PENDAL

Factsheet

Bond, Income & Defensive Strategies

October 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 25 years industry experience.

Performance[1]

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.28	-0.24	-0.25
3 months	-0.73	-0.59	-0.63
FYTD	0.22	0.39	0.31
6 months	0.11	0.38	0.35
1 year (pa)	3.85	4.40	4.44
2 years (pa)	6.85	7.41	7.50
3 years (pa)	4.32	4.87	5.04
5 years (pa)	3.50	4.05	4.53

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 October 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 31 Oct 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

Offshore events were dominated by the upcoming US election and the lack of progress on a fiscal stimulus package. Also weighing on risk markets were increasing COVID19 cases and resultant lockdowns in Europe, Brexit negotiations, US earnings and the trials and tribulations as companies race to find a vaccine. Positive developments occurred with Moderna stating that their vaccine could be available for emergency use in December and AstraZeneca resuming its phase 3 trials in the US.

In the US risk sentiment waxed and waned during the month on fiscal stimulus talks, with no agreement able to be reached prior to the election. The election occurs in early November with Joe Biden favoured to take office from Donald Trump according to the polls. The close Senate race will also be watched as it will impact on the next President's ability to push through fiscal stimulus.

Key economic data out of the US included third quarter GDP, which rose by a better than expected annualised rate of 33.1%. The unemployment rate fell from 8.4% to 7.9%, largely due to the participation rate.

The ECB was more dovish than expected and has signalled that further monetary policy stimulus with occur at their December meeting. ECB President Christine Lagarde outlined a regional economy that was losing momentum and is now facing deeper downside risks, with the ECB to 'recalibrate its instruments' at its next meeting following the release of the ECB's economic projections.

The Bank of England continues to weigh up the case for negative rates. MPC member Vlieghe warned that the banks' ability to stimulate growth was beginning to wane and that negative rates need to be included in the BoE's armoury once technical issues were overcome. BoE Deputy Governor Ramsden stated that whilst there might be an appropriate time to use negative rates, now is not the time.

Risk sentiment, particularly in Europe, suffered as the number of COVID cases rose sharply and led to restrictions in Spain, Italy, Germany, France and the UK amongst others. German equities were down by almost 10% over the month, with software maker SAP falling 22% in one session on a disappointing outlook for the company. In the United States the S&P 500 fell by 2.8%, China's Shanghai Composite was little changed and in Australia, the S&P/ASX 200 ended 1.9% higher.

US treasury yields sold off late in the month despite the sharp fall in US equity markets late in the month with the 10 year bond yield ending 19 basis points higher at 0.87%. However, German 10 year yields fell by 11 basis points to -0.63%.

Fund performance

The Fund returned -0.24% (pre-fee) during the month outperforming its index by 0.1%.

Over the month, the Duration, FX and Yield Curve strategies slightly detracted and the Macro and Relative Value strategies added to performance, while the CrossMarket strategy was roughly flat. The Duration strategy detracted over the month. The portfolio maintained long duration bias for the month. Most of the losses were from long positions in the Australian front end. In the other markets of the developed world, we maintained longs in the front end of New Zealand, which added to performance. In Europe, we initiated a long position in Bund which also added to performance. In the US, we opened long duration positions in both the front end and the long end, with an overall flat performance for the month. In the emerging markets, we closed a short position in the long end of the Korean curve and kept the long position in the front end, both positions added to performance. In China, the long duration position slightly detracted, and we reduced the long duration position intra-month. As of the month end, we kept our core long duration positions in Australia and New Zealand, added US and Europe, and adjusted our positions in emerging markets of Korea and China.

The FX strategy slightly detracted from performance over the month. The losses were mainly contributed by the short TWD position. Over the month, the net exposure to USD was small as we continue to hold long CNH and INR. Towards the end of the month, we switched our long CNH to short against USD with a small gain. Meanwhile, we opened a new short MXN against long AUD position approaching the month end with flat performance. The Macro strategy added to performance this month. All gains were from the sell protection position in iTraxx Australia that we continued to hold. The performance of the Cross-Market strategy was flat this month. In the month, we closed the long Australia short the US position in the long end of their curves with a flat performance. The portfolio continued to run the trades recommended by the systematic quantitative process. This month the gains and losses balanced out from the trade legs. We carried over the receiving USD and paying KRW long end from last month and the position also ended the month flat. The Yield Curve strategy slightly detracted this month. All losses were from the Singapore curve flattener.

The Relative Value strategy was slightly positive over the month. Gains were from the position of sell protection in iTraxx Australia vs buy protection in CDX IG, which was closed later in the month. The gains were partially offset by small losses from the received real yield position in the US.

Market outlook

As we write the US election remains unresolved, although a Biden win with a Republican Senate looks the most likely outcome. We expect some stimulus to finally get through early next year, likely in the range of $1.5 to $2 trillion. Whilst this will give the US economy a much needed boost the economy will continue to struggle. Further Fed action cannot be ruled out. This will keep a bid to bond markets and at the same time risk markets. The chase for yield and return is alive and well.

The global picture remains divided with Asia continuing a strong rebound but much of Europe struggling with COVID lockdowns. This mixed picture will mean we enter 2021 without a widespread global rebound, which will see governments and central banks looking for further ways to boost jobs and their economies. This will remain a bond friendly environment, at least for now.

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

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