Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Factsheet

Bond, Income & Defensive Strategies

June 2019

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	1.43	1.48	1.27
3 months	2.99	3.13	2.89
FYTD	5.72	6.28	7.34
6 months	5.22	5.50	5.47
1 year (pa)	5.72	6.28	7.34
2 years (pa)	3.77	4.32	4.69
3 years (pa)	1.68	2.22	2.66
5 years (pa)	4.22	4.77	5.00

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 June 2019)

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 30 Jun 2019)	$33 million
Date of inception[1]	July 2002
Minimum investment	$25,000
Buy-sell spread[2]	0.12% (0.06%/0.06%)
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 continued their rally in the June quarter as yields fell alongside growing speculation of easing by major global central banks. Movements were dominated by expectations that the Federal Reserve would cut rates during the remainder of the year. By the end of the quarter, roughly 1.00% of reductions were priced over the next twelve months. Such expectations were not dismissed by Fed Chairman Jerome Powell at the Fed's June meeting. Weaker data also built the case for easing with soft employment growth of 75K in June and a drop in the ISM manufacturing survey. Expectations for more accommodative policy were also evident elsewhere after ECB President Mario Draghi offered a more dovish than anticipated message at the central bank's gathering in Sintra, Portugal. Meanwhile, the level of attention on trade war developments fluctuated significantly over the quarter. Investors became acutely concerned after a proposed deal between Washington and Beijing fell apart in May, but sentiment quickly improved and progress was made at the end of the quarter. Finally on market movements, US yields fell by -51bps for the 2 year and -40bps for the 10 year to 1.76% and 2.01% respectively.

Fund performance and activity

The Fund outperformed its benchmark in the June quarter. In the alpha overlay, the largest contributor was the Duration strategy, which benefited from long duration exposures across a number of regions. This included the US, Australia and New Zealand. The FX strategy also added value from a number of long USD versus EM positions in May. Meanwhile, the largest contributor in the Yield Curve strategy was a US front-end flattener. In contrast, the Macro strategy detracted due to short credit exposures that suffered from the tightening of credit spreads in April and positions were subsequently taken off. Little exposure was taken in the Cross-Market and Relative value strategies and performance was roughly flat.

The government bond component also outperformed over the quarter. The Duration strategy generated gains on long 3 and 10 year Australia positions, as well as a long US 5 year position in June. The Yield Curve and Cross Market strategies also made positive contributions, as did the physical portfolio.

Finally the credit component outperformed with overweights in infrastructure and utilities and an underweight exposure to supranationals.

Market outlook

As long as the soothing suggestions of further monetary easing remain, the yield grab is back and deteriorating economic fundamentals effectively become a positive for risk. Moreover, the backdrop for risk has improved with a more optimistic (or complacent) perspective on the trade front. For these reasons, we have stayed away from shorts in global credit as this phenomenon may play out for a while longer. At the same time, the mounting expectations for stimulus continue to support the outlook for lower yields and our preference for long duration positions. However we also note this preference has become more popular in the market and suggests some patience is required to re-initiate positions.

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