

## Pendal Fixed Interest Fund

ARSN: 089 939 542

## Factsheet

Bond, Income &  
Defensive Strategies

December 2020

### About the Fund

The Pendal Fixed Interest Fund (**Fund**) is an actively managed portfolio of primarily Australian fixed interest securities.

### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Composite 0+ Yr Index over the medium term. The return is expected to be comprised primarily of income. The suggested investment timeframe is three years or more.

### Investment Approach

This Fund is designed for investors who want income, diversification across a broad range of cash and fixed interest securities and are prepared to accept some variability of returns. The Fund aims to take advantage of investment opportunities primarily within the Australian fixed interest market by investing in a combination of Commonwealth-government, semi-government and corporate debt and short-term money market securities.

Pendal's investment process for fixed interest aims to add value through multiple strategies and investment research. Pendal seeks to generate excess returns through strategies including active security and sector selection, duration, yield curve and credit management. Our investment approach for credit management seeks to identify opportunities on a sector, issuer and security basis by incorporating top-down and bottom-up research. Top-down research includes analysis of economic and market data, along with macro credit fundamentals such as company earnings, balance sheet health, default rates and equity volatility. The bottom-up research includes analysis of earnings and cashflow volatility, balance sheet, business diversity, industry and valuation.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and 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 Strategies and Multi-Asset Strategies. The portfolio manager of the Fund is Amy Xie Patrick who has more than 16 years industry experience.

### 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.
- **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.

### Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.25	-0.21	-0.27
3 months	-0.07	0.06	-0.10
FYTD	1.12	1.38	0.92
6 months	1.12	1.38	0.92
1 year (pa)	5.65	6.18	4.48
2 years (pa)	6.34	6.88	5.86
3 years (pa)	5.49	6.02	5.42
5 years (pa)	4.18	4.70	4.56

The benchmark for this Fund has changed over time. The benchmark performance shown is that of the combined benchmarks that the fund has aimed to exceed over time.

### Sector allocation (as at 31 December 2020)

Government bonds	40.9%
Semi-Government bonds	20.9%
Corporate bonds	32.9%
Cash & other	5.3%

### Portfolio Statistics (as at 31 December 2020)

Yield to Maturity <sup>#</sup>	0.91%
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<sup>#</sup> The portfolio yield to maturity is an estimate of the fund's internal rate of return. It is calculated as the yield to maturity of all securities comprised in the benchmark at the relevant time (sourced from Bloomberg), plus our estimate of the weighted average traded margin over the swap rate for each of those securities based on observed market prices. The portfolio yield to maturity does not represent the actual return of the fund over any period.

### Other information

Fund size (as at 31 Dec 2020)	\$1,086 million
Date of inception	August 1992
Minimum investment	\$25,000
Buy-sell spread <sup>1</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>
Distribution frequency	Quarterly
APIR code	RFA0813AU

<sup>1</sup> 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<sup>2</sup>

Issuer fee <sup>3</sup>	0.50% pa
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<sup>2</sup> You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

<sup>3</sup> 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.

## Market review

The Reserve Bank of Australia (RBA) left monetary policy unchanged at its December meeting. In its accompanying statement, the RBA noted that the economic recovery in Australia is underway and that recent data had generally been better than expected. Employment and inflation remain the key focus, with the RBA not looking to increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur the RBA sees significant employment growth and a tight labour market being required. The RBA is not expecting to raise the cash rate for at least 3 years.

Third quarter gross domestic product (GDP) was released after the RBA meeting and exceeded market expectations. The economy expanded by 3.3% (against expectation of 2.5%) in the quarter, resulting in a contraction of 3.8% for the year ended 30th September 2020. The household savings ratio remains elevated at 18.9%, a slight fall from the 22.1% level recorded in the 2nd quarter data.

The NAB business survey reflected the best business conditions since the pandemic began in February, driven by strength particularly in retail, mining and wholesale. Improvement also occurred in the transport and finance, business and property sectors within the survey. The employment index however remains in negative territory.

In ratings action S&P downgraded New South Wales' credit rating by one notch to AA+ from AAA. Victoria had their rating downgraded by 2 notches from AAA to AA. The downgrades were not unexpected, although the 2 notches for Victoria was a surprise. TCV spreads widened by a modest 6bp to Government bonds, highlighting the cushioning impact of RBA QE and bank balance sheet buying.

Risk sentiment was again positive during the month and saw equity markets rally and credit spreads contract. The Australian dollar and the trade-weighted index were up 4.6% and 3.1% respectively. Bond yields again moved higher with the Australian 10 year bond yields ending the month 8 basis points higher in yield at 0.98%. This mirrored the move in US 10-year yields which ended the month at 0.92%.

The month of December finished the year off a little stronger in credit markets.

Vaccine news and hope for improvements in 2021 supported the market with the UK becoming the first country in the world to approve the Pfizer/BioNTech covid-19 vaccine. The initial tiered rollout of vaccination started mid-month, ahead of the US and EU.

However, factors weighing on markets included the rising global infections, renewed lockdowns in Europe and reports of a new strain of the covid-19 virus, together with the unclear path of US stimulus negotiations.

The Australian iTraxx index (Series 34 contract) traded in a tight 4p range finishing the month 4bps tighter to +56bps. Physical credit spreads were also a little stronger narrowing 1bp on average. The best performing sectors were infrastructure, real estate and resources tightening 14, 12 & 10bps respectively. The worst performing sectors were domestic banks and supranationals widening 2 & 1bp respectively. Semi-government bonds tightened 1bp to commonwealth government bonds.

## Fund performance

The Fund outperformed its benchmark in December by 0.06% (pre-fee) returning -0.21% vs a benchmark return of -0.27%. The credit/Government bond component outperformed whilst the overlay was flat. The Fund made the gains from an overweight short end physical position as yields drifted away from Yield Curve Control targets early in the month only to drift back on solid RBA buying by mid-month.

The portfolio has a small overweight Australian duration position but focused around the 5yr point of the curve. We remain wary of long end moves into the new year given the strong risk on sentiment in markets in general.

The Enhanced Credit Fund returned 0.18% (pre-fee) and outperformed its benchmark over the month of December.

Enhanced Credit's portfolio performed strongly on the back of its overweight in Infrastructure and underweight in Supranationals. The Supra sector continues to struggle in the low yield environment during COVID. At the end of December this sector had a sector average spread of 22bp compared 48bp for the overall Bloomberg Non-Government Index.

## Market outlook

The massive economic moves of 2020 should begin to smooth out into 2021. The economy is expected to reach pre COVID size in the third quarter. Employment however is likely to take longer. Inflation will remain modest for the first half of 2021 but may pick up into year end. The RBA will maintain its cautious tone for 2021 and policy action is unlikely to change from current levels, with another round of QE expected to begin May.

Bond markets should remain supported for the early part of the year, despite buoyant risk markets. Curves have already steepened somewhat with long end yields now higher than pre COVID levels in Australia. As always, levels will be vulnerable to global moves but with short rates anchored for a number of years to come selloffs should only be modest.

We maintain our bullish view on credit markets on the back of significant global central bank and government support measures, positive vaccine news and a more conciliatory new US government.

With the high covid case numbers and concerns on the impact on the global economy, policy makers will remain in a 'whatever it takes mindset' and will continue to support economies from both fiscal and monetary stimulus perspectives. This support will be the main driver of markets going forward.

The news of effective covid vaccines with high efficacy is incredibly important for the improvement of global economic growth. Once the vaccines are distributed, the world will hopefully be able get back to normal, which will see a sharp recovery in economic growth supporting risk markets.

The Biden victory in the US elections is also positive for markets, as a Biden government should see an improvement in global trade talks moving away from the more aggressive Trump US-China trade wars.

The excess liquidity in the Australian system and attractive credit spreads against a very low cash and bond rates will continue to attract buyers to the sector supporting credit markets.

Continued policy measures should be supportive for risk assets, which leaves us with a constructive stance on credit markets.

For more information please call **1800 813 886**,  
contact your key account manager or visit [pendalgroup.com](http://pendalgroup.com)

**PENDAL**

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