

### Pendal Pure Alpha Fixed Income Fund

ARSN: 161 859 936

Bond, Income &  
Defensive Strategies

December 2020

#### About the Fund

The Pendal Pure Alpha Fixed Income Fund (**Fund**) aims to generate positive returns across a range of market conditions, with a low correlation to equity and bond markets by investing in fixed interest, credit and foreign exchange markets.

#### Investment Return Objective

The Fund aims to provide a total return (after fees, costs and taxes applicable to the Fund) that exceeds the Bloomberg AusBond Bank Bill Index by 2 – 4% per annum, over the medium term. The suggested investment period is 3 years or more.

#### How the Fund is managed

The Fund is intended for investors who want the potential for positive returns across a range of market conditions, with a low correlation to equity and bond markets. The Fund aims to generate its returns by investing in fixed interest, credit and foreign exchange markets in Australia and globally.

The Fund invests primarily in Australia and New Zealand but may also invest in other countries and currencies. The Fund predominantly uses derivatives including swaps, options, futures and forwards to achieve its investment exposures.

Pendal's investment philosophy for the Fund aims to identify and exploit inefficiencies through an active investment approach. The Fund takes advantage of investment opportunities based on our assessment of major economic themes and/or financial markets which we consider to be mispriced.

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

1. Generate investment views through quantitative models
2. Reaffirm investment view with qualitative research
3. Active risk management.

#### Investment Team

Pendal's Bond, Income & Defensive team includes fifteen dedicated investment professionals. The portfolio manager of the Fund is Amy Xie Patrick who has more than 16 years industry experience.

#### Management Costs

Issuer fee <sup>2</sup>	0.70% pa
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<sup>1</sup> You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

<sup>2</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.

#### Other Information

Fund size (as at 31 Dec 2020)	\$101 million
Date of inception	December 2012
Minimum investment	\$25,000
Buy-sell spread <sup>3</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	BTA0441AU

<sup>3</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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.19	-0.13	0.00
3 months	-0.84	-0.67	0.02
6 months	-0.84	-0.49	0.05
1 year (pa)	0.57	1.28	0.37
2 years (pa)	0.91	1.61	0.93
3 years (pa)	0.60	1.30	1.26
5 years (pa)	-0.10	0.60	1.52

#### Growth of \$10,000 since inception (distributions reinvested)



#### Asset classes\* & modified duration

		Contribution to Modified duration
<b>Fixed Interest*</b>		
- Treasury	2.82%	6.84 yrs
- Semi-government	0.00%	-
- Corporate	9.78%	-
<b>Cash &amp; equivalents*</b>	87.28%	0.20 yrs
<b>Currency*</b>	0.14%	-

\* As derivatives are used to gain exposure to the various asset classes, this may result in the Fund's underlying exposures being more than 100%.

#### Currency Exposure

USD	0.27%	CAD	0.07%
EUR	0.13%	AUD	98.74%
GBP	0.19%	NZD	0.06%
JPY	0.20%	Other	0.33%

#### Risk Metric

	Portfolio	Benchmark
Portfolio duration (yrs)	7.03	0.12
Credit duration (yrs)	0.73	-

#### Portfolio Statistics (since inception)

Annualised Volatility	0.44%
% positive months	52.1%
Maximum drawdown	-8.9%

## 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.
- **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.
- **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.
- **Leverage risk** - The risk arising from the Fund borrowing (where permitted) or using derivatives which can magnify potential gains and losses.
- **Key person risk** - The risk that the Fund's investment performance or ability to remain open to investors is adversely impacted due to the loss of key individuals who are integral to the Fund's operation.
- **Strategy risk** - The risk that the strategies employed by the Fund may prove to be incorrect or ill-timed resulting in losses in the Fund.
- **Regulatory risk** - The risk that a change in laws and regulations governing an investment or financial markets could have an adverse impact on an investment.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

## Fund manager's commentary

Major equity indices closed the year on a high, 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. Continued rollout of the coronavirus vaccine further buoyed sentiment with UK and US regulators authorising use of the AstraZeneca and Pfizer inoculations respectively. However, delays in distribution as well as discovery of a new, more infectious strain of the Covid virus tempered optimism towards the end of the month.

In the rates space, developed market yields re-attempted to lift above their short-term highs as upgrades to growth and inflation led some to bring forward the expected date of tapering. US and Australian 10-year treasuries climbed around seven basis points to 0.91% and 0.97% respectively while New Zealand long end sold off 14 basis points to just shy of 1%. 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.

In the US the FOMC decided to maintain their pace of quantitative easing and highlighted that monetary accommodation would persist "until substantial further progress has been made" towards employment and price stability. In Japan, the BoJ left policy rates unchanged but extended aid to pandemic-stricken sectors of the economy by a further six months. Similar language was echoed by the RBA as Governor Lowe reasserted policy settings from November i.e. the Board needs to see significant improvement in employment and wage growth before a pivot away from the current regime.

While our long duration positions detracted from relative performance, we remain advocates of being overweight in bonds. Policymakers today need to achieve passing grades across an expanded macroeconomic scorecard before monetary support is withdrawn. Even with a vaccine in train, this will be an ambitious hurdle in the near term. At the moment, we see an unevenness to the recovery with small businesses – the bedrock of domestic employment – lagging. Owners here remain unwilling to expand amid an ailing service sector and uncertainty around future lockdowns. The benchmark to tightening policy has also been raised with the Fed moving to average-inflation targeting and,

domestically the RBA needing to see actual, not forecast, inflation to sustainably be within their 2-3% band.

Elsewhere, our emerging market positions continued to pay dividends with our short US Dollar against Asian FX bias contributing to alpha over the month. The relative containment of the virus throughout the Greater China zone plus the acceleration of 5G technology has seen a material pick-up in regional manufacturing and exports momentum. We expect this theme to deliver throughout 2021.

Moving ahead we anticipate risk-assets to trade more cautiously as people take note of the speed and intensity to which global economies are expected to emerge out of recession and reassess the likelihood of breaking new market highs. Indeed, the combination of fiscal and monetary action will likely anchor volatility as it has done in 2020, though we resist the urge to abandon diversification given how far equity and credit indices have come. We expect a few difficult months ahead as people evaluate the efficacy of the new vaccines and the potential negatives that arise should the medications fail to deliver.

This month the Bloomberg Bank Bill index returned 0bp, while the portfolio underperformed the benchmark by 13bps (pre-fee). 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 portfolio risk level started at 13 risk units and continued to decline to 8 units by the end of the month.

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 is 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.

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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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.

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