PENDAL

Factsheet

Income & Fixed Interest

31 January 2023

Pendal Sustainable Australian Fixed Interest Fund

Class R

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

This Fund is designed for investors who want income, diversification across a broad range of fixed interest securities and are prepared to accept some variability of returns. The Fund may also hold cash and may use derivatives.

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 bonds, social bonds and sustainable bonds) and sector selection, duration, yield curve and credit management.

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.

The Fund applies a sustainable and ethical assessment process to fixed interest credit issuers, which includes such factors as:

- environmental issues,
- social practices,
- corporate governance, and
- ethical practices.

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

- tobacco production (including e-cigarettes and inhalers); or
- controversial weapons manufacture (including cluster munitions, landmines, biological or chemical weapons, nuclear weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or nondetectable 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 gross 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 actively seeks investments in securities that in addition to meeting our financial risk and return requirements also generate positive societal and/or environmental impact.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

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.

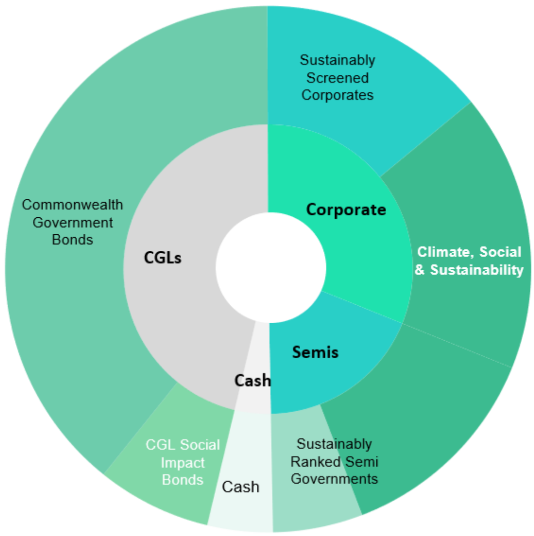
Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	2.79	2.82	2.76
3 months	2.25	2.35	2.20
6 months	-0.69	-0.49	-0.85
1 year (pa)	-6.79	-6.42	-6.26
2 years (pa)	-5.06	-4.68	-4.87
3 years (pa)	-2.33	-1.93	-2.74
5 years (pa)	1.41	1.81	1.14
Since Inception (pa)	1.13	1.54	0.93

Sector Allocation (as at 31 January 2023)

Government bonds^	39.4%
Semi-Government bonds^	6.0%
Sustainability Screened Corporate bonds	13.8%
ESG Thematic bonds - Climate	19.6%
- Social	9.9%
- Sustainable	7.5%
Cash & other	3.9%

^ 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 January 2023)

Yield to Maturity#	4.00%
Running Yield*	2.76%
Modified duration	5.34 years
Credit spread duration	0.98 years
Weighted Average Maturity	5.69 years
Average Credit Rating	AA

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 Jan 2023)	$709 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

January saw the Australian bond market recover most of the losses from the late December selloff. This was despite a higher than expected Q4 2022 inflation number released late in January. The rally was driven by growing signs in the US and other economies that inflation has peaked and central banks will be slowing the pace of hikes or even stopping them completely. This encouraged the idea of a soft landing for economies, boosting assets in general.

There was no RBA meeting in January but it looks like there will be another 0.25% hike in February. Activity data is mixed, with leading indicators showing softness in activity. Employment data was also soft, with a loss of 14,000 jobs and unemployment rising to 3.5%. Whilst the direction of data is for slowing, the outright levels generally remain buoyant but are expected to further moderate during 2023.

The inflation data in late January saw markets give up part of their strong start of year performance. Headline CPI was 1.9% for the quarter and 7.8% for the year, above market expectations but around RBA forecasts. Underlying CPI was 1.7% and 6.9% annual, which would concern the RBA more as services inflation remains elevated. The main upside surprise in the numbers was around domestic and international travel, reflective of supply chains yet to normalise.

Three year bonds finished the month at 3.15% from 3.5% and 10 year bonds at 3.55% from 4.05%. Credit spreads were generally tighter, helped by a 6.2% rally in equities.

Credit review

January was a stronger month for risk assets with credit spreads tightening.

Markets reacted positively to the US wages and Services ISM data early in the month with the weaker than expected prints driving sentiment around the Fed potentially pausing rates hikes sooner. The jobs data showed US wages growing at 0.3% for the month against 0.4% expected, also the prior month was revised down to 0.4% from 0.6%. ISM services index fell to 49.6 against 55.0 expected which was the first fall into contractionary territory since May 2020. The market also liked the US inflation print, even though it came in as expected, the fall in the year on year rate from 7.1% to 6.5% was taken positively with the view that inflation has peaked and coming down in the US.

However, in an interesting twist, mid-month after soft US retails sales, producer prices and industrial production data, risk assets appeared to shift their attention to recession concerns instead of the recent 'bad news equals good news' mantra as that means the FED will cut rates earlier than expected. The market is now focussed on how significant an economic downturn will be and the resulting earnings impact. In this context bad economic news now becomes bad for the market as it indicates a worse downturn.

Credit spreads narrowed over the month. The Australian iTraxx index (series 38) traded in a 17bp range finishing 12bps tighter to close at 81bps. Australian physical credit spreads ended the month 5bp narrower on average. The best performing sectors were infrastructure and utilities which tightened 21 & 20bps respectively, whilst the worst performing sector was supra-nationals that ended unchanged. Semi-government bonds were also unchanged to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the Bloomberg AusBond Composite Bond index in January.

The domestic duration component of the fund was a small positive in January. After the shakeout in late December we are happy to once again be using duration as a defensive tool from an overweight basis. 10 year bonds at or near 4% represent good medium term value. Data will likely be mixed for now so markets should trade with a range of 3.3% to 4% for 10 year bonds. Given cash is likely to be nearer 3.5% shortly this is consistent with a flat yield curve.

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

Activity during the month included increasing exposure to supra-nationals and domestic banks as well as adding to our semi-government green bonds all funded out of cash.

This month we invested in a new Australian dollar Asian Development Bank (ADB) Education Bond. This is a social bond that finances projects relating to education in developing countries in Asia and the Pacific. This includes projects relating to access and quality of education, as well as projects that focus on getting students in school and work readiness training. One of the projects funded through these Education Bonds is a social protection system in Pakistan – essentially social welfare – that provides money to poor families of school children to enable them to attend education. This is especially powerful in encouraging girls attendance and, due to the targeting of recipients, also has enhanced health and nutrition outcomes.

Market outlook

The Australian bond market is finding more support in 2023 as the long and variable lags of monetary policy start to impact. Whilst the end of 2022 saw generally solid data the trend is turning down. A combination of slightly higher RBA rates and large scale expiry of low interest rate fixed rate mortgages in 2023 will see a significant further tightening in conditions. This should see rate hikes cease and markets price in the possibility of cuts.

Australia as always will be impacted by events offshore, particularly in the US. THe US economy seems to be three to six months ahead of Australia. Their inflation has peaked and looks set to settle down closer to 3% by mid year. In Australia the Q1 inflation numbers should moderate to around 1.25% but Q2 may be a low as 0.5% as utility prices flatline and other cost pressures moderate.

We expect longer rates to gravitate back towards longer term neutral levels around 3%. We still estimate a neutral RBA cash rate is circa 2 to 2.5%. This may mean we have cash rates higher than bond rates for most of 2023, something most offshore markets already have. However, we do not expect a recession in Australia so any rate cuts are more likely in 2024.

Credit outlook

We maintain our cautious stance on credit spreads given Central Banks will maintain restrictive monetary policy for longer in the hope of reducing services inflation, however this may lead to a deeper economic slowdown in the future.

We are also keeping a watchful eye on wages growth not keeping up with inflation. This has driven a reduction in consumer savings which could see consumer spending moderate and slow global economic growth.

However, with China now easing its zero covid policy restrictions and re-opening, this will alleviate supply chain disruptions and also see the re-emergence of Chinese consumer demand.

Over the medium term we are more sanguine on the outlook for investment grade credit spreads. Given China re-opening, the strong labour markets globally, consumer consumption should 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**

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