

### Pendal Sustainable Australian Fixed Interest Fund

Class R

Income & Fixed Interest

29 February 2024

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,
- corporate governance, and
- social practices,
- 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	-0.24	-0.21	-0.30
3 months	2.78	2.88	2.59
6 months	2.43	2.63	2.11
1 year	4.17	4.59	3.51
2 years (p.a)	-1.43	-1.04	-1.55
3 years (p.a)	-1.31	-0.92	-1.40
5 years (p.a)	0.83	1.23	0.31
Since Inception (p.a)	1.35	1.75	1.07

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: August 2016.

Past performance is not a reliable indicator of future performance.

#### Sector Allocation (as at 29 February 2024)

Government bonds <sup>^</sup>	26.7%
Semi-Government bonds <sup>^</sup>	3.3%
Sustainability Screened Corporate bonds	25.2%
ESG Thematic bonds - Climate	24.5%
- Social	8.6%
- Sustainable	9.6%
Cash & other	2.2%

<sup>^</sup> 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.responsibleinvestments.com.au](http://www.responsibleinvestments.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](http://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 29 February 2024)

Yield to Maturity <sup>#</sup>	4.56%
Running Yield <sup>*</sup>	3.38%
Modified duration	4.88 years
Credit spread duration	1.56 years
Weighted Average Maturity	6.23 years
Average Credit Rating	AA

<sup>#</sup> 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.

<sup>\*</sup> 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)	\$819 million
Date of inception	August 2016
Minimum investment	\$25,000
Buy-sell spread <sup>1</sup> For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>	
Distribution frequency	Quarterly
APIR Code	BTA0507AU

<sup>1</sup> 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 <sup>2</sup>	0.40% pa
-----------------------------	----------

<sup>2</sup> 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

Yields were higher over the month, driven by better-than-expected economic data and central bankers continuing to push back against the market pricing of rate cuts. The common theme was central bankers preferring to wait and see that inflation is easing further before reducing policy rates. The easing of financial conditions from lower bond rates and higher equity markets was not seen as helpful.

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 RBA minutes for their February meeting noted that 'inflation had moderated but was still high', further noting 'it was not yet possible to rule in or out further increases in interest rates.'

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 expected to be at 3.6% and 3.1%.

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%. This is the first time unemployment has been above 4% since January 2022.

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%). Enterprise agreements indicate that 4% wage growth will be the pace of rises across early 2024 before potential moderation in the second half.

Australian three year bonds finished February at 3.70%, against a January close of 3.56%. 10 year bonds finished at 4.15% against 4.02%.

### Credit review

February was a positive month for credit spreads as US company earnings provided a positive back drop, as did the supportive US economic data.

4th quarter US company reporting was a tailwind for markets. By the end of February, 98% of companies had reported with 76% beating earnings expectations by 7% on average. Sales grew 4% whilst earnings growth was 8% compared to the prior corresponding period.

US economic data continues to show a resilient economy with payrolls, jobless claims and manufacturing all printing better than expected during the month. We saw a further easing of bank lending standards in the US which is also a bullish sign for markets as this eases the ability of companies to access their bank funding requirements.

Credit spreads narrowed over the month. The Australian iTraxx index (series 40) traded in a 9bp range finishing 4bp tighter to close at 64bps. Australian physical credit spreads tightened 3bps on average. The best performing sectors were infrastructure and domestic banks that both narrowed 5bps, whilst the worst performing sector was industrials that only tightened 1bp. Semi-government bonds underperformed widening 2bps 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 quiet month. We would like to again go overweight duration, but whilst pricing has become more attractive we are patiently awaiting better entry levels.

The physical portfolio performed well, outperforming the benchmark. Both the government sector positioning and the non-government portion of the portfolio added to performance. Financials, utilities and industrials sector positioning added to performance.

Activity during the month included adding exposure to telcos and bank sub-debt funded out of short dated senior banks and cash.

## Market outlook

The mild selloff in February has seen more realistic rate expectations priced into markets. The US now has slightly over three cuts this year priced in and Australia slightly less than two. We expect cuts and in the case of the US at least four, so pricing now favours long duration positions.

The important point to note is that price cuts are not dependent on weak growth, rather inflation staying around current levels. In the US this should happen as rents moderate. In Australia we expect inflation to move close to the 3% level in the quarters ahead.

Accommodative fiscal policy in the US and in Australia (from mid year) will see the economy continue to grow, but importantly at a below trend pace. This should help create some excess capacity which in turn takes pressure off inflation and wages.

Overall we remain favourable to overweight or long duration positioning, although we are adjusting the positions based on market pricing.

## Credit outlook

We are positive on credit spreads given the continued fall in US core inflation and the resilience of the consumer. This easing of inflation concerns will see central banks cut policy rates which will likely see a soft economic landing as opposed to a hard landing and in turn would be positive for risk assets.

The data on credit lending globally shows that the tightening of lending standards is easing which is a great sign for corporates, economic growth and markets.

We are still keeping a watchful eye on global labour market and services inflation given this will be a driver of Central Bank policy.

Higher oil prices, a slowing China and geopolitical concerns remain a risk for markets.

## 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](https://www.pendalgroup.com)

**PENDAL**

This factsheet has been prepared by Pendal 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 Pendal Sustainable Australian Fixed Interest Fund (Fund) ARSN: 612 664 730. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1300 346 821 or visiting [www.pendalgroup.com](https://www.pendalgroup.com). The Target Market Determination (TMD) for the Fund is available at [www.pendalgroup.com/ddo](https://www.pendalgroup.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 Pendal 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.

Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse this material and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.