PENDAL

Factsheet

Bond, Income & Defensive Strategies

November 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.09	0.14	0.20
3 months	0.57	0.70	0.65
FYTD	0.31	0.53	0.51
6 months	0.29	0.56	0.72
1 year (pa)	4.57	5.13	5.18
2 years (pa)	6.71	7.28	7.24
3 years (pa)	4.28	4.83	5.01
5 years (pa)	3.52	4.07	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 30 November 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 Nov 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

The big news in November in the United States was Joe Biden being elected as the 46th President, with his inauguration due to take place on the 20th January 2021. The focus will now move onto the 2 Georgia senate runoff elections to be held in early January. The Democrats will need to win both elections for the Democrats and Republicans to have 50 seats each. Vice President elect Kamala Harris would then serve as a tie-breaker. If the Republicans can retain one seat they will retain control of the senate.

The Federal Reserve reiterated its forward guidance from September, stating that the fed funds rate will be held at 0% - 0.25% until the economy is back to maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time, reflecting their move to average inflation targeting. Later in the month it was announced that eight emergency lending programs due to end at the end of the year would not be extended.

ECB President Christine Lagarde all but ruled out lowering rates any further (the ECB deposit rate is at -0.50%). Further monetary policy easing is more likely to be via bond buying and long-term loans to banks being the preferred tools to support the economy. Market expectations that the ECB would announce something on this at their next meeting on the 10th December rose following the comments.

The Reserve Bank of New Zealand wrote their own chapter on what not to do at their MPS meeting. Over the past 6 months, the RBNZ had prepared the market for negative interest rates in early 2021. They now see their Funding for Lending Program (similar to the RBA's term funding facility) as now being the best way to provide additional monetary stimulus although remain prepared to lower the cash rate further if necessary. Stepping back from moving into negative interest rate territory, along with the NZ Finance Minister asking for house prices to be considered in monetary policy decisions, resulted in New Zealand yields selling off aggressively during the month. The 5-year swap rate ended the month 35 basis points higher in yield – not exactly what you want when trying to provide accommodative financial conditions.

Risk sentiment from the vaccine announcement was positive and saw equity markets rally and credit spreads contract. The Australian dollar and the trade weighted index were up 4.8% and 3.4% respectively. Bond yields, as would be expected, moved higher in this environment. Australian 10 year bond yields ended the month 7 basis points higher in yield at 0.90%. US 10-year yields outperformed their global peers, ending the month 4 basis points lower at 0.84%.

Fund performance

The Fund returned 0.14% (pre-fee) for the month of November slightly below with the index return.

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 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 negative due to small losses from the received real yield position in the US.

Market outlook

Positive vaccine news, a market flush with money and US elections behind us meant the strong risk on sentiment should continue into December, albeit the magnitude of moves should slow down. Bond yields will remain rangebound as central bank buying supports markets where risk on sentiment tries to push yields higher. Whilst the data will be strong, it is still rebound strength and with the exception of China economies will struggle to reach activity levels pre COVID for at least another year. Hurdles for rate hikes are very high so if curves continue to steepen opportunities for carry and roll style trades should emerge.

The chase for yield remains a major theme which will continue to support investment grade spreads globally. Swap spreads may come under a bit more pressure though as corporate paying emerges against central bank buying supporting bond markets.

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