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AUSTRALIAN UNIT TRUST PORTFOLIO UPDATE

T. Rowe Price Dynamic Global Bond Fund – S Class

As of 31 October 2020

Portfolio Manager:
Arif Husain

Joined Firm:
2013

Investment Experience:
24 Years

INVESTMENT OBJECTIVE

The Fund's objective is to maximise total return and provide income through investment primarily in a portfolio of fixed income securities which may include, but is not limited to, transferable debt securities of government and their agencies, supranational organisations, corporations and banks as well as mortgage-backed and asset-backed securities. There are no restrictions on the sectors or countries in which bond issuers are located.

TOP 10 ISSUE EXPOSURE[1]

	Maturity Date	% of Fund
United Kingdom Gilt	07 Dec 2030	8.2
U.S. Treasury Bonds	15 Feb 2030	7.9
Japan Government Twenty Year Bond	20 Sep 2022	4.5
Philippine Government International Bond	26 Nov 2022	4.0
Japan Government Two Year Bond	01 Oct 2022	3.6
Indonesia Treasury Bond	15 May 2029	3.4
Korea Treasury Bond	10 Mar 2024	3.1
Romania Government Bond	12 Feb 2029	2.4
Bonos de la Tesoreria de la Republica en pesos	01 Mar 2026	2.3
Thailand Government Bond	12 Mar 2028	2.1

SECTOR DIVERSIFICATION

	% of Fund
Treasury & Quasi Treasury	64.07
Corporate (including High Yield)	20.14
Securitized	7.02
Equity related	1.23
Cash & Cash Equivalents	7.54

PORTFOLIO CHARACTERISTICS[1,2,3]

	Fund
Number of Holdings	131
Number of Countries	38
Weighted Average Maturity	5.94 Years
Weighted Average Effective Duration	1.46 Years
Weighted Average Spread Duration	-0.22 Years
Average Credit Quality	A
Yield to Maturity (including hedging)	1.25%

PERFORMANCE

	One Month	Three Months	Six Months	Year-To-Date	One Year	Annualised Since Share Class Inception
T. Rowe Price Dynamic Global Bond Fund – S Class (Net – AUD) *	0.33%	-0.44%	2.41%	6.24%	7.86%	3.42%
Bloomberg AusBond Bank Bill Index (AUD)	0.01	0.03	0.05	0.36	0.51	0.97
Value Added (Net)[4]	0.32	-0.47	2.36	5.88	7.35	2.45

Past performance is not a reliable indicator of future performance.

Source for performance: T. Rowe Price.

*Net-of-fees performance is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions.

Figures include changes in principal value. Investment return and principal value will vary, and an account may be worth more or less at termination than at inception. For further details, please refer to the Fund's Product Disclosure Statement and Reference Guide which are available from Equity Trustees or TRPAU.

[1]Issuer exposure is derived using the portfolio's direct holdings and does not take into account derivative exposure. Consult the portfolio holdings report for a listing of all securities owned in the portfolio.

[2]Calculated using the portfolio's direct holdings plus exposure from derivative instruments.

[3]Calculated using the individual credit quality ratings for the direct holdings and without the impact from derivative instruments.

[4]The Value Added is shown as the Fund (Net) minus its Index.

BLOCK BOND ALLOCATION (ISSUE CURRENCY)[1]

	% of Fund
Europe	19.7
North America	31.6
Latin America	6.4
Pacific Ex Japan	22.2
Japan	8.1
Middle East & Africa	2.2
Reserves	10.0

CREDIT QUALITY DIVERSIFICATION[2]

	% of Fund
AAA	14.2
AA	8.5
A	12.6
BBB	25.3
BB	6.4
B	1.8
Not Rated	21.3
Reserves	10.0

FUND REVIEW

The portfolio's overall duration level was reduced significantly to end October at just over one year. This was driven mainly by cutting duration in high-quality countries due to our concerns around their ability to offer diversification in the current environment. Most notably, we moved from long duration stances to short positions in both the U.S. and Germany.

To further reflect our concerns, we opened a new short duration stance in France and moved both the UK and Canada down to modest negative positions. Our long exposure in Australia was also trimmed during October.

In the eurozone periphery, our overall positive bias was reduced as we closed the long position in Italy after strong performance. We kept our positive exposure in Cyprus in place, however.

Among other high-quality countries, we retained long positions in Israel, Thailand, Hong Kong, China, South Korea, and Malaysia. Elsewhere, we added a new positive exposure in Japan as a defensive hedge.

Within emerging market countries, we retained exposure in the local government bond markets of Chile, Indonesia, the Philippines, India, Romania, and Brazil. In terms of moves, we increased our long exposure in domestic Serbia and closed the long position in Russia. To help mitigate some of the risk associated with our "return-seeking" positions in emerging markets, we maintained short duration positions throughout in Poland and, to a lesser extent, the Czech Republic.

In the currency sphere, the short U.S. dollar bias was kept in place during October against a range of other high-quality currencies, including the euro, Japanese yen, and Australian dollar. In other moves, we added to the short position in the Taiwanese dollar.

Within emerging market currencies, we opened a new long position in the Russian ruble, which was largely offset by the initiation of a short position in the South African rand.

In sectors, the credit profile of the portfolio expressed a small negative position overall at the end of October. We held long positions in select corporate, securitized, and hard currency emerging market sovereign bonds and defensive short positions in synthetic credit instruments, primarily in the investment-grade space.

Put options on U.S. equities were adjusted following the sharp move seen around month-end.

PORTFOLIO PERFORMANCE

Within duration management, exposures to local currency government bond markets of specific emerging market countries boosted performance with India, Serbia, and Romania all adding gains. Allocations to the eurozone periphery countries of Italy and Cyprus also aided returns. These gains were partially offset, however, by losses from our positioning in high-quality countries. This included a long duration stance in the U.S. and a short duration position in Germany.

In the currency sphere, our positioning detracted overall owing to losses from short positions in the South Korean won and Taiwanese dollar and a long position in the Australian dollar. Long positions in the Japanese yen and Mexican peso added gains, however.

Within sectors, we benefited from both the correction in equity markets and the rapid increase in volatility thanks to our put option structure on U.S. equities. Our allocation to select European high yield and U.S. investment-grade corporate bonds also had a positive impact. A short position on hard currency emerging market credit risk detracted at the margin, however.

OUTLOOK

For much of the month, risk assets were supported by expectations around the outcome of the U.S. election until a rapid surge in cases of COVID-19 created volatility and a sell-off in both equity and credit markets in late October. Interestingly, government bond markets, such as U.S. Treasuries, failed to react to the turbulence, which cemented our view that the effectiveness of using duration as a diversifying tool had diminished. As a result, we reduced the duration in the portfolio.

In the currency sphere, the short bias in the U.S. dollar remained one of our biggest convictions in the portfolio. This was driven by our expectations that the Federal Reserve's ultra-accommodative stance and the likelihood of a slower U.S. economic recovery than peers could drive the dollar weaker over the medium term. At the end of October, most of our short U.S. dollar position was expressed against long positions in G-10 currencies.

Coronavirus cases continue to rise, which is leading to the reintroduction of lockdowns and restrictive measures in some countries. These developments have the potential to slow the global economic recovery, in our view. Elsewhere, we are monitoring closely the outcome of the U.S. election and whether a U.S. fiscal package can be agreed. Against this backdrop, we believe that it's important to stay flexible so we can adapt quickly to changes in market conditions and take advantage of any pricing anomalies and dislocations that might occur.

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[2]Calculated using the individual credit quality ratings for the direct holdings and without the impact from derivative instruments.

CONTACT US

For more information about the Fund, please contact our Relationship Management team on 02 8667 5700.

FUND INFORMATION

Minimum Investment Amount	$50,000 AUD
APIR	ETL2511AU
ARSN	167 869 561
ISIN	AU60ETL25110
Inception Date	22 January 2019
Benchmark	Bloomberg AusBond Bank Bill Index (AUD)
Management Fees	0.59% p.a.
Indirect Costs^	0.06% p.a.
Distribution	Quarterly
Buy/Sell	Buy +0.35% / Sell -0.35%

^Indirect costs are calculated and incorporate estimated amounts with reference to the relevant costs incurred during financial year ended 30 June 2019. Please refer to the Product Disclosure Statement for further details.
Full details of other fees and charges are available within the Fund's Product Disclosure Statement and Reference Guide.

ADDITIONAL DISCLOSURES

Unless indicated otherwise the source of all data is T. Rowe Price.

Weighted Average Maturity is an average of the maturities of the underlying bonds, with each bond's maturity weighted by the percentage of fund assets it represents. Weighted Average Effective Duration is a calculation that seeks to measure the price sensitivity of a bond fund to changes in interest rates. In general, the longer the average maturity or duration, the greater the fund's sensitivity to interest rates. Duration is a better indicator of price sensitivity because it takes into account the time value of cash flows.

T. Rowe Price uses a custom structure for sector and industry reporting for this product.

Sources for Credit Quality: Moody's Investors Service; if Moody's does not rate a security, then Standard & Poor's (S&P) is used as a secondary source. When available, T. Rowe Price will use Fitch for securities that are not rated by Moody's or S&P.

Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, all data is as of the report production date.

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