PENDAL

Factsheet

Income & Fixed Interest

31 October 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	1.04	1.07	0.93
3 months	-2.80	-2.72	-2.98
6 months	-2.23	-2.07	-2.08
1 year (pa)	-	-	-
Since Inception	-6.94	-6.75	-6.58

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)	-8.24	-7.97	-7.24
3 years (pa)	-2.55	-2.25	-2.97
5 years (pa)	0.95	1.27	0.72

Past performance is not a reliable indicator of future performance.

Portfolio Statistics (as at 31 October 2022)

Yield to Maturity[#]	4.19%
Running Yield[*]	2.85%
Modified duration	5.26 years
Credit spread duration	1.05 years
Weighted Average Maturity	5.83 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.

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CERTIFIED BY RIAA

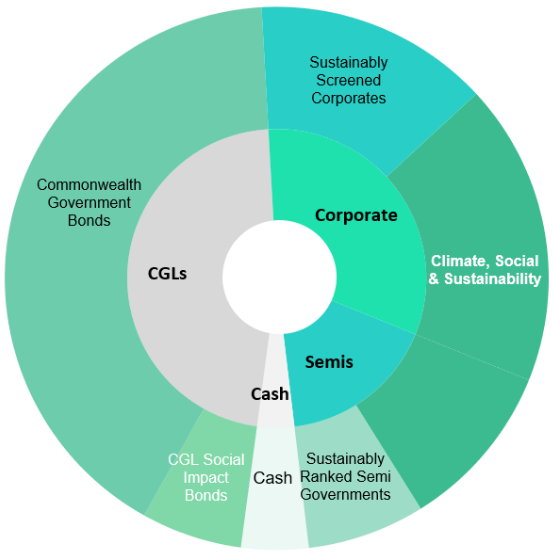
The Pendal Sustainable Australian Fixed Interest Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

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.

Sector Allocation (as at 31 October 2022)

Government bonds^		40.8%
Semi-Government bonds^		6.3%
Sustainability Screened Corporate bonds		14.3%
ESG Thematic bonds	- Climate	17.2%
	- Social	8.2%
	- Sustainable	8.1%
Cash & other		5.1%

^ Ex Green, Social & Sustainable Bonds



Other Information

Fund size (as at 31 Oct 2022)	$106 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 surprised the market when they raised the cash rate by 0.25% to 2.60% in early October. Governor Lowe dropped a hint in early September that the pace of tightening would slow when he commented that "the case for a slower pace of increase in interest rates becomes stronger as the level of the cash rate rises". The more aggressive tightening from other central banks had however resulted in the market pricing in an increase of 0.50% going into meeting.

This set up a positive month for Australian fixed interest, despite further sell offs in US rates. The major economies in the world are all at different stages of cycles right now and the market finally realised that the dynamics in Australia are partially different to the US. Australian three year yields rallied from 3.59% to 3.29%. 10 year yields moved from 3.90% to 3.75%. Australian 10 year yields now sit 0.3% under US rates.

Q3 inflation data came out slightly higher than expected. Headline and trimmed mean inflation rose 1.8% against expectation of 1.6% and 1.5%. The result saw the market price in a 20% possibility of a 50 basis point move from the RBA at their November meeting. The main contributors to the higher result included new dwellings (+3.7%), gas (+10.9%) and furniture (+6.6%). The headline result would have been higher but for electricity subsidies from the WA, Queensland and ACT government. This also sets up for another strong number in Q4 (out late January). However moderating goods price inflation next year should see inflation move down from 8% in 2022 to nearer 4% in 2023.

Credit review

It was a mixed month for credit spreads and a strong month for equity markets during October.

Risk markets started the month on a positive footing following the release of weaker than expected US Manufacturing data (ISM), also the weaker Jolts employment data showed the number of job openings fell to 10.1m in August down from 11.2m in the prior month. The softer data releases during the month were taken positively by investors as it drove speculation the Fed will slow the speed and magnitude of future rate hikes.

There was also a Wall Street Journal article late in the month suggesting that the Fed is considering slowing its pace of rate hikes post-November which further supported sentiment.

Mid-month the Bank of England tried to calm UK markets by announcing that it would be temporarily expanding its bond buying scheme from GBP5b up to GBP10b per day and also launch a Temporary Expanded Collateral Repo Facility. Also, the UK government reversed the tax cuts it announced the previous month that had caused severe turmoil across financial markets. This was viewed very positively by markets.

Finally, US 3rd quarter reporting season surprised to the upside. By month end, 56% of companies had reported with 70% beating earnings expectations

Credit spreads were mixed over the month with synthetic credit outperforming following positive market sentiment, however physicals underperformed as new primary market deals re-priced the secondary market wider. The Australian iTraxx index (series 38) traded in a 22bp range finishing 7bps tighter 131bps. Australian physical credit spreads underperformed widening a couple of basis points on average. The best performing sector was industrials which was unchanged on the month, whilst the worst performing sector was domestic banks that widened 7bps. Semi-government bonds also underperformed moving out 12bps to commonwealth government bonds.

Fund Performance and activity

The Fund outperformed the Bloomberg AusBond Composite Bond index by 14bps (pre fee) in October.

The domestic duration component of the fund was flat in October. High volatility in short end duration is making momentum difficult to trade for now. We will continue to look for opportunities to put some defensive duration positions on when short end yields push higher than our cash rate expectations.

The physical portfolio outperformed the benchmark. The government sector positioning added to performance whilst the non-government portion of the portfolio performed in line. Industrials sector positioning added to performance whilst supra-nationals and financials detracted.

Activity during the month included adding exposure to commonwealth government and domestic bank sectors whilst reducing exposure to financials sub debt.

Market outlook

The RBA has now entered the second stage of its tightening cycle, with rates at or slightly above neutral. Inflation is a lagging indicator so is unlikely to moderate till mid 2023. At that time as well a large portion of fixed rates loans will be moving from 2% rates to variable rates closer to 6%, a significant tightening in the economy outside of the cash rate.

The second stage will see any hikes move to 0.25% rather than 0.5% and the hurdle move higher. Given the RBA is expecting inflation and unemployment to remain strong into early 2023 the data would need to surprise even higher. We expect one or two more small rises after what will be a strong Q4 CPI in late January.

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. These numbers are currently picking up but will likely remain below pre COVID levels until 2024.

Overall bond pricing means that fixed interest is once again providing fairly priced insurance against the potential for a recession in 2023. We see this are more likely in the US but given movements in Europe as well this could flow down to Australia. Currently risk has only had a rate led selloff, not an earnings led selloff. This makes risk markets further vulnerable and sees value in bonds around current levels.

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 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.
- **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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