

Pendal Sustainable Australian Fixed Interest Fund

Income & Fixed Interest

Class R

30 September 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.

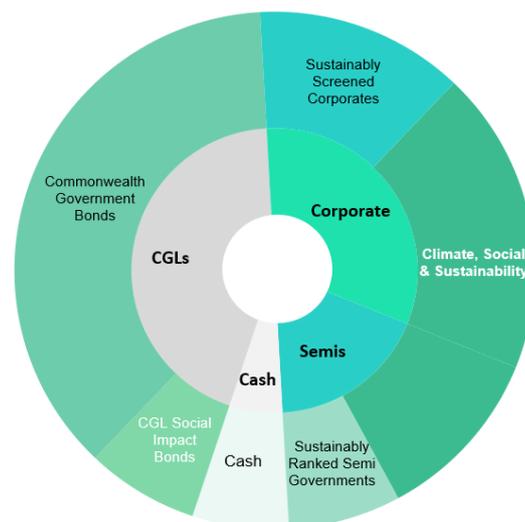
Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-1.39	-1.36	-1.36
3 months	-0.61	-0.51	-0.64
6 months	-4.83	-4.64	-4.43
1 year (pa)	-12.08	-11.73	-11.36
2 years (pa)	-6.40	-6.02	-6.58
3 years (pa)	-3.00	-2.61	-3.42
5 years (pa)	0.98	1.38	0.75
Since Inception (pa)	0.67	1.07	0.47

Sector Allocation (as at 30 September 2022)

Government bonds [^]	36.9%
Semi-Government bonds [^]	6.4%
Sustainability Screened Corporate bonds	13.3%
ESG Thematic bonds - Climate	17.6%
- Social	8.4%
- Sustainable	8.3%
Cash & other	9.1%

[^] 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 30 September 2022)

Yield to Maturity [#]	4.30%
Running Yield [†]	2.80%
Modified duration	5.18 years
Credit spread duration	1.07 years
Weighted Average Maturity	5.55 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 30 Sep 2022)	\$751 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
-----------------------------	----------

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

September saw a continuation of the trend to higher yields. Domestic data took a back seat with US hawkish rhetoric from the Fed and higher US inflation data than expected driving the moves. Australian 10 year yields once again touched 4% late in the month, although the June high in yields of 4.25% was not reached. 10 year yields finished at 3.9%, from 3.61% at the start of month. The peak was 4.11%.

Early in the month the RBA raised the cash rate for a 5th consecutive month, by another 0.5% to 2.6%. Comments from RBA Governor Lowe were interpreted that the RBA may start to reduce the size of rate hikes when he stated that "the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises". However this was drowned out by a 0.75% hike from the Fed and an increase in the Fed's terminal fund rate to 4.6%. The Fed seems more determined to push rates higher even if it means a sharp slowdown than the RBA.

GDP data was released and showed the economy expanding by a robust 0.9% in the 2nd quarter and 3.6% over the past year. In an indication that rate rises may be starting to take effect the household savings rate fell from 11.1% to 8.7%. The economy is yet to feel the impact of hikes so far this year and retail spending remains buoyant. As well the continuing high commodity prices and lower Australian dollar has seen our terms of trade remain strong, boosting company profits and government revenues.

Employment grew by 33,500 jobs in August and the unemployment rate rose 0.1% to 3.5%, due to an increase in the participation rate (66.4% to 66.6%). Wages continue to climb although this takes time to feed through to aggregate numbers. Business conditions and confidence remain strong, although consumers tell a different story. For now though consumer pessimism seems more about the future than current conditions.

The very hawkish Fed rhetoric impacted risk markets, with equities and credit performing poorly. This is partly a move higher in discount rates but more to do with the Fed's willingness to ignore weakness or 'pain' in markets in their efforts to tackle inflation. The Fed put from the previous decade has now given way to a Fed call. This may be tested in months ahead and as the Bank of England showed systemic still needs addressing if markets get too dysfunctional.

Credit review

It was a weaker month for credit spreads as was the case for most markets on the back of the higher than expected US CPI data, hawkish Central Banks and UK inflation fears.

The strong US CPI print was the initial trigger that saw markets sell off during the month. The key concern was the breadth of the inflation numbers across multiple areas including shelter, autos, medical services, food, apparel and utilities.

US Fed Chair Powell confirmed during the month that Federal Reserve is resolute in bringing down inflation. He continued to stress the need to act "forthrightly" to bring down inflation to the 2% goal and cautioned against prematurely loosening policy.

A hawkish ECB referenced more hikes over several meetings whilst also saying they are still far from neutral.

The last leg of the weakness came after the UK's mini-budget announcement. The large tax cuts and fiscal measures announced to support the UK consumer and economy saw the market continue to sell off on concerns of further inflation, increased borrowings to fund the fiscal spend and therefore a greater Monetary Policy response requirement from Bank of England. The sell off forced the BOE to buy bonds to support market liquidity.

Credit spreads underperformed over the month. The Australian iTraxx index (series 37) traded in a large 49bp range finishing 31bps wider 138bps. The new series 38 contract finished the month at +145bps. Australian physical credit spreads pushed out 7bps on average. The best performing sectors were resources and utilities that both tightened 1bp, whilst the worst performing sectors were supra-nationals and offshore banks that both widened 10bps. Semi-government bonds also underperformed moving out 4bps to commonwealth government bonds.

Fund performance and activity

The Fund performed in line (pre-fee) with the Bloomberg AusBond Composite Bond index in September.

The domestic duration component of the fund was flat in September. Whilst we think the RBA will slow the pace of hikes soon the pressure from US rates remains. A small long in 5 year US duration did weigh on performance. This was based on some model signals turning bullish on lead indicators, but these were ignored by a market being driven for now by a very hawkish Fed.

The physical portfolio was in line with the benchmark performance. The government sector positioning detracted whilst the non-government portion of the portfolio outperformed. Supra-nationals, financials and industrials sector positioning added to performance.

Activity during the month included adding exposure to the insurance sector whilst reducing exposure to supra-nationals and financials.

This month we divested a bond from the Asian Infrastructure Investment Bank (AIIB). This is a multilateral development bank that funds social and economic projects throughout Asia. We had

invested in the AIIB Sustainable Development Goals bond which included projects funding infrastructure for climate stability, transport, public health and rural infrastructure. Whilst we are very supportive of the underlying projects that this bond funded, we ultimately decided to divest due to insufficient improvement in their impact reporting.

We consider impact reporting across specific indicators vital for us to understand how our investments are contributing to climate stability or assisting the underserved in society. We have communicated with this issuer about our expectations for impact reporting and unfortunately they have been unable to provide us with the information we require. AIIB began operations in 2015 and is the youngest international development bank. Compared to the other Supranational organisations we invest in, AIIB has less clear documentation, less transparent processes and is a newer and less known organisation. We have communicated with the issuer about our expectations throughout, but ultimately we cannot wait indefinitely for improvement. We will closely monitor AIIB's reporting and disclosure and provide feedback as it changes.

We strive for the market to be more transparent. We think Supranationals are not the big risk for green-washing. Our bigger concern in this space has been with issuers who are jumping-on-the-bandwagon and trying to re-brand vanilla bonds to be considered green, social or sustainability bonds, rather than institutions that have been explicit in their purpose of achieving the SDGs. Nevertheless, this issuer has not been able to report with the level of detail that other supranational organisations have provided us. As we want to be active in making the market better, we have acted with our feet and divested.

Market outlook

The RBA is likely to slow down the pace of tightening in the next few months and likely finish the year with cash around 3.1%. A combination of falling goods prices and the rolling off of fixed rate

mortgages in 2023 will mean they can then be comfortable that monetary policy is tight enough for the near term.

Medium term the key in 2023 will be the interaction between tight labour markets and wages. This feeds directly into services inflation, which will remain elevated in 2023 and possibly move higher. The RBA will be hoping that the return of large scale immigration and foreign students will relieve the tight labour market enough to keep wages in check. However this is not yet assured and a number of upcoming wage agreements may test the idea of wages staying sub 4% growth.

We expect three year government bonds to be around 3.25% on average over the next quarter. Currently they are closer to 3.6% so we see some value there. Longer bonds should also find support although US yields are still vulnerable to moving higher so we have less confidence there. Q3 CPI numbers will be released at the end of October. Current estimates are for a 1.5% number, although state electricity subsidies in WA, Victoria and Queensland may see a lower number.

Credit outlook

We maintain our cautious view on credit spreads as markets are likely to remain volatile given high global inflation and Central Banks' resolve to fight it.

The lockdowns and continued zero-COVID policy in China will continue to add to supply chain disruptions and inflationary pressures.

We will continue to focus on US inflation data to guide our credit positioning.

Over the medium term we are more sanguine on the outlook for credit spreads. 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

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Sustainable Australian Fixed Interest Fund (Fund) ARSN: 612 664 730. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pentalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pentalgroup.com/ddo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

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.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.