

Pendal Global Fixed Interest Fund

ARSN: 099 567 558

Bond, Income &
Defensive Strategies

June 2020

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 utilises 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.

Performance¹

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.02	0.03	0.21
3 months	0.37	0.50	0.68
FYTD	6.07	6.63	6.57
6 months	4.88	5.15	5.34
1 year (pa)	6.07	6.63	6.57
2 years (pa)	5.89	6.45	6.95
3 years (pa)	4.53	5.08	5.31
5 years (pa)	4.10	4.65	5.07

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 2020)

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 2020)	\$31 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 Costs³

Issuer fee ⁴	0.53% pa
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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 second quarter of 2020 has been overall very quiet for fixed income markets. This has been surprising given the chaos of March. US 10 year yields spent the quarter largely in a 0.6% to 0.8% range. Asian markets drifted higher in yield during the quarter as recovery from COVID-19 lockdowns was more advanced. European markets saw German yields drift higher but higher yielding markets rally as credit markets saw strong performance in the chase for yield.

The main theme for markets during the quarter was the grab for yield, also supported by strong equity markets. The focus of this was largely in investment grade and high yield credit, but anything with a decent spread to sovereign bonds was chased. Swap spreads also contracted as the anchoring of short rates saw paying across the globe dry up. Most credit indices have recovered the majority of their spread widening in March. Some spread markets are actually at tighter spreads than pre the COVID-19 crisis, with Australian banks and short dated semi government debt examples. Government support so needed in March is now actually driving spreads to the tightest levels in years.

Fund performance

Over the quarter, the fund slightly underperformed its benchmark by 0.18% (pre-fee) delivering a total return of 0.50%. In the alpha overlay, the duration and yield curve strategies detracted as our long duration positions across China and Australia was offset by some gains in NZ and US duration positions. Also producing a small negative contribution from small credit exposures as credit spreads widened in March due to concerns around the impact of Covid 19 on economic growth.

Market outlook

We expect markets to continue to be rangebound over the Northern Hemisphere summer. There are two opposing forces on markets at present. Positive economic data and optimism in equity markets will weigh on bond yields keep bonds. However central banks will remind investors they remain committed to keeping rates here for years into the future. As well output gaps remain very high and will not close for a number of years. We will continue to respect the range but prefer a bias to being long duration, as the road ahead will still have some major bumps.

As mentioned last month the key to the size of duration and in which markets has now switched to fiscal policy, not monetary policy. Governments who use fiscal policy aggressively will see their economies rebound the strongest. Those governments still held back by underlying fiscal conservatism will see the probabilities of a double dip recession next year increase. Of course the speed of a vaccine will play a part but given the uncertainty is not something we can time.

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

PENDAL

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Performance figures are calculated in accordance with the Financial Services Council (**FSC**) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.