

### Pendal Monthly Income Plus Fund

ARSN: 137 707 996

Bond, Income & Defensive Strategies

January 2021

#### About the Fund

The Pendal Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

#### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

#### Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

#### Investment Process

Pendal's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

#### Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

#### Management costs<sup>1</sup>

Issuer fee <sup>2</sup>	0.65% pa
-------------------------	----------

<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.

#### 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

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.22	-0.16	0.01
3 months	1.53	1.70	0.03
FYTD	2.70	3.10	0.11
6 months	2.16	2.49	0.09
1 year (pa)	-0.30	0.35	0.27
3 years (pa)	3.47	4.15	0.96
5 years (pa)	3.92	4.59	1.22

Benchmark: RBA Cash Rate

#### Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/01/2021	0.07	31/07/2020	0.07
31/12/2020	0.07	30/06/2020	*1.505
30/11/2020	0.07	31/05/2020	0.25
31/10/2020	0.07	30/04/2020	0.20
30/09/2020	0.07	29/02/2020	0.16
31/08/2020	0.07	31/01/2020	0.16

\* Distribution is large due to year end distribution.

#### Sector Allocation (as at 31 January 2021)

Government bonds	3.6%
Semi-Government bonds	2.1%
Corporate bonds	59.1%
Mortgage backed	1.6%
Asset backed	0.4%
Australian shares	18.4%
Cash & other	14.8%

#### Portfolio Statistics (as at 31 January 2021)

Yield to Maturity <sup>3</sup>	0.56%
--------------------------------	-------

<sup>3</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 Jan 2021)	\$579 million
Date of inception	July 2009
Minimum investment	\$25,000
Buy-sell spread <sup>4</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>
Distribution frequency	Monthly
APIR code	BTA0318AU

<sup>4</sup> The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

## 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.
- **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

Credit market performance was mixed in January.

The US Democrats unexpectedly secured both senate seats in the Georgia runoffs. The blue sweep with Democrats control of both houses of Congress as well as the Presidency should see greater fiscal stimulus, which is supportive for risk markets. The market expectation is that any new US banking regulation and higher taxes will take a backseat for now whilst the effects of covid-19 remain.

The Biden drive to roll out vaccines is also a positive as it will trigger pent up demand leading to strong economic growth and earnings growth.

Global new cases of Covid are improving, reflecting the impact of lockdowns, but may be sustained as the effects of immunising the most vulnerable kicks in.

Also supporting markets was FED Chair Powell's comments pushing back on tapering and allowing inflation to overshoot 2% for some time. He said, "This is not the time to think about exit" and that the FED "are strongly committed to our framework and using our monetary policy tools until the job is well and truly done". Powell noted that the FED would not hike unless they see troubling inflation and imbalances.

Late in the month, risk markets sold off in what started out as Reddit retail investor social media forum which saw a frenzy of buying US companies (eg GameStop) that had large short positions. This triggered a short squeeze, leading to hedge funds (who had the short positions) losing money and having to de-leverage, forcing the selling of other long stock market positions.

The Australian iTraxx index (Series 34 contract) traded in a 8bp range finishing the month 7bps wider to +63bps. Whereas physical credit spreads performed well tightening 3bp on average. The best performing sectors were offshore banks, infrastructure and real estate tightening 7, 7 & 6bps respectively. The worst performing sectors were domestic banks and telcos that both only narrowed 2bps. Semi-government bonds tightened 3bp to commonwealth government bonds.

## Fund Performance

The Fund delivered a small negative return of -0.16% (pre-fee) over January. The key drivers was small negative active returns from Australian equity strategy and our duration, which dragged down returns from our credit strategy. Australian Equities market returned a small positive however, negative stock selection detracted which saw a total negative return for the month. Concerns around rising inflation due to increase fiscal stimulus out of the US combined with higher growth prospects as the successful rollout of the vaccine started in UK, Europe and the US saw bond yields rise over the month causing losses for our interest rate duration and government bond exposures. Credit markets were positive with our overweight Infrastructure positioning benefiting from a small rally in their spreads.

The fund continued to hold its more risk on allocation with equities at 19% as we use the positive momentum in equities to increase to our highest weight possible at the moment, with the volatility signal still on so the last 6% exposure won't be entered until mid-2020 at best. We continue to hold 6% to Government bonds still, with the remainder in cash (15%) and Australian Credit at 61%.

## Outlook

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

Whilst covid continues to impact global economic growth, 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 a significant factor driving markets going forward.

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. A risk to markets lies with the efficacy of vaccines going forward.

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 financial system and attractive credit spreads against a very low cash and bond rates will continue to attract buyers to the sector supporting credit markets.

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

**PENDAL**

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Monthly Income Plus Fund (Fund) ARSN: 137 707 996. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1800 813 886 or visiting [www.pentalgroup.com](http://www.pentalgroup.com). You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

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.