PENDAL

Factsheet

Income & Fixed Interest

30 June 2022

Pendal Monthly Income Plus Fund

ARSN: 137 707 996

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[1]

Issuer fee[2]	0.65% pa

[1] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[2] 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 Income & Fixed Interest team includes eight 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 portfolio manager of the Fund is Amy Xie Patrick who has more than 17 years industry experience.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-1.41	-1.35	0.06
3 months	-3.19	-3.03	0.10
FYTD	-4.44	-3.81	0.17
6 months	-4.61	-4.30	0.12
1 year (pa)	-4.44	-3.81	0.17
3 years (pa)	0.03	0.69	0.33
5 years (pa)	2.25	2.92	0.80

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
30/06/2022	1.0491*	31/12/2021	0.07
31/05/2022	0.15	30/11/2021	0.07
30/04/2022	0.10	31/10/2021	0.07
31/03/2022	0.07	30/09/2021	0.07
28/02/2022	0.07	31/08/2021	0.07
31/01/2022	0.07	31/07/2021	0.07

* Distribution is large due to year end distribution.

Sector Allocation (as at 30 June 2022)

Government bonds	0.0%
Semi-Government bonds	0.0%
Corporate bonds	51.4%
Mortgage backed	1.1%
Asset backed	0.0%
Australian shares	13.4%
Cash & other	34.1%

Portfolio Statistics (as at 30 June 2022)

Running Yield*	1.66%
Yield to Maturity#	1.99%
Modified duration	0.01 years
Credit spread duration	1.56 years
Weighted Average Maturity	1.70 years

* The portfolio running yield is calculated as the weighted average coupon rate of the physical portfolio assuming all securities are held at par or face value. Carry/interest income from synthetic positions are excluded from this calculation. Running yield does not reflect the actual income return of the portfolio.

\# 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 30 Jun 2022)	$549 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[4] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Monthly
APIR code	BTA0318AU

[4] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally 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

It is becoming increasingly apparent that central banks globally feel the need to prioritise the taming of inflation above all else. The hiking cycle is accelerating, including a 75 basis point hike this month from the US Fed, and a 50 basis point hike from our own RBA. In Europe, even though the ECB has yet to put in their first hike this cycle, debate is already heating up for whether the first move ought to be 50 rather than 25. The Bank of Canada stuck to a 50 basis point hike this month but is prepared to act "more forcefully" if needed to tame inflation. In the UK, soft and hard economic data continue to worsen, yet the Bank of England continued to hike by another 25 basis points whilst saying it was ready to act "forcefully" to stamp out dangers posed by higher inflation.

All this is, of course, not good news for risk assets. Credit spreads globally have continued to widen, with the beta picking up in high yield. Liquidity continues to worsen, in particular in Europe as they head into their summer breaks. For equity markets, despite the intra-month bear market rally, the S&P 500 index has fallen by over 8% this month, and over 21% since its peak at the end of 2021. The Australian iTraxx index (series 37) traded in a wide 37bp range finishing 35bps wider at 130bps. Australian physical credit spreads moved out a few basis points on average. The best performing sector was supranationals that tightened 1bp, whilst the worst performing sectors were utilities and industrials that widened 6 and 5bps respectively. Semi-government bonds also underperformed pushing out 14bps to commonwealth government bonds.

Yet it is not clear, despite such large drawdowns in risk assets, that recession or hard landing is in the price. Almost all of the fall in equity markets year-to-date can be attributed to the overall rise in yields. Earnings forecasts for the next 12 months have fallen from super normal levels to normal levels, which is far from synonymous with the building recession narrative in markets. Similarly, whilst credit spreads have moved higher along with overall bond yields, average yields on US BBB corporate bonds still fall far short of US nominal GDP. This is known as the Wicksellian spread and is indicative or still supportive financial conditions that foster a positive investment and business appetite in the economy.

Although bond yields fell in the second half of the month, they are still higher than at the start of the month. The fall has been driven almost entirely by falling breakevens, especially in the US, whereas real yields have remained stubbornly high. This is indicative of the market starting to believe that accelerating hiking cycles will be sufficient to tame inflation, but still believing in the soft-landing narrative weaved by the likes of Jay Powell.

Lastly, the one relatively bright spot globally seems to be China. Beijing's commitment to zero-COVID seems unwavering, but Xi Jingping's commitment to the 5.5% growth target was also reiterated this month. Even if aspirational, it speaks of the growing momentum of stimulus measures to come in China, likely in the form of more fiscal and credit stimulus rather than monetary easing. As a result, Chinese equity markets have gained almost 20% since its lows, contrary to the 20%+ falls witness in main developed markets. This is a tailwind for emerging markets, albeit also putting more inflationary pressures on global commodities for the remainder of the year.

Fund performance

The fund returned -1.35% (pre-fee) in June with losses contributed from equities, credit and duration.

Following the intensification of hiking cycles globally, including the RBA's 50 basis point hike early in the month, we reduced duration further for the MIP portfolio. However, the rise in yields earlier in the month, as well as the overall rise in yields from the start to the end of June led to loss contributions from the fund's overall duration positioning.

Australian credit spreads also continued to widen in sympathy with the global credit picture and deteriorating risk and liquidity sentiment. Over the past eight months, credit spread duration for the portfolio has been reduced by half a year. Although credit also contributed losses to the portfolio this month, the overall impact has been cushioned somewhat by the active risk management of the income engine. In terms of sectors, financials, utilities, real estate and industrials were a drag on performance. Activity during the month included reducing exposure to utilities.

The equities allocation for the portfolio spent the vast majority of the month at the minimum 8% allocation, but we lifted it slightly towards the end of the month as the bounce in risk assets globally created sufficient momentum for the Moving Average Cross model to tip back into equities. However, noting the bearish backdrop, we only added back half of the 11% attributable to that model signal, which has helped to cushion the extent of losses from the equities allocation into the final trading days of the month.

In coming months we expect to further reduce credit beta and look for opportunities to enhance the portfolio's income position. This is possible due to the extent we've protected the portfolio this year from the rise in yields. We anticipate the equities allocation to remain between 8 – 19% for now and still fairly low duration.

For more information please call **1300 346 821**,
contact your key account manager or visit **pendalgroup.com**