PENDAL

Factsheet

Income & Fixed Interest Strategies

April 2018

Pendal Government Bond Fund

Previously known as 'BT Government Bond Fund'

ARSN: 098 011 048

About the Fund

The Pendal Government Bond Fund (**Fund**) is an actively managed portfolio of predominantly government securities which aims to take advantage of investment opportunities within debt markets.

Fund Objective

The Fund aims to provide a return (before fees and expenses) that exceeds the Bloomberg AusBond Govt 0+ Yr Index by 1.0% p.a. over a rolling 3 year period. The suggested investment timeframe is three years or more.

Investment Strategy

The Fund is actively managed and aims to take advantage of investment opportunities within debt markets. The Fund invests predominantly in government securities which may include Commonwealth Government bonds, Semi-Government bonds, Corporate bonds (Government guaranteed), Foreign Sovereign bonds and Supranational bonds.

Pendal utilises an alpha/beta separation approach for managing the Fund. The beta process aims to gain benchmark returns through a physical portfolio which is optimised to replicate the benchmark index while the alpha process aims to generate excess returns through a portfolio of low correlated positions which can be valued and traded easily.

Pendal's investment process is focused on generating consistent risk-adjusted returns and this is achieved by having a disciplined risk management framework which is aimed at minimising downside risk.

Sector and security selection, duration management and portfolio construction are expected to be the main contributors to performance.

Derivatives such as futures, swaps and options may be used where appropriate. Any international currency and interest rate exposures will be hedged back to the Australian Dollar to the extent considered reasonably practicable.

Investment Team

Pendal's Income and Fixed Interest team includes thirteen 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 Income & Fixed Interest who has more than 24 years industry experience.

Other Information

Fund size (as at 30 Apr 2018)	$974 million
Date of inception	July 1992
Minimum investment	$500,000
Buy-sell spread[1]	0.06% (0.03%/0.03%)
Distribution frequency	Quarterly
APIR code	BTA0111AU

[1] 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	-0.42	-0.39	-0.44
3 months	0.72	0.80	0.82
FYTD	1.65	1.92	1.69
6 months	0.70	0.86	0.80
1 year (pa)	2.05	2.38	1.91
2 years (pa)	2.05	2.38	2.08
3 years (pa)	2.30	2.63	2.54
5 years (pa)	3.57	3.90	3.77

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.

Breakdown of total value add by strategy (%)

Relative value	2%
Sector	0%
Yield Curve	14%
Beta Drift	52%
Cross-Market	5%
Duration	27%

Sector Allocation (as at 30 April 2018)

Government bonds	64.8%
Semi-Government bonds	26.1%
Cash & other	9.1%

Portfolio Characteristics (as at 30 April 2018)

Duration	5.68 years
Information Ratio (1 Yr)	1.89
Tracking Error	0.25%

Management Costs[2]

Issuer fee[3]	0.32% pa

[2] You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

[3] 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 security.
- **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.
- **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.
- **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 Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Australian bond yields followed their US counterparts higher in April with the US 10 year yield briefly breaking the 3.00% level for the first time in four years. This was tied to several reasons including continued Fed hike expectations supported by solid economic data, as well as an improvement in broader risk appetite. The BBSW-OIS spread widening that had dominated cash market discussions in prior months appeared less concerning to the market in April. The spread on the 3 month maturity widened from 53bp to a high of 58bp mid-month, but retraced to end higher by only 1bp at a still-elevated 54bps.

The Reserve Bank left rates unchanged for the 18th consecutive month and issued a relatively unchanged statement. Market pricing has the first rate hike fully priced in by August 2019. During the month Governor Lowe warned that an eventual increase may be a surprise to many, who have not seen a hike in more than seven years.

The RBA's preferred measure of CPI, the trimmed-mean, rose 0.5% quarter-on-quarter, which brought the year-on-year rate to 1.9% - still below the targeted 2-3% range. Other domestic data was mixed. At the weaker end; employment rose by only 4.9K, business confidence and consumer confidence both fell, as did business conditions (albeit from a record high). This was in contrast to retail sales, which posted a solid 0.6% increase.

Looking abroad, market sentiment was buoyed by fading trade war concerns, positive progress on the Korean peninsula and a strong US first quarter earnings season. In terms of US economic data, first quarter GDP rose an annualised 2.3%, which was a decline from the previous quarter but still received positively by the market. Meanwhile, leading indicators were reasonable with the ISM Manufacturing gauge at 59.3 (from a peak of 60.8 in the prior month) and Retail Sales gaining 0.6% after a period of previous weakness. On the inflation front, Core PCE rose 0.2% for the month and FOMC communication suggested confidence on both the growth and inflation outlook.

In the Eurozone, Core CPI rose a more modest 1.0% and the ECB left its policy measures as well as its forward guidance unchanged. Data was mixed, with the Composite PMI stable, but only marginal gains in other leading indicators like retail sales and consumer confidence.

In Asia, the PBOC's Reserve Ratio Requirement cut of 1% made headlines and was interpreted as greater potential for credit growth. President Xi's announcement of opening trade and investment barriers mid-month was also perceived as a positive. Data from the Asian giant revealed a moderate, albeit relatively stable growth rate at 6.8% year-on-year.

Turning to market movements, the Australian 3 year yield rose 7bp to 2.18% and the 10 year gained 16bp to 2.77%. In the money market space, 90 day BBSW added 1bp to 2.04%. In the US, the 2 year yield climbed 22bp to 2.49% and the 10 year rose 21bp to 2.95%. Beyond rates, the Australian Dollar erased an early gain against the greenback to finish lower by 1.6% on broad US Dollar strength and soft Australian inflation data. In the commodities space, news was dominated by US sanctions on Russian producers, which in turn sparked a 13.7% rally in Aluminium. Crude oil also finished higher (WTI +5.7%) as speculation over supply disruption risks persisted.

Fund performance and activity

The Fund outperformed its benchmark over the month of April. In the alpha component, the Duration strategy contributed to returns via positions in the 10 and 3 year parts of the Australian curve. Meanwhile, the Relative Value strategy detracted due to a swap versus futures position in the 3 year maturity. Finally, the physical outperformed its benchmark.

Outlook

The Reserve Bank's Statement on Monetary Policy is next due to be released in early May. In their previous Statement the Reserve Bank forecast annual underlying inflation to be at 1.75% for 2018 before rising to 2% for the year ended June 2019. These forecasts do not imply any near term policy tightening from the Reserve Bank. Any revision to the inflation forecasts could see the market bring forward their expectation for the timing of the next move from the Reserve Bank. The Reserve Bank have however continued to talk down the prospect of any near term policy tightening and appear to be on hold for the remainder of 2018. Bank funding costs have increased in recent months. Should funding costs remain elevated some tightening may occur for households and businesses if banks choose to pass on higher costs.

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

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