PENDAL

Factsheet

Bond, Income & Defensive Strategies

December 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	-0.60	-0.56	-0.65
3 months	-1.75	-1.62	-1.69
FYTD	1.13	1.40	1.16
6 months	1.13	1.40	1.16
1 year (pa)	6.41	6.98	6.70
2 years (pa)	3.87	4.42	4.52
3 years (pa)	3.21	3.76	3.97
5 years (pa)	3.05	3.60	4.09

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 December 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 31 Dec 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 bond yields rose at the long-end curves steepened during the fourth quarter of 2019. This was alongside optimism over a Sino-US trade agreement, which saw safe-haven demand for bonds dissipate into year-end. The deal saw tariffs slated for December suspended, the rollback of some existing tariffs, as well as the suspension of future increases. This overshadowed concerns over the impeachment of President Trump. Outside of geopolitics, the Fed cut its policy rate by 25bps to a lower bound of 1.50% in October, but subsequently downplayed future reductions leaving only one cut priced for 2020. On market movements, the US 2 year fell -5bps to 1.57% and the 10 year rose 25bps to 1.92%.

Fund performance

Over the quarter, the Fund returned 1.62% (pre-fee) outperforming its benchmark. In the alpha overlay, the Macro strategy contributed positively thanks to long EM exposure in December. The FX strategy also added value in the final month of the year from EM positions including USDBRL and USDKRW. Meanwhile the Cross-Market and Yield Curve strategies were roughly flat. Finally, the Duration strategy was a detractor from losses on positioning in the US and New Zealand that were partly offset by small gains in Australia and Europe.

Market outlook

Central banks played a great part in 2019 returns, which were to a large extent a result of the dire returns and market pressures experienced in 2018. To the extent that the same central bank generosity cannot be replayed without a similar if not worse episode of market and economic stress, it would be overly optimistic to expect a 2020 that could beat 2019. In the bull case of a sustained rather than bounded economic lift that lasts through the year, the rise in yields would eventually compromise the longevity of such a recovery. The weight of the world's debt load is such that there is very limited tolerance for any meaningful rise in yields. In the case where Chinese stimulus continues to be modest, inwardly focused, and the inventory cycle is restored to neutral with no sustained rebound in business optimism, recession probabilities would start to rise again in the second half of 2020. Whilst the US-China agreement on "Phase 1" is certainly promising, we do not think it is a sufficient condition to ignite a new and sustained bout of global economic reflation on its own. With sequencing in mind, the portfolio currently continues to run only small net duration positions.

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

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