PENDAL

Factsheet

Bond, Income & Defensive Strategies

October 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%

Management costs[1]

Issuer fee[2]	0.65% pa

[1] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[2] 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.

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

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.27	0.32	0.02
3 months	0.62	0.78	0.06
FYTD	1.15	1.37	0.08
6 months	1.87	2.21	0.13
1 year (pa)	0.19	0.85	0.43
3 years (pa)	3.37	4.05	1.08
5 years (pa)	3.67	4.34	1.32

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

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

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 October 2020)

Government bonds	3.1%
Semi-Government bonds	2.3%
Corporate bonds	57.7%
Mortgage backed	1.6%
Asset backed	0.5%
Australian shares	19.4%
Cash & other	15.4%

Portfolio Statistics (as at 31 October 2020)

Yield to Maturity[3]	0.84%

[3] The portfolio yield to maturity is an estimate of the fund's internal rate of return. It is calculated as the yield to maturity of all securities comprised in the benchmark at the relevant time (sourced from Bloomberg), plus our estimate of the weighted average traded margin over the swap rate for each of those securities based on observed market prices. The portfolio yield to maturity does not represent the actual return of the fund over any period.

Other Information

Fund size (as at 31 Oct 2020)	$576 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[4] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Monthly
APIR code	BTA0318AU

[4] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

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 had a strong month in October. We saw a firm start to the month on an expectation of an uncontested Biden win in the US elections with control of the Senate, which would allow a large fiscal stimulus package to be passed.

In local news, a landmark change announced in a speach by the RBA's Governor Lowe, talking to the RBA shifting its focus from forecast to actual inflation with a focus on keeping the Australian dollar in check and supporting financial stability and economic growth. This suggests that future rate hikes would be pushed out further than before. This is very supportive for credit markets in Australia as lower rates for longer will see investors continue to allocate to yielding credit securities.

However, risk markets lost momentum in the second half of the month on the back of rising Coronavirus cases, lack of US stimulus talks and increasing concern over the risk of a tighter US election outcome. The increase in new covid-19 cases in European and US pressured risk markets, this saw lockdown announcements from France, Germany and England to try to reduce the spread of the virus thereby stalling their economic recovery. Also, the lack of breakthrough on US stimulus talks and a potential contested US election result drove whippy markets late in the month.

The Australian iTraxx index (Series 34 contract) traded in an 12p range finishing the month 5bps tighter to +71bps. Physical credit spreads had a strong month narrowing 7bps on average. The best performing sectors were industrials and domestic banks tightening 10 and 9bps respectively, whilst the worst performing sector was offshore banks that only narrowed 5bps. Semi-government bonds performed well narrowing 4bps to commonwealth government bonds.

Fund Performance

The Fund delivered a positive return of 0.32% over October. The key drivers was positive returns from Australian equity, credit and government bond markets. Bond yields rallied late in the month as the market started to price in a potential rate cut from RBA however as they sold off earlier in the month ended only slightly lower. Equities also rallied early in the month then sold off in the last week as global volatility increased due to uncertainty on US elections and rising Covid 19 cases in Europe and the US.

During the month of October credit rallied strongly with the Bloomberg Ausbond Credit Index tightening nearly 11bp on a spread-to-swap basis. DIT benefited from its exposure to the transport sector that rallied 13bp. Issuers in this sector include toll roads such as Westlink M7 and the Brisbane and Melbourne sea ports, That said, ConnectEast, the Victorian toll road tightened 16bp on the back of loosening of movement restrictions as COVID case incidences drop. Interestingly, with a positive market tone, you have seen more industrial cyclicals perform such as car and truck manufacturers. PACCAR, the manufacturer of Kenworth trucks bonds performed strongly, tightening 15bp over the month.

The Fund ended the month with a slightly more risk on allocation with equities increasing to 19% as we use the positive momentum in Australian equities to start re-entering again, 5% to Government bonds still, with the remainder in cash (15%) and Australian Credit at 60%.

Outlook

We maintain our positive view on investment grade credit on the back of the exceptional support measures by global central banks and governments. Companies across the globe are supporting their balance sheets and improving their credit quality through raising equity which is positive from a fundamental credit perspective.

The excess liquidity in the Australian banking system and wide credit spreads against a very low cash rate will continue to attract buyers to the sector supporting credit markets.

We still have concerns around Covid-19 and the uncertainty related to the flow on effects to the global economy and company earnings. However we believe a more educated/experienced global community will better manage mortality rates which will ultimately support markets. We will continue to closely scrutinise developments and assess the potential ramifications as they occur.

We are also focused on the US elections and the potential impact on markets as well as 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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