

Pendal Government Bond Fund

ARSN: 098 011 048

Income & Fixed Interest

29 February 2024

About the Fund

The Pendal Government Bond Fund (**Fund**) is an actively managed portfolio of predominantly government bond securities which aims to take advantage of investment opportunities within bond markets.

Fund Objective

The Fund aims to provide a return (before fees and expenses) that exceeds the Bloomberg AusBond Govt 0+ Yr Index over a rolling 3-year period. The suggested investment timeframe is three years or more.

Description of Fund

This Fund is designed for investors who want to take advantage of opportunities within the government bond markets and are prepared to accept some variability of returns. The Fund offers income and a diversified portfolio of government bonds and cash securities. The Fund invests primarily in the Australian government bond market across a combination of Commonwealth government bonds, semi government bonds (State issued bonds), corporate bonds (which are Government guaranteed), foreign sovereign and supranational bonds. The Fund may also invest tactically in international government bonds, which are in developed markets.

The Fund can use derivatives to achieve its investment objective and to gain exposure to assets and markets. Derivatives may also be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets.

Pendal's investment process for government bonds aims to add value through multiple strategies and investment research. Pendal seeks to generate excess returns through strategies including active security and sector selection, duration and yield curve management.

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 Tim Hext who has more than 34 years industry experience.

Other Information

Fund size (as at 29 February 2024)	\$272 million
Date of inception	July 1992
Minimum investment	\$500,000
Buy-sell spread ¹	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0111AU

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
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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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	-0.31	-0.28	-0.38
3 months	2.77	2.85	2.64
6 months	2.22	2.38	1.97
1 year	3.73	4.06	3.13
2 years (p.a)	-1.68	-1.37	-2.03
3 years (p.a)	-1.27	-0.96	-1.67
5 years (p.a)	0.39	0.71	0.08
Since Inception (p.a)	5.64	5.99	5.66

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: July 1992.

Past performance is not a reliable indicator of future performance.

The benchmark for this Fund has changed over time. The benchmark performance shown is that of the combined benchmarks that the fund has aimed to exceed over time.

Sector Allocation (as at 29 February 2024)

Government bonds	38.8%
Semi-Government bonds	43.8%
Cash & other	17.4%

Portfolio Statistics (as at 29 February 2024)

Yield to maturity [#]	4.23%
Running yield [*]	3.46%
Modified duration	5.43 years
Credit spread duration	0.23 years
Weighted average maturity	6.59 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.

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.
- **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.
- **Inflation risk** - The risk that the rate of return of inflation may exceed the net after-tax return from your investment. Thus, the purchasing power of an investment may not keep pace with inflation.
- **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.
- **Currency risk** - Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **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.
- **Regulatory risk** - The risk that a change in laws and regulations governing an investment or financial markets could have an adverse impact on an investment.

Please read the Fund's Product Disclosure Statement (PDS) for a detailed explanation of each of these risks.

Market review

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35%. The RBA also provided an updated set of economic forecasts in their quarterly Statement on Monetary Policy. Economic growth was revised down by 0.2% to 1.8% for 2024 with both household consumption (-0.4%) and dwelling investment (-1.5%) key drivers for the downward revision. Inflation is forecast to be back within the target range by the end of 2025 and back to around the mid-point by mid-2026. Nearer term however inflation is forecast to be lower than previously expected with trimmed mean for the year ended June 2024 and December 2024 revised down by -0.3% and 0.2%.

Employment grew by a weaker than expected 500 jobs in January, resulting in the unemployment rate increasing from 3.9% to 4.1%. The participation rate was unchanged at 66.8%. The 4th quarter wage price index rose by 0.9%, resulting in an annual gain of 4.2% (consensus of 0.9% and 4.1%).

Bond yields were sharply higher over the month driven by better-than-expected economic data and central bankers continuing to push back against market pricing. The common theme was central bankers prefer to wait and see that inflation easing before reducing policy rates. Fed Chair Jerome Powell noted the 'danger of moving too soon is that the job's not quite done, and that the really good readings we've had for the last six months somehow turn out not to be a true indicator of where inflation is heading'. The outlier remains Japan, with the Bank of Japan appearing to be in no rush to change from its negative interest rate policy. Supporting the stance was Gross Domestic Product (GDP) data that showed Japan entering into technical recession. The economy contracted

by 0.1% in the 4th quarter, following on from the 0.8% contraction recorded in the 3rd quarter.

In the United States expectations for near term easing in the Fed Funds rate were diminished early in the month following much stronger than expected non-farm payrolls data. Non-farm payrolls rose by 353,000 jobs in January, much larger than the 185,000 consensus. Adding further weight to the strong number were prior month revisions, which saw the prior 2 months data upwardly revised by 126,000 jobs. Average hourly earnings rose by 0.6% in January and 4.5% over the past year, also exceeding expectations. The unemployment rate remain unchanged at 3.7%.

Bond yields moved higher following the release of the ISM services index, which surged driven by the prices paid component. Supply constraints due to disruptions in the Panama and Suez canals were cited as major factors in the spike higher.

Stronger than expected inflation data put further upward pressure on yields. Headline inflation rose by 0.3% in January and 3.1% over the past year against consensus of 0.2% and 2.9%. Core inflation rose by 0.4% in January and 3.9% over the past year against consensus of 0.3% and 3.7%. Owner equivalent rents rose more than expected, reversing prior months trend and other indicators that suggested a further easing in rental costs. Producer Price Index (PPI) data was also higher than expected.

The Senior Loan Officer Survey showed that less banks in the United States are tightening their lending standards. The survey showed 14.5% of banks reporting a tightening in lending standards for medium and large commercial and industrial loans, down from 33.9% in the previous quarterly survey.

In the United Kingdom the Bank of England left their policy rate unchanged at 5.25%. The tightening bias was also removed, as had been expected. Inflation data released subsequently was weaker than expected. Annual services inflation remains elevated at 6.5% although is below its peak of 7.4%. Fourth quarter GDP data showed the economy contracting by 0.3% and entering a technical recession following on from the 0.1% contraction in the third quarter. Retail sales data for January significantly exceeded expectations however when rising 3.4%.

In New Zealand, one of the major local bank's calling for a rate hike at the Reserve Bank of New Zealand (RBNZ's) next 2 meetings in late February and April saw yields move sharply higher. The move was partially reversed when the RBNZ left their cash rate unchanged at 5.5% late in the month.

Fund performance and activity

The Fund had a small negative performance in February as yields moved higher after a strong finish in January. The moves were led by US markets selling off on stronger inflation data. Locally, the data was mixed to slightly weaker. The fund outperformed the benchmark. Outperformance came from duration and offshore bond positions.

The fund was at benchmark for duration at the start of month. Whilst we like bonds medium term, we believe yields will trade in a range near term as markets respond to mixed data. The easy part of the inflation fall is now over so markets will be more mixed. The early to mid-February selloff in bonds saw better pricing given the outlook. We added modest duration to the fund. This worked well, although we exited at the end of month as yield rallied again.

The fund added value in February through participation in a new New Zealand 30 year bond. The fund can hold up to 20% in foreign currency bonds, with the FX risk hedged. We usually take risk offshore via derivatives, but the new bond yielded above 5%. We believe in the current environment this is attractive to offshore investors and offered cheap levels at issue. The bonds had a good rally post the issuance and by the end of month we had sold down our holdings.

The fund maintains holdings in shorter dated supranationals. Overall swap spreads should stay tight as rate expectations fall and government issuance picks up. The fund is a small overweight in semi governments but will add to risk through expected new issuance in March.

Outlook

The RBA are likely to remain on hold over the first half of 2024. It is not a requirement that inflation is below 3% before they start to ease monetary policy. Should the labour market ease and inflation move sustainably towards the inflation target then the RBA will have the set of conditions in place to ease policy. Those conditions are more likely to be met later this year.

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

PENDAL

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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.

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