PENDAL

Factsheet

Income & Fixed Interest

31 July 2022

Pendal Sustainable Australian Fixed Interest Fund

Class W

ARSN: 612 664 730

About the Fund

The Pendal Sustainable Australian Fixed Interest Fund (**Fund**) is an actively managed portfolio of Australian fixed interest securities. Investments are selected based on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Composite 0+ Yr Index by 0.75% p.a. over rolling 3 year periods.

Description of Fund

The Fund offers investors access to a diversified portfolio of fixed interest securities and seeks exposure to issuers that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to issuers with activities that we consider to negatively impact the environment or society.

The Fund will not invest in issuers directly involved in either of the following activities:

- tobacco production; or
- controversial weapons manufacture (such as cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments).

The Fund will also not invest in issuers directly involved in any of the following activities, where such activities account for 10% or more of an issuer's total revenue:

- the production of alcohol;
- manufacture or provision of gaming facilities;
- manufacture of non-controversial weapons or armaments;
- manufacture or distribution of pornography;
- direct mining of uranium for the purpose of weapons manufacturing; or
- extraction of thermal coal and oil sands production.

The Fund uses a security selection process that combines sustainable and ethical criteria with Pendal's credit analysis. Pendal's investment process for fixed interest aims to add value through multiple strategies and investment research. Pendal seeks to generate excess returns through strategies including active security (including Green, Social and Sustainable Bonds) and sector selection, duration, yield curve and credit management.

We believe our strategy is unique in the Australian marketplace due to our top down process which combines a large number of quantitative models, our qualitative overlay and technical analysis giving us a greater understanding of global forces that affect the domestic market and the opportunities it presents. This is a more robust process than focussing primarily on domestic economic factors when evaluating the opportunity set.

Our investment approach for credit management seeks to identify opportunities on a sector, issuer and security basis by incorporating top-down and bottom-up research. Top-down research includes analysis of economic and market data, along with macro credit fundamentals such as company earnings, balance sheet health, default rates and equity volatility. The bottom up research includes analysis of earnings and cashflow volatility, balance sheet, business diversity, industry and valuation.

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 George Bishay, who has more than 28 years industry experience.

Performance of the Fund

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	3.35	3.38	3.36
3 months	0.59	0.67	0.93
6 months	-	-	-
1 year (pa)	-	-	-
Since Inception (pa)	-4.26	-4.13	-3.70

Please note that the performance returns shown are for the period from the fund's inception and are short term in nature. Performance may therefore not reflect the longer term performance of the fund.

Historical simulated returns – Class W

Pendal Sustainable Australian Fixed Interest Fund - Class W has been operating since March 2022. To provide a simulated longer term view of the estimated performance for Class W, we have based the estimated returns for Class W using the **Pendal Sustainable Australian Fixed Interest Fund - Class R**, given the identical investments, and have then adjusted the returns to reflect the fee differences between Class W and Class R.

(%)	Total Returns (simulated)		Benchmark
	(post-fee)	(pre-fee)	Return
1 year (pa)	-10.18	-9.92	-9.10
3 years (pa)	-1.44	-1.14	-1.81
5 years (pa)	1.71	2.03	1.49

Past performance is not a reliable indicator of future performance.

Portfolio Statistics (as at 31 July 2022)

Yield to Maturity#	3.37%
Running Yield*	2.09%
Modified duration	5.51 years
Credit spread duration	1.01 years
Weighted Average Maturity	5.81 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.

CERTIFIED RESPONSIBLE INVESTMENT ® CERTIFIED BY RIAA

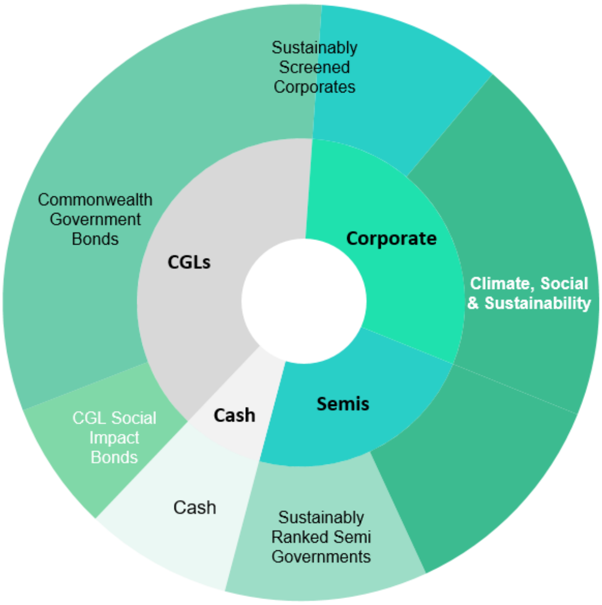
The Pendal Sustainable Australian Fixed Interest Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services License.

Sector Allocation (as at 31 July 2022)

Government bonds^	37.4%
Semi-Government bonds^	6.9%
Sustainability Screened Corporate bonds	7.8%
ESG Thematic bonds - Climate	18.6%
- Social	9.1%
- Sustainable	9.5%
Cash & other	10.7%

^ Ex Green, Social & Sustainable Bonds



Other Information

Fund size (as at 31 Jul 2022)	$102 million
Date of inception	8 March 2022
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	PDL3438AU

[1] 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.

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[2]	0.32% pa

[2] 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.

Market review

The Reserve Bank of Australia (RBA) continued on its path of policy normalisation, raising the cash rate by a further 0.50% to 1.35% at its July meeting.

The key domestic economic data released during the month included 2nd quarter inflation and labour market data. The labour market continues to go from strength to strength, the employment growing by 88,400 jobs in June. The participation rate rose 0.1% to 66.8%, resulting in the unemployment rate fall from 3.9% to 3.5%, a 50 year low. The NAB business survey and ANZ job ads reflect ongoing demand and surging labour costs.

Second quarter inflation data was close to being in line with expectations. Headline inflation rose 1.8% for the quarter and 6.1% for the year (consensus was for 1.9% and 6.3%). Trimmed mean for the quarter at 1.5% was in line, although the annual increase of 4.9% was slightly higher due to prior revisions. The weighted median was marginally below for the quarter and the year at 1.4% and 4.2%.

NAB's monthly business survey fell to below average levels as waning confidence due to global uncertainty, higher interest rates and inflation weighed on sentiment. Business conditions however remain robust, with the construction sector the outlier as rising construction costs weigh on profitability. Forward orders and capacity utilisation remain elevated and suggest ongoing strength in conditions in the nearer term. Both input and labour costs hit new record levels over the past quarter according to the survey.

The Westpac-Melbourne Institute consumer confidence survey fell further in July and is down 20% since the end of 2021. Family finances and economic conditions for the next 12 months have fallen by 21.5% and 26.6% over the past year, as higher interest rates and commodity prices weigh on sentiment. Consumer sentiment, however, remains strong in relation to the outlook for the labour market.

Bond yields traded in a wide range during the month with the longer end of the curve outperforming. In the US 10 year bond yields traded in a 50 basis point range, peaking at 3.08% before rallying over the second half of the month to end 37 basis points lower at 2.65%. 2 year yields in the US traded in a 42 basis point range and ended the month 7 basis points lower in yield at 2.89%.

In Australia 10 year bonds rallied from the start of the month before ending 60 basis points lower in yield at 3.06% whilst the 3 year bond rallied 46 basis points to 2.66%. Short end yields sold off reflecting further anticipated policy tightening from the RBA with 3 and 6 month BBSW rates up 31 and 11 basis points to 2.12% and 2.78% respectively.

Credit review

July was a volatile month for credit spreads, with the market continuing to sell off in the first half of the month before recovering in the second half of July. The mid-month change was driven by the market beginning to view the weaker economic conditions as a positive force for relieving inflation pressures, which helped drive bond yields lower.

July saw a raft of negative economic news releases, including:

- **Cutting staff** - Several large US technology firms are now freezing new hires and cutting staff.
- **US jobless claims** continued to rise.
- **US manufacturing** data deteriorated.
- **US retailers** such as Walmart, Target, and Costco were forced to aggressively discount their wares to clear excess inventory. Many retailers saw their online shopping demand surge during COVID lockdowns, but this trend did not continue post COVID reopening.
- **Higher inflation** print of 5.9% vs expectations of 5.7%. Although this was lower than the prior month's 6.0% print, supply chain pressures still exist across many parts of the global economy.
- **US recession** - The US GDP release revealed a second quarter of economic contraction, signalling a possible technical economic recession.

The market reacted to the above news and data by pricing in a lower future US inflation, lower bond yields, and lower commodity prices. This drove a turnaround in risk sentiment mid-month given the expectation that Central Banks will not have to hike as aggressively as previously expected, helping credit spreads and equities recover towards the end of the month.

Credit spreads were mixed over the month. The Australian iTraxx index (series 37) traded in a wide 32bp range finishing 19bps tighter to 111bps. Australian physical credit spreads moved out a few basis points on average. The best performing sector was domestic banks that tightened 3bps, whilst the worst performing sectors were real estate and infrastructure that widened 16 and 12bps respectively. Semi-government bonds performed tightening 4bps to commonwealth government bonds.

Fund performance and activity

The portfolio outperformed the Bloomberg AusBond Composite Bond index by 2bp (pre-fee) in July.

The duration component of the portfolio was a positive in July. The portfolio maintained its small long duration in the very front end given the view the RBA cash rate will end the year around 2.6%. After the Fed hiked 0.75% markets put in very aggressive hikes in Australia, at one point in June pricing in year-end rates nearer 4%. The slower growth numbers in the US in July helped markets calm down on the path of rate hikes. The RBA continues to expect rates to be circa 2.5% year end and markets are now pricing closer to 3%.

The physical portfolio underperformed the benchmark. The government sector positioning outperformed however the non-government portion of the portfolio detracted from performance. Industrials and real estate sector positioning were a drag on performance.

Activity during the month included reducing exposure to semi government and utilities sectors whilst increasing exposure to commonwealth government and inflation linked bonds.

Market outlook

Australian bonds enjoyed strong returns through the second half of June and July. Longer term inflation expectations and real yields both fell on fears of a global slowdown. We think expected inflation levels are too low at 2.25% for the next 10 years. Real yields should be closer to flat than the 1.5% they reached in June which will provide some support for yields.

Overall we think data will remain robust into year-end before the rate hikes thru 2022 start to have a major impact. 2023 will see almost three quarters of fixed rate mortgages roll off, leading to significant pressure on some household budgets. This will be partly offset by income growth but overall if should see the RBA leave rates just under 3% for a sustained period.

Overall we think Australian 10 year bonds will trade a 3.5% to 3% range in the period ahead, reflecting a tactical view that there is too much pessimism on growth factored in for now. Curves could go inverse at some point like in other markets but the RBA is tempering their language which should help short ends.

Credit outlook

We remain cautious on credit spreads as we expected continued short-term volatility in markets due to the rising global inflation fears and withdrawal of money supply. This defensive positioning has assisted in reducing downside performance given the recent widening in credit spreads.

In the near term we continue to expect market volatility as global central banks tighten monetary policy to combat higher inflation. The lockdowns and continued zero-COVID policy in China will likely add to supply chain disruptions and inflationary pressures.

That said, we are still constructive on the medium-term outlook for credit spreads. Credit and broader risk assets will continue to benefit from sustained global stimulus and solid fundamentals. Given the tight labour markets globally, consumer consumption will continue to drive demand for goods and services which is supportive for economic growth, positive for company earnings and beneficial for credit fundamentals.

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.
- **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.
- **Counterparty risk**: The risk of another party to a transaction failing to meet its obligations.
- **Class risk**: The Fund has been established as a separate class of units in the Scheme. As the assets are held on trust for all investors, there is a risk that investors of one class, may be exposed to liabilities of another class of units and they could lose some or all of their investment in the Fund. There is also a risk that in the event of an insolvency, the assets of the Fund could be made available to creditors of another class of units of the Scheme.

Please read the Fund's product disclosure statement (**PDS**) for a detailed explanation of each of these risks.

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

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