PENDAL

Factsheet

Bond, Income & Defensive Strategies

December 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.01	0.03	0.08
3 months	-0.20	-0.07	0.03
FYTD	0.30	0.57	0.59
6 months	0.30	0.57	0.59
1 year (pa)	5.19	5.75	5.96
2 years (pa)	5.80	6.36	6.33
3 years (pa)	4.31	4.86	5.00
5 years (pa)	3.79	4.34	4.55

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 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 31 Dec 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 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 main theme of the December quarter was the very strong performance of risk markets. In the United States, the S&P500 rose 11.7% and the NASDAQ rose 15.4% whilst domestically the ASX 200 rose 13.3%. Risk sentiment was boosted following positive developments on the vaccine front against the coronavirus. Weighing on sentiment late was the discovery of a new strain of the virus and a surge in infection rates globally that have resulted in lockdowns in Europe and Japan weighing up whether to declare a state of emergency. Domestically state borders were shut following an initial outbreak in the northern beaches of Sydney (for some perspective – the US recorded 300k daily cases in early 2021). After many headlines over fiscal stimulus and whether it would actually occur President Trump finally approved the USD 2.3trn Covid-19 and government funding relief package late in the quarter. The nearer term focus turned to the run-off elections to be held in Georgia in early January. Currently the Republicans hold 50 seats in the senate with the Democrats holding 48 seats. Should the Democrats win the 2 run-off elections they will have control as Vice President elect Kamala Harris will act as a tie breaker. The UK and the EU finally reached an agreement over the UK's divorce on Christmas eve.

Short end yields were anchored by central banks on the quarter, with Australia the only country cutting rates further. Long end yields drifted around 25 basis points higher in the US, dragging a number of countries yields slightly higher. European and UK yields though we largely unchanged due to worsening health and economic outcomes. Real yields performed well globally as the strong risk on moves led to higher inflation expectations.

Overall, it continues to remain government action, both fiscal and monetary, driving markets. Keeping a close eye on these actions is proving more successful than monthly variances in economic data. Ultimately, the two will move back in line but that will be well into 2021. For now markets are distinctly glass half full, looking beyond current health and economic woes.

Fund performance

The Fund returned -0.07% (pre-fee) during the quarter underperforming its index by 0.10%.

Over the quarter, Duration was the biggest detractor from excess returns. Long positions in Australia and New Zealand front-end drove the bulk of underperformance. Other long duration positions in the US and Europe were generated flat to slightly negative returns. Within the Curve strategy, the Singapore flattener detracted as back-end rates sold-off in sympathy with yields across the rest of the world. In the FX strategy, a long in USDTWD cost the portfolio though losses here were more than offset by short USD v emerging market positions.

On the other side of the book, the Relative Value strategy added to portfolio returns as our long position in US real yield continued to deliver.

Market outlook

Risk markets should keep the strong December quarter going into 2021. The rollouts of vaccines and the usual buoyancy of a new government in the US will see cash being put to work. Zero cash rates are burning a hole in pockets and fear of missing out overtakes at times like this. Backing this is continue massive fiscal and monetary stimulus.

Against the tailwinds of government action will be the slow rebuild of confidence and activity after the terrible health and economic outcomes into year-end across the US and Europe. This will see data struggle to back up moves in the first half of 2021 and range trading should remain the best approach to markets. Long end bond yields may drift higher but as hikes are dragged forward there will be opportunities to be overweight duration as markets run ahead of central banks.

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

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