PENDAL

Factsheet

Bond, Income & Defensive Strategies

September 2019

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 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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.92	-0.87	-0.73
3 months	2.93	3.07	2.90
FYTD	2.93	3.07	2.90
6 months	6.01	6.29	5.88
1 year (pa)	10.43	11.02	11.19
2 years (pa)	4.99	5.55	5.86
3 years (pa)	2.65	3.19	3.56
5 years (pa)	4.37	4.92	5.17

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 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 Sep 2019)	$34 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 rallied strongly in July and August before giving back some of their gains during September. The significant fall in yields in the first two months was driven by a combination of expectations for further central bank easing, as well as safe-haven demand. The ensuing sell-off likely reflected investor repositioning after a strong performance year-to-date, as well as easing concerns over geopolitics. Yields at the very front-end were less impacted by the sell-off in September and were pulled lower in several markets due to central bank action. This included in the US, where the Federal Reserve cut its benchmark rate twice during the quarter by a total of 50bps to 1.75%. Meanwhile, US data continued to paint a mixed picture with a weaker manufacturing sector at one end offset by a confident consumer at the other. The ISM Manufacturing survey slid below 50 to 49.1 during the quarter. In Europe, the ECB also eased policy further during the quarter with a 10bps cut to its deposit rate to -0.50% with a new open-ended quantitative easing programme unveiled. Finally in terms of market movements, US 2 and 10 year yields fell 13bps and 34bps to 1.62% and 1.67%, while the 3 month LIBOR rate fell 23bps to 2.09%.

Fund performance

Over the quarter, the Fund outperformed its benchmark. 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 Yield Curve strategy was also positive from an Australian front-end flattener. Meanwhile, the Cross-Market and Macro strategies were flat. In contrast, the FX strategy was a detractor with losses on EURUSD, JPYKRW and USDMXN, that more than offset gains on USDCNH, USDKRW and USDSGD.

Market outlook

The bond rally decided to take a breather this month. After so much had been priced in, it was time to wait and see whether the central banks would deliver. However looking forward, the long duration trade is far from exhausted Tactical hedges were placed against our structural positions to insulate from further mark to market losses, but being only temporary and market price-action driven, we have been quick to take them off to allow the long duration bias to continue to play through on the portfolio. The extreme end points could be Fed Funds at zero and very deeply negative rates across all of Europe. But only a partial play-out of those end-points would be sufficient to support our current positioning.

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

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