

## Pendal Dynamic Income Fund

ARSN: 622 750 734

## Factsheet

Bond, Income &  
Defensive Strategies

December 2020

### About the Fund

The Pendal Dynamic Income Fund (**Fund**) is an actively managed portfolio of fixed income securities, Australian and global credit indices and emerging market sovereign issuers.

### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate by 2-3% p.a. over the medium term. The suggested investment timeframe is three years or more.

### Description of Fund

The Fund is designed for investors who seek income from a portfolio of fixed income securities across a range of market conditions and are prepared to accept some variability of returns.

The Fund is an actively managed portfolio that invests primarily in Australian issued investment grade corporate bonds\*. The Fund may also invest in Australian and global credit indices and emerging market sovereign issuers to provide portfolio diversification and enhance returns when we believe market conditions are supportive. The Fund also has the ability to decrease its allocation to credit and invest in cash and interest rate duration strategies when we expect volatility to increase.

Pendal uses a combination of quantitative modelling and qualitative research to construct the Fund's portfolio.

The Fund's portfolio is constructed using the following three step approach:

1. Generate investment themes through quantitative models
2. Reaffirm investment themes with qualitative research
3. Asset Allocation

### Investment Team

Pendal's Bond, Income & Defensive team comprises thirteen dedicated investment professionals with both global and domestic experience, invested across Income, Composite, Pure Alpha, Global and Australian Government strategies. 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 and 11 years at Pendal.

### Other Information

Fund size (as at 31 Dec 2020)	\$106 million
Date of inception	December 2017
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	BTA8657AU

<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.

### Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.48	0.53	0.01
3 months	2.73	2.87	0.04
6 months	3.94	4.23	0.10
1 year (pa)	2.17	2.73	0.32
2 years (pa)	4.31	4.82	0.75
Since Inception (pa)	3.45	3.87	1.01

### Asset Allocation (as at 31 December 2020)

Australian Credit	89.7%
Emerging Market Credit	22.2%
Cash	10.6%

Allocations may not add to 100% due to the use of derivatives to obtain credit exposure.

### Top 10 Issuer Exposure (as at 31 December 2020)

Macquarie Bank Limited	6.8%
National Australia Bank	6.3%
AusNet Services	4.8%
Bendigo And Adelaide Bank Ltd	3.9%
Ausgrid Finance Pty Ltd	3.8%
ConnectEast Finance Pty Ltd	3.7%
Pacific National Finance	3.6%
WSO FIN Westlink M7	3.2%
Nbn Co Limited	3.0%
SGSP Australia Assets	2.7%

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

Yield to Maturity*	1.10%
Average Australian Credit Rating	A

### Portfolio Characteristics

Benchmark	RBA Cash rate
Liquidity	Daily

### Management Costs<sup>2</sup>

Issuer fee <sup>3</sup>	0.55% p.a.
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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.

\*Corporate bonds held within the Fund are required to be rated investment grade at the time of investment. Downgraded securities can continue to be held up to 15% of the Fund (in aggregate). Investment grade bonds refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

† 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.

## 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 security.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Interest rate duration 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.
- **Emerging markets risk** – The risk of asset price volatility and higher currency, default and liquidity risk from investments in emerging markets
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.
- **Derivatives risk** – The risks 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

Australian investment grade credit and EM sovereign bonds rallied in December, aided by President Trump's unveiling of a new USD\$2.3 trillion stimulus bill. The package allayed concerns of a growth relapse as peaking economic trends stoked caution ahead of the holiday season.

Vaccine news and hope for improvements in 2021 further 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. China and Russia have also developed their own vaccines. China's Sinovac are running Phase 3 trials in Brazil, Indonesia, and Turkey while Russia's Sputnik V vaccine has been shown to demonstrate efficacy at a rate of 91%.

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.

Emerging market sovereign spreads continue to grind tighter as an improving economic backdrop saw higher beta countries such as Turkey, Brazil and Argentina outperform. Strength in commodities, buoyed by sequential improvements in global growth, furthered sentiment on emerging market front. Oil is trading near its pre-Covid levels while copper has climbed to its eight-year highs.

## Fund performance

The Fund returned a positive 0.53% (pre-fee) outperforming the cash benchmark of 0.01%. Both exposure to emerging market sovereign bonds and Australian corporate bonds generated positive returns.

Australian physical credit spreads was the biggest contributor with positions in infrastructure and real estate being the primary drivers of return over the month. Expectation that state lockdowns were ending sooner than expected saw a rotation into names that had been hurt by travel restrictions.

On the emerging market side, sovereign spreads rallied strongly in the opening weeks of December on the back of Trump's stimulus package. Following the announcement, we dialled back credit risk as spreads touched near pre-Covid lows.

The portfolio's duration exposure detracted from excess returns as market yields re-attempted to lift above their short term highs on the back of continued upgrades to growth and inflation. US and Australian 10-year treasuries climbed around seven basis points to 0.91% and 0.97% respectively. While the reflation theme dominated moves in the opening weeks of December, it lost steam in the latter half as guidance from key central banks reaffirmed their dovish commitments, allowing the portfolio to claw back some performance.

## Outlook

We maintain our bullish view on investment grade credit and emerging market (EM) sovereign debt on the back of significant global stimulus measures, positive vaccine news and potentially a more collaborative US government.

With mounting Covid case numbers and concerns around its impact on growth, policymakers will remain in a 'whatever it takes' mindset and continue to prop up households and small businesses with fiscal and monetary accommodation. This support will be the primary driver of risk assets going forward.

The breakthrough of effective Covid vaccines is also pivotal for the improvement of global economic growth. Despite logistical concerns expectations are that once the vaccines are distributed the world will revert back to trend.

Last, the Biden victory offers another tailwind for risk, not only because of the expectation of added stimulus, but also because it resets the geopolitical paradigm of the last four years. The new administration is likely to see a withdrawal of trade tensions and thus risk premiums for a number of emerging economies.

Overall, excess liquidity in the global system and attractive credit spreads relative to near zero cash and bond rates will continue to attract buyers towards yield, supporting credit and EM sovereign markets.

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

**PENDAL**

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