

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 September 2020)

Belgium	1.8%
Denmark	0.4%
France	7.7%
Germany	4.8%
Italy	6.7%
Netherlands	1.4%
Spain	4.4%
Sweden	0.2%
United Kingdom	7.3%
Japan	19.2%
Canada	1.5%
USA	42.6%
Cash & other	2.0%

Other Information

Fund size (as at 30 Sep 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

During September global bonds yields remained firmly stuck in recent ranges. There were small gains as yields fell 5 to 10 bp but closing levels were at or near six month averages.

In the United States the Federal Reserve formally adopted outcome-based forward guidance. Rates will rise when three conditions have been met: the labour market has reached maximum employment, inflation has risen to 2% and is on track to moderately exceed 2% for some time. This leaves the Fed with considerable room to maintain rates at their current setting – as the Fed pointed out in a strategy paper in August maximum employment can't be precisely estimated. Terms such as moderately and some time are also sufficiently vague.

The Bank of England (BoE) left current monetary policy settings steady but detailed further its preparation for the operational aspects of negative rates. The BoE will begin formal talks with financial institutions on the operational logistics surrounding negative rates later this year. BoE Governor Bailey subsequently downplayed the probability of negative rates when he commented that they are "in the toolbag but it doesn't imply anything about the probability of us using negative interest rates at the moment".

The prospect of new lockdowns in Europe saw a decent bid return for their bonds. Yields ended up around 10 bp lower for German 10 year bonds, finishing at -52 bp, which is 6 bp below the six month average. Despite wider corporate credit spreads second tier European bonds actually rallied harder on the prospect of further ECB intervention.

Finally Asian bond markets bucked the trend, with most being unchanged on the month. The more positive economic outlook in China continued to weigh on their bonds, with 10 years finishing up 12 bp on the month.

Overall it remains government action, both fiscal and monetary, driving markets. Keeping a close eye on these actions is proving more successful than monthly variances in economic data. Ultimately the two will move back in line but that will be well into 2021.

Fund performance

The Fund returned 0.81% (pre-fee) during the month outperforming its index by 0.11%.

Over the month, the Duration and Yield Curve strategies added to performance while the FX and Macro strategies slightly detracted, and the Relative Value strategy was largely flat.

The Duration strategy performed well over the month. The portfolio maintained long duration bias for the month. Most of gains were from long duration positions in the Australian front end. In the other markets, we maintained long duration positions in New Zealand front end of the curve with small gains. In the month, we had a tactical long duration position in the US with small gains. In the emerging markets, we also maintained long duration positions in China and Korea. Performance from these positions were largely flat over the month. As of the month end, we kept our core long duration positions in Australia and New Zealand, and emerging markets of Korea and China.

The FX strategy slightly detracted from performance over the month. Throughout the month, the positions were centred around USD against the emerging market currencies. However, we started the month with a short USD bias and turned around the bias to long USD by the end of the month.

Losses were mainly from long IDR, which was closed in the last week of the month. The losses were offset by gains in long CNH and INR. Toward the end of the month, we opened a position to short TWD with a minor loss as of the month end. As of the month end, we continued to hold our long CNH and INR positions against short USD.

The performance of the Cross-Market strategy detracted over the month. Majority of the losses were from a newly open position of receiving USD and paying KRW in the long end of the yield curves. Toward the end of the month we opened a long Australia short the US in the long end with a flat performance. The portfolio continued to run the trades recommended by the systematic quantitative process. This month the gains from received legs roughly balanced out the losses from the paid legs.

The Yield Curve strategy added to performance this month. All gains were from the Singapore curve flattener. The Relative Value strategy was a small negative over the month due to losses from the received real yield position in the US, whose size was reduced by the end of the month.

Market outlook

After a difficult September risk markets will be looking for more positive news in October. Uncertainty around vaccines, virus outbreaks, presidential elections and the technology sector have all weighed on sentiment in September. However markets will jump on any good news given the massive stimulatory backdrop of governments globally.

To quote Donald Rumsfeld these are "known unknowns" so whilst they can still surprise the wrong way the amount of money in the system leaves markets vulnerable to a risk on month. Bond markets are expected to maintain the six month range but the prospect of further RBA stimulus in November will keep a bid tone. .Any risk off will be met by further stimulus.

Overall though central banks will not want to see yields drift too much higher at a time when low rates are needed, capping any selloff and once again providing opportunities to go overweight duration.

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

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