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

Equity markets continued their move higher in December. In the United States, the S&P500 rose 3.7%, resulting in an annual gain of 16.3%. The NASDAQ performed even better, rising 5.7% in December and by 43.6% over 2020. Bond yields had small rises, with US 10 year bond moving from 0.85% to 0.91%.

Along with the ongoing COVID-19 and vaccines news, fiscal stimulus packages in the United States and ongoing Brexit discussions dominated offshore headlines during the month. President Trump approved the USD 2.3trn Covid-19 and government funding relief package late in the month. All eyes now turn 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.

The Federal Reserve left the Fed Funds rate unchanged at 0-0.25% although did provide new guidance on the timeline for tapering asset purchases. The Federal Reserve stated that it would continue to increase its asset holdings at the current rate until substantial further progress has been made towards the Committee's maximum employment and price stability goals. Previously the Fed stated that it would maintain its asset purchases over the coming months.

The European Central Bank (ECB) expanded its Pandemic Emergency Purchase Program (PEPP) by EUR 500bn at its December meeting, taking the size of the program to EUR 1.85trn in total. The duration of the program has also been extended, to March 2022, although ECB President Lagarde stated that the full size of the program might not be deployed if conditions improve more quickly than expected. The ECB also provided further policy accommodation via expanding and extending the third series of their targeted longer-term refinancing operations (TLTRO III) and introducing the pandemic emergency longer-term refinancing operations (PELTROs). Inflation forecasts were revised down, with the ECB now seeing inflation at 1.1% in 2022 and 1.4% in 2023.

Fund performance

The Fund returned 0.03% (pre-fee) for the month of December, underperforming its benchmark, which generated 0.08%.

Over the month, the FX, Relative Value and the Yield Curve strategies added to performance, and the Duration strategy detracted while the Cross Market and Macro strategies were roughly flat.

The duration strategy detracted this month. Our long duration bias was maintained over the month. Most of the losses were from the long duration positions in the Australian front end. To a lesser extent the long positions in the New Zealand front end also contributed to losses. In other developed markets, we had long duration positions in the European long end and the US along the curve, with all positions ended the month flat on performance. In the emerging markets, however, our long duration in China added to performance whilst the long position in Korean front end was roughly flat for the month. As of the month end, we kept all our long duration positions in the various markets.

The FX strategy performed well and added to performance over the month. We kept long CNH and INR against short TWD while the net USD exposure kept small. Gains were made in CNH and INR positions. The Macro strategy was roughly flat to performance this month. We remain long Australian credit via selling protection position in the iTraxx Australia contract.

The Cross-Market strategy was largely flat this month. Gains were made in the systematic trades, in which the short NZD leg continue to perform well, while other legs were roughly flat on performance. In the month we initiated a new position long Australia against short US with a slightly positive performance for the month. On the flip side, the receiving USD and paying KRW long end trade detracted with most of the losses contributed by the USD leg.

The Yield Curve strategy contributed to performance this month. All gains were from the steepening position in Korea, which was opened last month.

The Relative Value strategy added to performance over the month. Gains were from the receiving real yield position in the US. The gains were partially offset by the losses from the buy protection in Brazil CDS against CDX EM index.

Market outlook

Global markets have spent the second half of 2020 choosing to adopt a glass half full approach to the COVID crisis. Central bank actions not only stabilised markets but together with government stimulus created strong risk on rallies. However health outcomes have worsened with only rollout of vaccines helping optimists look beyond current lockdowns and crisis in the US, UK and Europe. China has also played a part in the risk on moves, as its economy is larger now than pre COVID.

The next few months are likely to see range-trading markets as economic data stays weak but vaccine rollouts create a more positive tone. In a number of markets, forward cash levels beyond the next three years are already factoring in modest rate hikes, despite central bank rhetoric and forecasts suggesting no changes. For now, the opposing forces should largely cancel each out.

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

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