PENDAL

Factsheet

Income & Fixed Interest

31 August 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 either of 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 5% or more of an issuer's gross revenue:

- exploration, extraction or refinement of fossil fuels (specifically coal, oil and gas);
- the production of alcohol;
- manufacture or provision of gaming facilities;
- manufacture of non-controversial weapons or armaments;
- manufacture or distribution of pornography; or
- direct mining of uranium for the purpose of weapons manufacturing.

The Fund aims to meet its investment objectives by investing in government and credit securities that pass our sustainable and ethical screens. The Fund also seeks investments in securities (including green bonds, social bonds and sustainable bonds) that in addition to meeting our financial risk and return requirements also aim to generate positive and measurable social and/or environmental outcomes and where possible, contribute towards the advancement of the United Nations Sustainable Development Goals.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.76	0.80	0.74
3 months	-0.48	-0.38	-0.72
6 months	1.70	1.90	1.38
1 year	2.25	2.66	1.78
2 years (p.a)	-5.25	-4.87	-5.09
3 years (p.a)	-2.79	-2.40	-3.09
5 years (p.a)	0.99	1.39	0.56
Since Inception (p.a)	1.10	1.50	0.85

Source: Pendal as at 31 August 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 31 August 2023)

Government bonds^	28.8%
Semi-Government bonds^	4.4%
Sustainability Screened Corporate bonds	24.0%
ESG Thematic bonds - Climate	24.5%
- Social	9.0%
- Sustainable	7.2%
Cash & other	2.2%

^ Ex Green, Social & Sustainable Bonds

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.

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.

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 29 years industry experience.

Portfolio Statistics (as at 31 August 2023)

Yield to Maturity#	4.45%
Running Yield*	3.37%
Modified duration	5.03 years
Credit spread duration	1.43 years
Weighted Average Maturity	5.94 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 August 2023)	$753 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

The Reserve Bank of Australia (RBA) left the cash rate unchanged in August at 4.10%. The cash rate has increased 4% since May last year and economic growth forecast to be sub-trend for 2024 and 2025 at 1.75% and 2% respectively. The RBA viewed it as prudent to adopt a wait and see approach. Their updated economic forecasts were released in their quarterly Statement on Monetary Policy. The RBA has forecast inflation of 3.25% by the end of 2024 and back to within the 2-3% target band by late 2025. Economic growth is forecast to slow and the RBA expects the unemployment rate to start to rise and reach 4.5% in late 2024, in turn reducing wage inflation. Provided productivity growth picks up the RBA continues to see wages growth as being consistent with the inflation target.

The monthly inflation series for July showed annual inflation at 4.9%, down from 5.4% and weaker than the 5.2% expected. Excluding volatile items (fruit and vegetables, automotive fuel, and holiday travel and accommodation) annual inflation rose 5.8%, down from 6.1%. Annual rents inflation continues to reflect the tight state of the market and strong demand, rising from 7.3% to 7.6%. Electricity prices rose 6% in July and 15.7% over the past year. The surge in July was due to the annual price reviews that occur each July, although these were partially offset by the introduction of rebates from the Energy Bill Relief Fund according to the ABS release. Without the offsets electricity prices were up 19.2%.

The unemployment rate rose from 3.5% to 3.7% in July with employment falling by 14,600 jobs. The participation rate fell by 0.1% to 66.7%. The Australian Bureau of Statistics (ABS) issued a warning over the increase in the unemployment rate, noting that the only other fall in employment in 2023 occurred in April. Both April and July included school holiday periods and the ABS noted that they continue to see changes around when people take their leave and start or leave a job.

The NAB Business Survey showed conditions unchanged and a slight improvement in confidence. According to the survey forward orders remain soft, particularly in the retail sector. Capacity utilisation of 84.5% remains well above average whilst profitability and employment were also above long term averages. Those looking for inflation respite would not have taken comfort from the increase in the prices paid component and labour costs rising following the large increase in award wages.

Australian bonds finished the month slightly lower in yield, led by the front end. This was despite US long end yields edging higher. Three year government bonds are 3.74% from 3.86% at the start of month. 10 year bonds finished at 4.03% from 4.06%.

Credit review

In August, credit spreads experienced some volatility, initially widening due to concerns around increased US treasury debt issuance and Chinese property and growth concerns but later contracting as softer US economic data saw the market focus on Federal Reserve potentially approaching the end of its interest-rate hikes. This fluctuation occurred against the backdrop of several significant developments in global financial markets.

Investors were bearish at the start of the month, primarily driven by mounting apprehensions about the larger debt issuance requirements in the United States due to its fiscal spending. Bond yields in the US moved upward, and the yield curve steepened as a result. Moreover, Fitch downgraded the United States from AAA to AA+, with the banking sector coming under pressure due to Fitch's warning of potential negative rating actions for major US banks following an industry downgrade.

Adding to this were concerns regarding China's slowing economic growth and the financial stability of property developers. Chinese trade data revealed significant declines in both imports and exports, surpassing expectations with a 12.4% decline in imports and a 14.5% drop in exports. Furthermore, one of China's largest property developers, Country Garden, missed coupon payments leading to a share price drop of over 50%. However, expectations for supportive policy responses from Chinese authorities went unmet.

Investors gather confidence from mid-month. Credit and risk markets were buoyed by factors such as weaker than expected inflation, employment and GDP data, robust corporate earnings, the prospect of an end to interest rate hikes, and no immediate signs of an impending recession. Consequently, credit spreads recovered during this period.

Credit spreads were mixed over the month. The Australian iTraxx index (series 39) traded in a 19bp range finishing 6bps wider to close at 78bps. Australian physical credit spreads narrowed 2bps on average. The best performing sectors were utilities and industrials that tightened 5 & 3bps respectively, whilst the worst performing sector was supra-nationals that only narrowed 1bp. Semi-government bonds outperformed, narrowing 3bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the Bloomberg AusBond Composite Bond index over the month.

The duration component of the fund had a mixed month. Small gains in longer duration were offset by short ends completely pricing out rate cuts. Markets remain rangebound and data continues to be mixed. Near term we expect steeper curves as long ends remain under pressure, but still think markets will be in a range for the rest of the year.

The physical portfolio outperformed the benchmark. The government sector positioning performed inline whilst the non-government portion of the portfolio added to performance. Financials, industrials and utilities sector positioning drove the outperformance whilst supra-nationals positioning slightly detracted.

Activity during the month included increasing exposure to domestic and offshore senior banks as well as supra-nationals funded out cash and bank sub-debt. We also completed a commonwealth government bond switch.

This month, the fund invested in an AUD Social Bond from the International Finance Corporation which is a member of the World Bank. These type of social bonds have projects that focus on the underprivileged in society in developing countries. This includes projects targeting health and gender equality, as well as economic empowerment and opportunities through agribusiness, microfinance and infrastructure.

Market outlook

September is likely to see a continuation of range trading in bond markets. There has been relative calm since early June after the volatility earlier in the year. This calm is partly driven by the RBA moving to a neutral monetary policy stance. They still refer to the potential for further hikes but data is far more mixed than earlier in the year.

Markets are reluctant for now to consider rate cuts in the next 12 months. Normally when rate hikes finish markets are keen to price in more cuts. However, the first full rate cut of 0.25% is now not priced in till December 2024. This highlights the uncertainty in markets around the next rate move, driven by economic uncertainty.

For now we need to respect the mixed picture, implementing shorter term tactical trades rather than more medium term strategic trades. Inflation data should still be market friendly till early 2024. We will continue to monitor bank data to see if the impact of the fixed rate cliff is picking up. So far it appears modest at an aggregate level.

Credit outlook

We are tactically positive on credit spreads given the recent fall in US core inflation and the resilience of the consumer. This may end up seeing an economic soft landing as opposed to a harder landing, and in turn would be positive for risk assets.

We are still cautious medium term as tight labour markets globally could see services inflation remain sticky and would see Central Banks maintain cash rates higher for longer, which would translate into a deeper global economic growth slowdown and potential recession.

Tightening of credit lending globally is also a risk to growth.

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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