PENDAL

Factsheet

Income & Fixed Interest

31 July 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%

Fees and costs

You should refer to the latest Product Disclosure Statement for full details of the ongoing fees and costs that you may be charged.

Management fee[1]	0.65% pa

[1] This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

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		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.11	0.17	0.11
3 months	-1.96	-1.80	0.19
FYTD	0.11	0.17	0.11
6 months	-3.54	-3.23	0.22
1 year (pa)	-4.82	-4.20	0.27
3 years (pa)	-0.32	0.33	0.34
5 years (pa)	2.16	2.83	0.79

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/07/2022	0.07	31/01/2022	0.07
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

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 July 2022)

Government bonds	0.0%
Semi-Government bonds	0.0%
Corporate bonds	52.6%
Mortgage backed	1.1%
Asset backed	0.0%
Australian shares	13.6%
Cash & other	32.7%

Portfolio Statistics (as at 31 July 2022)

Yield to Maturity#	2.47%
Running Yield*	1.02%
Modified duration	0.71 years
Credit spread duration	1.56 years
Weighted Average Maturity	1.70 years

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.

* 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.

Other Information

Fund size (as at 31 Jul 2022)	$551 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Monthly
APIR code	BTA0318AU

[2] 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

With recession risks bearing down, confidence that central banks will stay exclusively focused on inflation risks is faltering. While a 75 basis point increase to the Fed's policy rate reaffirmed their commitment to price stability, comments around a weak consumer and softening business demand opened the door to a pivot down the track. A similar tone was echoed in the UK and Europe as respective central banks maintained one eye on the economy and the other locked firmly on inflation expectations.

On paper, this juggling act appears in fine balance. Global labour markets are tight and hiring challenges create strong incentive for businesses to minimise layoffs. Furthermore, participation rate remains below pre COVID levels and the lack of internal labour mobility will see shortages persist, at least in the near term. Taken together, jobless expectations seem set to be muted, clearing the way for further rates hikes.

However, in reality, the Fed's base case scenario of a soft landing is becoming ever more distant. A disappointing US Q2 GDP report reveals that stubbornly high inflation and successive rate hikes have already combined to squeeze consumer wallets and bite into corporate capex. Residential investment has also fallen, contracting 14% annualised and cutting 0.7 percentage points off headline growth. While officials have dismissed this print as somewhat of a "fake" recession, leading indicators suggest the Q3 scorecard is unlikely to be much better. Although some remain hopeful that services spending would spur back into life, taking the baton off goods spending, this has yet to materialise. Corporate earnings forecasts, while better-than-expected, reveal that Q2 headwinds would only continue into the second half of this year.

Seeing confirmation that the Fed has not only cut into fat but also muscle, if not bone, has seen bond yields retrace around 40 to 50 basis points across the curve. Much of the rally occurred in the real yield space with breakevens moving the other way. This disconnect highlights our ongoing belief that even if the central bankers brought down demand-driven inflation, supply-side forces would persist longer than expected. China's Zero-Covid policy, the war in Ukraine, skills shortages and logistic bottlenecks continue to present challenges to normalisation. None are poised to rectify in the immediate future.

Elsewhere credit and equities overlooked fundamental cues from slowing activity numbers and rallied into the belief that the end in the hiking cycle was around the corner. For much of this year risk assets have struggled to gather steam as climbing bond yields dampened the attractiveness of future earnings. However, this took a pause in July with a perceived pivot by Powell flagging the possibility of slowing rate rises, supported by the arguably premature belief that inflation was being sufficiently tamed by recent policy actions. Australian iTraxx tightened by around 20 points while global equities rallied by at least 5% over the month.

Fund performance and activity

The fund returned 0.17% (pre-fee) in July with losses from duration more than offset by gains from credit spreads and equity.

Following the release of bearish US data we began to add duration back into the portfolio. The portfolio entered the month with around a 0.5 year duration position. We had been running long duration previously and neutralised the duration via establishing a paid forward swap in Australia. During July we re-established a long duration position further out the curve which benefitted performance. The Australian market did however rally strongly this month and the paid hedge detracted from performance as Australian rates rallied significantly and outperformed their global peers.

Australian investment grade credit showed a bout of strength over the month as the aforementioned theme of bad macro news becoming good news dominated investor thinking. We retain a cautious foothold this space, around 1.5yrs credit spread duration, as it too early to call whether we have seen a bottom in markets or if this is another bear market rally. While from a technical point of view breadth and volumes do not indicate a sustainable turn, markets moving higher on bad news indicates positioning is stale and squeeze could continue. Longer term, bear markets don't tend to end until policy direction shifts, and it would be unusual to see markets bottom before the extent of any earnings recession is known.

In equities although our models had triggered for a higher weighting we decided to position with a partial exposure on the back of the above concerns to the global macro backdrop. We believe the market is slowly waking up to the realisation that the business cycle is morphing from mid-cycle maturity to late-cycle slump. Under this regime, it is difficult to see an end to the earnings downgrade cycle even if reporting season thus far shows the weakness itself isn't broad-based.

Similar to prior months, the outlook for both bonds and credit remains cloudy for a little while longer as the stagflation theme plays out across global markets. We anticipate duration towards the one to two year range with any additions likely towards the back-end of the curve. We also remain cautious of adding credit names and will likely maintain a qualitative override on increased equity exposure.

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