

Pendal Sustainable Australian Fixed Interest Fund

Income & Fixed Interest

Class R

31 August 2022

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.

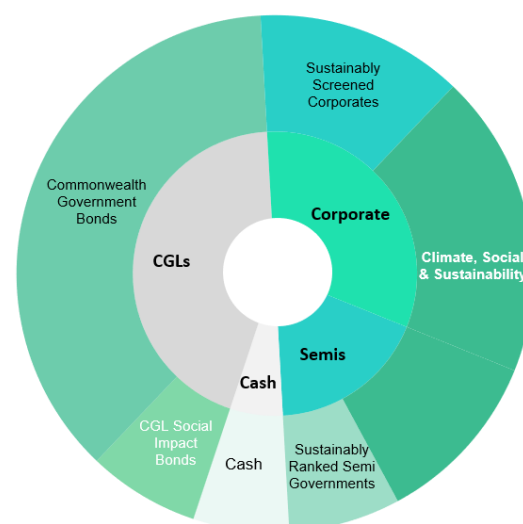
Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-2.47	-2.44	-2.54
3 months	-0.96	-0.86	-0.76
6 months	-7.24	-7.05	-6.74
1 year (pa)	-12.21	-11.85	-11.50
2 years (pa)	-5.21	-4.83	-5.43
3 years (pa)	-2.71	-2.32	-3.14
5 years (pa)	1.19	1.60	0.97
Since Inception (pa)	0.91	1.31	0.70

Sector Allocation (as at 31 August 2022)

Government bonds [^]	37.7%
Semi-Government bonds [^]	6.5%
Sustainability Screened Corporate bonds	12.1%
ESG Thematic bonds - Climate	17.9%
- Social	8.6%
- Sustainable	9.0%
Cash & other	8.1%

[^] Ex Green, Social & Sustainable Bonds



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 Licence.

Portfolio Statistics (as at 31 August 2022)

Yield to Maturity [#]	2.62%
Running Yield [†]	3.91%
Modified duration	5.24 years
Credit spread duration	1.07 years
Weighted Average Maturity	5.73 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 Aug 2022)	\$748 million
Date of inception	August 2016
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	BTA0507AU

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	0.40% pa
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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

August saw bond markets resume the trend of 2022 towards higher rates. The rally in equity and bond markets in July, and the subsequent easing of economic conditions, had clearly made central banks determined to ramp up the hawkish rhetoric. They kept it at all month and markets were left in no doubt that higher rates were coming and risk markets needed to reflect the associated risks to growth.

The Reserve Bank of Australia (RBA) continued on its path of policy normalisation, raising the cash rate by a further 0.50% to 1.85% at its August meeting. The path to neutral (somewhere between 2.5% and 3%) will be complete in the months ahead. The RBA will then have time to see what impact the large cumulative hikes since May have had.

Data both in the US and in Australia was mixed on the month. The employment data in Australia showed a steep fall in employment of 41,000 but also a fall in the unemployment rate to 3.4% as the participation rate fell. Activity data is softening but slower perhaps than 2% of hikes would suggest. Savings buffers are holding up the retail side for now.

The difference between confident businesses and pessimistic consumers widened further in August. NAB Business Confidence climbed above neutral but Westpac Consumer Confidence fell back almost to the COVID lows. Wages as measured by the Wage

Price Index remain contained at 2.6% but forward indicators suggest a pace nearer 3.5% in the year ahead.

The RBA released its Statement of Monetary Policy in early August. There were further revisions up to the inflation outlook, with inflation forecast at 7.8% at the end of this year before falling to 4.3% by the end of 2023. This saw short end rates once again move towards a terminal cash rate nearer 4% than 3%. This was also pushed on by the US markets looking towards 4% Fed Funds rates in 2023.

Three year bonds (the November 2025 bond) ended the month 0.55% higher, at 3.28% from 2.73%. Ten year bonds (the November 2032 bond) ended the month 0.53% higher at 3.61% from 3.08%. However both are still over 0.5% below the mid-June highs.

Credit review

August was a constructive month for credit spreads after 7 months of underperformance. There were two distinct paths for risk assets during the month with markets initially rallying on the back of US inflation data and company earnings announcements, however later in the month we saw a sell off on the back of hawkish Fed rhetoric.

Earlier in the month we had some positive information that included:

Lower US inflation data: US inflation (CPI and producer prices) releases came in lower than market expectations and also lower than the previous month. This inflation data as well as the fall in oil prices are encouraging signs that inflation may have peaked. These signs of slowing price pressures drove positive sentiment and hopes that the Federal Reserve will be less aggressive on rate hikes which would reduce the risk of a deeper recession and instead lead to a more manageable slowdown in the global economy.

Positive earnings season: The other driver was a better than expected US corporate earnings quarter, with roughly 75% of US companies surprising on the upside with earnings growth of 7% on a pcp basis. Australian companies also saw a good earnings season, with 2/3 reporting flat or higher earnings. Overall, companies seem to have been able to pass on cost inflation. Furthermore, company management commentary noted they are not seeing evidence of a sharply deteriorating economy.

In the later half on the month, the Federal Reserve responded to the strong market moves by trying to temper expectations. Believing the market was overly optimistic about inflation easing quickly, Federal Reserve officials issued a number of hawkish statements, emphasising their commitment to fighting inflation. The market took heed, and risk assets weakened.

Credit spreads performed well over the month. The Australian iTraxx index (series 37) traded in a 24bp range finishing 4bps tighter to 107bps. Australian physical credit spreads narrowed 6bps on average. The best performing sectors were infrastructure and real estate that tightened 12 and 11bps respectively, whilst the worst performing sector was resources that widened 5bps. Semi-government bonds underperformed pushing out 3bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the Bloomberg AusBond Composite Bond index by 10bp (pre-fee) in August.

The duration component of the fund was a small negative in August. The fund closed out its small long duration in the very front end as central banks increased hawkish rhetoric. However a more benign US inflation outlook ahead means the fund is looking to add duration in the Australian short end ahead of the mid month US CPI numbers.

The physical portfolio outperformed the benchmark. Both the government sector positioning and the non-government portion of the portfolio performed well. Financials, industrials and real estate sector positioning added to performance.

Activity during the month included adding exposure to financials and commonwealth government sectors whilst reducing exposure to utilities and industrials.

Market outlook

Australian bonds remain under pressure into the end of August from continued strong hawkish Fed rhetoric. We expect other banks, including the RBA, to continue this in the months ahead.

However a key difference ahead, when compared to 2022 so far, will be a likely falling US CPI rate. Goods price inflation will ease as supply chains improve and business margins contract with higher inventories. Central banks will look through the first few weaker numbers but a case will build towards hikes slowing or even stopping which will be quickly factored in by markets.

This makes us more comfortable with duration in the US and Australia. Whilst Australian inflation will remain buoyant into the end of 2022 the global signals will drive the outlook. Ultimately slower inflation will still remain well above central bank targets, making rate cuts unlikely. However the fact there are signs of hope will see markets factor in a better chance of a softer landing than many are predicting.

Credit outlook

We still remain somewhat cautious on credit spreads as we expected continued short-term volatility in markets until we get some clarity around global inflation and the withdrawal of money supply. This defensive positioning has assisted in reducing downside performance given the widening in credit spreads since the start of the year.

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 have been looking for US headline inflation to slow before lengthening up credit risk in the portfolio. Given we saw a first US CPI print that was lower than the previous month, we started to dip our toe back into the market by investing in shorter dated bank securities which offer appealing levels on a break even basis. We will continue to focus on US inflation data to guide our positioning.

Over the medium term we are constructive on the outlook for credit spreads. Credit and broader risk assets will continue to benefit from sustained global fiscal 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.

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

PENDAL

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.

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