Factsheet

Income & Fixed Interest

30 April 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 by actively investing in green bonds, social bonds or sustainable bonds.

For more information on how these exclusions are applied, refer to section 5 'How we invest your money' of the Fund's Product Disclosure Statement at www.pendalgroup.com/PendalSustainableAustralianFixedInterestFundClassR-PDS.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.25	0.29	0.19
3 months	2.02	2.12	1.99
6 months	4.32	4.52	4.23
1 year	1.94	2.35	2.06
2 years (p.a)	-3.10	-2.72	-2.82
3 years (p.a)	-1.90	-1.50	-2.28
5 years (p.a)	1.69	2.10	1.38
Since Inception (p.a)	1.39	1.80	1.19

Source: Pendal as at 30 April 2023

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: August 2016.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 30 April 2023)

Government bonds^	35.5%
Semi-Government bonds^	7.8%
Sustainability Screened Corporate bonds	17.2%
ESG Thematic bonds - Climate	18.5%
- Social	10.3%
- Sustainable	7.4%
Cash & other	3.3%

^ Ex Green, Social & Sustainable Bonds

CERTIFIED RESPONSIBLE INVESTMENT ™

CERTIFIED BY RIAA

The Pendal Sustainable Australian Fixed Interest Fund has been certified by the Responsible Investment Association Australasia according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au 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.

Investment Team
Pendal's Income & Fixed Interest team is a large team of 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.

Portfolio Statistics (as at 30 April 2023)

Yield to Maturity#	3.76%
Running Yield*	2.77%
Modified duration	5.29 years
Credit spread duration	1.61 years
Weighted Average Maturity	5.95 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 30 April 2023)	$738 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

Bond markets in Australia had a relatively subdued month in April, with the smallest range and net movement in over 12 months. Three year bonds (April 2026) finished April 0.05% higher, rising from 2.95% to 3%. 10 year bonds (April 2033) rose from 3.30% to 3.34%.

After a strong March, driven largely by financial woes in the US and Switzerland, bond markets held in quite well as risk markets bounced. Data remains mixed, with employment holding up well, but signs of moderating inflation. Central banks are also either pausing or talking about pausing, with the RBA leaving rates unchanged for the first time since April last year.

The employment numbers in mid April surged again, with 53,000 jobs created and importantly full times jobs surged. The unemployment rate fell back to 3.5% and would have moved lower if not for a rise in the participation rate. Immigration is helping support job growth and a larger pool of workers.

Inflation numbers for the first quarter showed some inflation relief for the RBA. Whilst still strong, a headline of 1.4% and underlying of 1.2% were the first significant fall since data surged above 2% this time last year. Levels remain uncomfortably high and markets got a bit ahead of themselves in looking for moderate rate cuts.

Other data pointed to a subdued economy but one that is holding up better than many thought given the rate rises. There is still a decent growth buffer to keep the Australian economy out of recession, although the full impact of rate rises is still several months away.

Overall, despite a small rise in yields bond investors should be pleased that markets largely held gains made during the risk off in March. It points to a more stable 2023 with markets likely to keep pricing in some rate relief into 2024.

Credit review

Credit spreads ended the month slightly tighter. The market's concerns around the US and global banking sector began to ease during the first half of the month, continuing their rally from the end of March. Bank deposit outflows started to moderate, and the US earnings season was better than expected. Specifically, the US tech giants' earnings were strong.

In the second half of the month, credit spreads widened slightly due to worries about a potential US government shutdown and renewed concerns about the health of American regional lenders. After First Republic Bank's stock price plummeted, the company was forced into a trading halt. As at the end of the month, First Republic was exploring a potential takeover by a large, well-capitalised US bank, with JP Morgan rumoured to be the frontrunner. On the 1st of May, it was announced that JPMorgan agreed to acquire First Republic in a government-led deal.

Credit spreads narrowed over the month. The Australian iTraxx index (series 39) traded in a 11bp range finishing 3bps tighter to close at 87bps. Australian physical credit spreads where 1bp narrower on average. The best performing sectors were domestic banks and offshore banks that tightened 7 and 5bps respectively, whilst the worst performing sectors were real estate and infrastructure that widened 8 and 7bps respectively. Semi-government bonds outperformed, narrowing 5bps to commonwealth government bonds.

Fund performance and activity

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

The domestic duration component of the fund was a small positive in April. The fund went long duration through buying the new Commonwealth Government 2034 issue mid month. The market was oversold into the issue, giving the opportunity to go overweight duration above 3.5%. The overweight was exited before the CPI numbers, after a good move lower in yield post the issue pricing.

The physical portfolio outperformed the benchmark. The government sector positioning performed in line whilst the non-government portion of the portfolio added. Supra-nationals and financials sector positioning were the main drivers of the outperformance.

Activity during the month included increasing exposure to supra-nationals and semi governments bonds funded out of financials and Commonwealth government bonds (CGL). We also completed a CGL switch into the new syndicated 2034 CGL.

This month we invested in an AUD Biodiversity and Sustainable Development bond from the World Bank. More than half the world's GDP is estimated to be dependent on biodiversity and ecosystem services. Fresh water, fertile soils, clean air and even insects pollinating plants – the flow-on effects of the degradation of biodiversity are immense. Biodiversity is emerging as an investment focus, coinciding with businesses increasingly disclosing the different environmental risks they face.

This is the first Sustainability bond we've invested in that has an explicit focus on biodiversity. This bond is helping to put nature as central to development through promoting conservation, training, and policy to seek nature-based solutions in agriculture, forestry and fisheries. Through this bond, we are investing in projects around the world that are promoting biodiversity, including by providing training and opportunities to manage resources.

An example of a project this bond will fund is in Tunisia. Oases in Tunisia, long the centre of trade and cultural exchange, are threatened from water wastage, soil salinity and fertility loss. Local knowledge about how to manage these resources is being lost. This bond is helping to fund improved governance of these spaces through improving water saving and reducing land degradation. The bond will enable 25,000 hectares to be under sustainable landscape management practices, providing financial support for 250 small and medium enterprises.

Another example of a project that will be funded is in Mexico. There are 12 million people in Mexico who live in poverty in forests and are directly dependent on local natural resources. This bond is helping to strengthen sustainable forest management and provide other economic opportunities. This includes conservation and business development and providing other economic opportunities apart from logging and land clearing. There is a focus on the underserved such as indigenous people and women in this project.

Given the importance on biodiversity, we are thrilled to be able to invest in this bond. We are optimistic that we will see more ways to bring about development and environmental outcomes through these types of investments.

Market outlook

Bond markets in Australia had a relatively subdued month in April, with the smallest range and net movement in over 12 months. Three year bonds (April 2026) finished April 0.05% higher, rising from 2.95% to 3%. 10 year bonds (April 2033) rose from 3.30% to 3.34%.

After a strong March, driven largely by financial woes in the US and Switzerland, bond markets held in quite well as risk markets bounced. Data remains mixed, with employment holding up well, but signs of moderating inflation. Central banks are also either pausing or talking about pausing, with the RBA leaving rates unchanged for the first time since April last year.

The employment numbers in mid April surged again, with 53,000 jobs created and importantly full-time jobs surged. The unemployment rate fell back to 3.5% and would have moved lower if not for a rise in the participation rate. Immigration is helping support job growth and a larger pool of workers.

Inflation numbers for the first quarter showed some inflation relief for the RBA. Whilst still strong, a headline of 1.4% and underlying of 1.2% were the first significant fall since data surged above 2% this time last year. Levels remain uncomfortably high and markets got a bit ahead of themselves in looking for moderate rate cuts.

Other data pointed to a subdued economy but one that is holding up better than many thought given the rate rises. There is still a decent growth buffer to keep the Australian economy out of recession, although the full impact of rate rises is still several months away.

Overall, despite a small rise in yields bond investors should be pleased that markets largely held gains made during the risk off in March. It points to a more stable 2023 with markets likely to keep pricing in some rate relief into 2024.

Credit outlook

We continue to be cautious on the near term outlook for credit spreads given the uncertainty around US regional banks and tightening of credit lending.

We also have concerns around services inflation continuing to remain high which will see Central Banks maintain restrictive monetary policy for longer and will lead to an economic slowdown.

We are keeping a watchful eye on wages growth not keeping up with inflation. This has led to a decrease in consumer savings and will ultimately impact consumer spending and potentially stalling economic growth.

However, China re-opening has alleviated supply chain disruptions and will see strong demand from the region supporting global growth and risk assets.

Looking towards the longer term, our outlook for investment grade credit spreads is more sanguine. Given the China re-opening, strong global labour markets, 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.
- **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**

PENDAL