Factsheet

Income & Fixed Interest

31 October 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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.12	1.18	0.22
3 months	0.24	0.40	0.55
FYTD	0.35	0.57	0.66
6 months	-1.72	-1.40	0.75
1 year (pa)	-3.77	-3.14	0.80
3 years (pa)	-0.30	0.36	0.44
5 years (pa)	1.79	2.45	0.83

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/10/2022	0.07	30/04/2022	0.10
20/09/2022	0.07	31/03/2022	0.07
31/08/2022	0.07	28/02/2022	0.07
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

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 October 2022)

Government bonds	0.0%
Semi-Government bonds	0.0%
Corporate bonds	56.4%
Mortgage backed	1.1%
Asset backed	0.0%
Australian shares	7.9%
Cash & other	34.6%

Portfolio Statistics (as at 31 October 2022)

Yield to Maturity[#]	4.14%
Running Yield[*]	3.63%
Modified duration	0.74 years
Credit spread duration	1.55 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 Oct 2022)	$539 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.

Fund performance and activity

The Fund returned 1.18% in October (gross of fees), beating the Bloomberg Bank Bills Index by 0.96%. Gains were driven by the equities allocation, as well as active duration positioning and continued accruals and performance from credit.

October continued to be punctuated by market volatility, with US 10yr Treasury yields trading in a 80bp range, Australian 10yr government bonds trading in a 55bp range, Aus iTraxx trading in a near-30bp range. The markets found optimism in the weaker than expected JOLTS labour market data from the US, giving home that the Fed may not need to hike as aggressively in the near future. However, inflation data almost everywhere surprised to the upside, including the US and Australia. Nevertheless, a surprise 50bp hike by the Bank of Canada served as a welcomed surprise to fixed income markets where 100bps had been expected and gave our rates markets a breather. The mixed data and messaging from central banks ensured that volatility remained high in fixed income markets.

The fund's credit position remained unchanged at approximately 60%, which is consistent with the portfolio's strategic asset allocation. The fund's credit spread duration still remains very low, and our conservative positioning reflects the ongoing uncertainty around inflation and volatility in the macro backdrop. However, our medium term outlook for credit takes into account today's current wider credit spreads and the more generous breakeven levels associated with those spreads. In other words, investment grade credit now has a lot more room to absorb further adverse price action compared to a year ago. We will seek to add high quality short dated floating credit risk on the portfolio when we see attractive opportunities in the primary markets. However, the majority of issuance our market has seen recently have tended to be at the higher beta end of the spectrum, and we expect ongoing high volume issuance in the bank capital space. There is no rush to add this sort of risk for portfolios given some medium term challenges in the regulatory landscape.

The fund's duration decisions have been particularly active over the last few months, including in October. In the early part of October, we reduced duration to very low levels as our core scorecards signalled a period of pain, especially at the front end of the Australian curve. Mid-month, we took profit on those hedges as the duration scorecards turned more benign. Temporarily over Australian CPI, we reduced the fund's duration positioning again in the event that inflation would surprise to the upside. Although the data was stronger than expected, the market reaction was muted, so we re-established the pre-CPI duration position for the portfolio again. At the end of the month, the portfolio's duration stands at 0.7yrs. Despite still hugging the low end of our 0 – 5yr allowable duration range, being active and nimble around a low core duration position has helped to defend returns in a volatile rates environment.

Equity markets staged a strong rally in the second half of the month. Australian equities were more resilient in the face of the volatility earlier in the month compared to price action overseas. The earnings backdrop remains healthy despite the much talked off downgrades to earnings forecasts that have been widespread across markets in recent months. However, the outlook given by a range of US companies reported is starting to look mixed. Our equities models both triggered to get out of equities in the second half of the month, although the moving average cross model has since re-entered equities due to the strong rally going into month end. The portfolio followed our equities signals and reduced the equities allocation to 8% in the second half of October, but we have been reluctant to add back in line with the MA Cross model due to our broader market concerns as well as a lack of other risk signals in our process that currently point to a safer risk-taking environment. We are unlikely to deviate from our model signals for long, however, and expect the positioning to become aligned within the next few weeks.

Looking ahead, it seems that a US recession in 2023 will be hard to avoid. Although the Australian economy stands in better stead, global equity markets typically become highly correlated when US markets are under stress. A benign scenario would be a relatively shallow recession, supported by still strong employment dynamics and consumers drawing down their savings buffers. Such a scenario can come about if inflation can fall fairly swiftly and steadily during the early part of 2023. Whilst we see some early indications that inflation ought to be peaking, the fact that actual inflation data is still heading higher suggests that inflation will be sticky as it falls. Nevertheless, we have plenty of dry powder to put to work in equities as well as extending our credit spread duration should that scenario unfold. A recessionary scenario is also easy to navigate for this portfolio, as we have yet to flex this portfolio's duration muscle.

The toughest scenario for all income funds would be another year like 2022. Fortunately, the Pendal IFI team have strengthened our investment process and scorecard tools in the last few months to help our portfolios better weather such a challenging cocktail of positive bond-equity correlations and almost all asset classes suffering significant losses. The active contributions from our active duration positioning and agile allocations in equities over recent months is testament to such improvements.

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