

Pendal Dynamic Income Fund

Class R

ARSN: 622 750 734

Income & Fixed Interest

29 February 2024

About the Fund

The Pendal Dynamic Income Fund (**Fund**) is an actively managed portfolio of fixed income securities, Australian and global credit indices and emerging market sovereign issuers.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate by 2-3% p.a. over the medium term. The suggested investment timeframe is three years or more.

Description of Fund

The Fund is designed for investors who seek income from a portfolio of fixed income securities across a range of market conditions and are prepared to accept some variability of returns.

The Fund is an actively managed portfolio that invests primarily in Australian issued investment grade corporate bonds[^]. The Fund may also invest in Australian and global credit indices and emerging market sovereign issuers to provide portfolio diversification and enhance returns when we believe market conditions are supportive. The Fund also has the ability to decrease its allocation to credit and invest in cash and interest rate duration strategies when we expect volatility to increase.

Pendal uses a combination of quantitative modelling and qualitative research to construct the Fund's portfolio.

The Fund's portfolio is constructed using the following three step approach:

1. Generate investment themes through quantitative models
2. Reaffirm investment themes with qualitative research
3. Asset Allocation

Investment Team

Pendal's Income & Fixed Interest team is a large team of dedicated investment professionals with both global and domestic experience, invested across Income, Composite, Pure Alpha, Global and Australian Government strategies. 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 19 years industry experience.

Portfolio Characteristics

Benchmark	RBA Cash rate
Liquidity	Daily

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	0.55% 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.32	0.37	0.35
3 months	3.13	3.27	1.09
6 months	5.01	5.30	2.14
1 year	6.08	6.67	4.15
2 years (p.a)	2.02	2.58	2.96
3 years (p.a)	1.20	1.75	2.00
5 years (p.a)	1.89	2.44	1.45
Since Inception (p.a)	2.10	2.59	1.46

Source: Pendal as at 29 February 2024

"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: December 2017.

Past performance is not a reliable indicator of future performance.

Asset Allocation (as at 29 February 2024)

Australian Credit	81.1%
Emerging Market Credit	5.0%
Other	12.1%
Cash	7.0%

Allocations may not add to 100% due to the use of derivatives to obtain credit exposure.

Top 10 Issuer Exposure (as at 29 February 2024)

NBN CO LTD	6.5%
COMMONWEALTH BANK OF AUSTRALIA	5.6%
COLES GROUP TREASURY PTY LTD	4.1%
LONSDALE FINANCE PTY LTD	3.7%
WESFARMERS LTD	3.5%
MCDONALD'S CORP	3.3%
AUSTRALIA & NEW ZEALAND BANKING GROUP LTD	3.1%
DBNGP FINANCE CO PTY LIMITED	3.0%
GAIF BOND ISSUER P/L	3.0%
NSW ELECTRICITY NETWORKS FINANCE PTY LTD	2.9%

[^]Corporate bonds held within the Fund are required to be rated investment grade at the time of investment. Downgraded securities can continue to be held up to 15% of the Fund (in aggregate). Investment grade bonds refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

Portfolio Statistics (as at 29 February 2024)

Yield to Maturity [#]	5.18%
Running Yield [*]	3.37%
Modified duration	0.73 years
Credit spread duration	2.88 years
Weighted Average Maturity	2.95 years
Average Australian Credit Rating	A+

[#] 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 29 February 2024)	\$233 million
Date of inception	December 2017
Minimum investment	\$25,000
Buy-sell spread ² For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA8657AU

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 security.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **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.
- **Emerging markets risk** – The risk of asset price volatility and higher currency, default and liquidity risk from investments in emerging markets.
- **Liquidity risk** - The risk that an asset may not be converted to cash in a timely manner.
- **Derivatives risk** – The risks 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.
- **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.

Market review

February proved to be a month of mixed signals and renewed volatility for global fixed interest. Bond markets, after a relatively strong finish to last year, faced headwinds as inflation concerns re-emerged and central banks hinted at the likelihood of extending its hawkish policy. Meanwhile, equity markets (excluding tech titans) experienced some push and pull of its own, balancing the positive earnings landscape against rich valuations.

The spectre of inflation returned to the forefront of investors' minds over the month. Stronger-than-expected US jobs data (+353k payrolls v. +185k consensus), coupled with persistent price pressures in key sectors of the economy (e.g. shelter), fuelled concerns that the Federal Reserve would need to maintain its aggressive tightening stance longer than initially anticipated.

Fed Chair, Jerome Powell, opined on the “danger of moving too soon” and that policymakers should not rush to cut rates. Powell cited higher-than-expected inflation in January along with the tight jobs market and the US economy's strength in the fourth quarter as reasons to be cautious. RBA Governor, Michelle Bullock, signalled similar intentions. In the latest official minutes Bullock reiterated a desire to see evidence of progress on inflation, acknowledging that the lagged effects of previous rate adjustments have yet to fully play out.

As a result of this hawkish rhetoric, bond markets witnessed significant volatility. US treasury yields rose around 25-50 basis points across the curve, weighed down by the dual headwinds of an as-yet unsettled inflation rate as well as growing headlines that perhaps the US would avoid a painful slowdown.

Risk markets were relatively spared from the turbulence. The prospect of higher interest rates, which in recent years has typically dampened investor sentiment, failed to rattle investor appetite. A key buttress has been the strong US earnings report card with most sectors exceeding expectations. Driven by a persistence in household spending, the biggest winners were names in consumer discretionary and technology. Meanwhile structural headwinds disproportionately affected certain industries like real estate which continued to face weakening office and commercial demand.

Within the Australian investment-grade space, corporate bond spreads delivered a relatively stable performance during February. The asset class proved largely resilient to broader market volatility, underpinned by a healthy domestic economy and strong balance sheets of major Australian businesses. Notable outperformers were those in the transport space, which benefited from the upswing in global activity, while telecommunication bond spreads navigated a more challenging environment due to concerns of potentially higher leverage to fund mounting capex needs.

In emerging markets, the People's Bank of China (PBoC) took a two-pronged approach to support the economy. They injected 500 billion yuan into the banking system to maintain ample liquidity. Additionally, they cut the five-year loan prime rate, a key benchmark for mortgages, by 25 basis points to 3.95%. This is largest policy rate cut since the rate's introduction in 2019, and aims to boost the struggling property sector by lowering borrowing costs for homebuyers. Notably, the one-year lending rate remained unchanged.

Fund performance

In February, the Dynamic Income Fund performed broadly in line with the benchmark. Australian investment-grade and emerging market credit contributed positively to total performance while duration dragged.

We maintained a stable core exposure of approximately 80% to domestic investment-grade credit. Despite the challenge of higher interest rates the local economy remains resilient. The unemployment rate sits at a relatively benign 4.1%, while the RBA still forecasts growth to be 1.4% in 2024. Positive preliminary earnings announcements from key Australian corporates also reinforce a rosy outlook for the near term.

From an activity standpoint we lengthened the weighted average maturity of the credit book to bolster the fund's potential for income generation and long-term capital appreciation. However, we have not simply chased the highest yielding names. As we approach the second half of 2024 we expect to see more potholes dotting the economic landscape and as such we see value in preserving a higher quality and more liquid portfolio to maintain flexibility as the cycle turns.

With relation to emerging markets (EM), our exposure in the portfolio sat around 12.5% for most of the month. We retain a slightly bullish position as we view the hawkish stance adopted by EM central banks (e.g. Mexico) to be supportive for spreads to rally further. While maintaining or raising already elevated interest rates can hold back economic growth, they do serve to curb inflation not only through the traditional pathways but also through the currency channel. A credible commitment to tackling inflation is typically welcomed by the market as it signals to investors that the (often-indebted) region cares about debt sustainability as well as preserving purchasing power. As spreads rallied towards month-end we took profits into the move, leaving only 5% EM exposure in the fund.

With yields rising across the curve, the duration component of the fund detracted from total returns. Much like January, February saw higher yield volatility present hurdles to performance though tactical positions along the way enabled us to offset some losses. At the start of the month, recognising the disconnect between the aggressive pricing of policy rate cuts and cautious Fed rhetoric, we pared back duration from 2.5 to 1.5yrs in anticipation of further rates volatility. This decision paid off as yields leapt about 20 points higher in the opening week.

Following this move we returned duration back to 2.5yrs to take advantage of attractive technical levels as well as to position ahead of what we believed to be a material miss on retail sales. Again, this tactical move produced a positive result for the fund. As the month drew to a close we pulled duration all the way down to 0.25yrs as we remain poised for further bond turbulence. Looking towards March, while inflation can arguably be described as under control, the potential for activity data to surprise to the upside remains. Higher interest rates have, thus far, been unable to materially ease labour market pressures. Therefore, the consumer is far from buckling. We expect investors to heavily debate the interplay of inflation dynamics, central bank policies and evolving economic data.

For more information please call 1300 346 821,
contact your key account manager or visit [pendalgroup.com](https://www.pendalgroup.com)

PENDAL

This factsheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Dynamic Income Fund (Fund) ARSN: 622 750 734. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting www.pentalgroup.com. The Target Market Determination (TMD) for the Fund is available at www.pentalgroup.com/ddo. You should obtain and consider the PDS and TMD before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.