

## Changes to buy-sell spreads

March 20 2020

### What is the change?

From March 18, 2020 Pendal has increased the buy-sell spread on a number of fixed interest funds. The spread comprises a buy spread (applied on application) and a sell spread (applied on withdrawal). This increase is related to the sell spread - the costs involved in selling the underlying securities to fund a withdrawal.

The list of impacted funds can be found at: <https://www.pendalgroup.com/education-and-resources/changes-to-fund-buy-sell-spread-2/>

### Why are we making this change?

Due to the impacts of COVID-19, investment markets have experienced substantial increases in volatility and substantially-reduced liquidity in some markets, resulting in increases in trading costs in fixed income markets.

### Will the buy-sell spread change again?

Pendal will continue to monitor market conditions for the impacted funds on a daily basis and update the buy-sell spread as required. You should therefore review the current buy-sell spread information before making a decision to invest or withdraw from an impacted fund. Should the markets stabilise the increased spread will reduce back towards previous levels.

Please refer to our website [www.pendalgroup.com](http://www.pendalgroup.com). Click 'Products' for any of the Fund's latest buy-sell spread.

### Is there a problem with the underlying securities?

The liquidity issue involves Australian-issued investment grade corporate bonds. The change in buy-sell spread does not reflect a deterioration in the credit quality of these assets. Specifically there has been no change to the average credit ratings of the portfolios.

## What is a buy-sell spread?

The buy-sell spread is an additional cost to investors and is generally incurred whenever they invest in the Fund. The buy-sell spread is retained by the Fund (**it is not a fee paid to Pandal**) and represents a contribution to the transaction costs incurred by the Fund such as brokerage and stamp duty, when the Fund is purchasing and selling assets. The buy-sell spread also reflects the market impact of buying and selling the underlying securities in the market.

Importantly, the buy-sell spread **helps to ensure different unit holders are being treated fairly** by attributing the costs of trading securities to those unit holders who are buying and selling units in the Fund.

## How is it calculated?

The method we have used to calculate the spread reflects the costs of trading in the underlying securities of the entire portfolio. Brokerage and taxes are easily identified. Market impact, or the cost of liquidity, is driven by market conditions and the level of expected cash flows.

When assessing market conditions we look at the spread of prices quoted in the market for the relevant securities. To provide some sense of the magnitude of change in liquidity we have been observing, generally the bid/offer spread we would receive to trade AA senior bank paper with a 1-year term is 2bp. Last week they were 10bp and on Monday this week they moved to around 60bp (and this is magnified for longer duration bonds). We are monitoring these spreads daily and where appropriate will reflect movements in the buy-sell spreads for the relevant funds.

## When is a buy-sell spread typically paid?

Investors typically see the impact of both the buy spread and the sell spread when they first invest given the market practice of valuing units at the redemption price. This is why the term buy-sell spread is often used. Until an investor actually redeems, the sell spread is not realised for that investor.

## How does this impact the returns?

Fund returns are typically calculated using redemption prices, so any change to the sell spread will impact returns. Any increase in sell spread will reduce the published return, while any reduction in spread will increase the return.

For more information contact your  
key account manager or visit [pandalgroup.com](https://pandalgroup.com)

**PENDAL**

This document has been prepared by Pandal Funds Services Limited (Pandal) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at 19 March 2020. It is not to be published, or otherwise made available to any person other than the party to whom it is provided. This document 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 document 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 document is complete and correct, to the maximum extent permitted by law neither Pandal nor any company in the Pandal Group accepts any responsibility or liability for the accuracy or completeness of this information.