Pendal Enhanced Credit Fund

ARSN: 089 937 815

Factsheet

Income & Fixed Interest

31 March 2024

About the Fund

The Pendal Enhanced Credit Fund (**Fund**) is an actively managed portfolio of primarily Australian corporate bonds.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Non Govt 0+ Yr Index over the medium term.

The suggested investment timeframe is three years or more.

Investment Strategy

The Fund is actively managed and aims to take advantage of investment opportunities within the Australian non-Government fixed interest market. The Fund invests predominantly in AUD non-Government fixed interest securities, including securities of investment grade issued by leading corporations listed on the Australian Stock Exchange. The Fund may also invest in a limited amount of investment grade hybrid securities, non-investment grade securities, unrated securities and, where appropriate, derivatives.

Investment Process

Pendal's Income & Fixed Interest team uses a disciplined and transparent process. The team's research effort focuses on identifying and capturing what we consider mispricings in credit market securities and utilises both qualitative assessment of companies and quantitative modelling which aim to identify opportunities and avoid problematic issuers. In addition to Pendal's internal research resources, Pendal sources research from an independent research company, CreditSights, focused on global companies.

Currency Management

The Fund may have assets denominated in foreign currencies. This means that changes in the value of the Australian dollar relative to foreign currencies may affect the value of the assets of the Fund. Currency markets can be extremely volatile and are subject to a range of unpredictable forces.

The Fund's foreign currency exposure may be hedged from time to time, in whole or part.

Investment Guidelines

Asset allocation ranges (%)	Min	Max
Investment grade corporate bonds	70	100
Commonwealth bonds and semi-government bonds	0	20
Convertible notes	0	10
Convertible preference shares	0	10
Capital notes	0	10

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]	0.45% 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.

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.

Performance

(%)	Total Returns		Benchmark
	(post-fee)	(pre-fee)	Return
1 month	0.87	0.90	0.88
3 months	1.39	1.51	1.27
6 months	4.57	4.80	4.22
1 year	4.56	5.03	4.08
2 years (p.a)	2.83	3.29	2.63
3 years (p.a)	0.15	0.60	0.10
5 years (p.a)	1.49	1.95	1.41
Since Inception (p.a)	4.89	5.40	4.96

Source: Pendal as at 31 March 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: November 1998.

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 31 March 2024)

Corporate bonds	92.5%
Mortgage backed	2.9%
Asset backed	0.0%
Cash & other	4.6%

Portfolio Statistics (as at 31 March 2024)

Yield to Maturity[#]	4.95%
Running Yield[*]	4.51%
Modified duration	3.24 years
Credit spread duration	3.29 years
Weighted Average Maturity	3.86 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.

Other Information

Fund size (as at 31 March 2024)	$119 million
Date of inception	November
Minimum investment	$25,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Half-yearly
APIR code	RFA0100AU

[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 asset.
- **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.
- **Valuation risk** – The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Derivative risk –** The risk 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.

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

Market review

March was generally a positive month for credit spreads as the US Federal Reserve kept their 2024 rate cut expectations unchanged relative to market expectations of reducing the number of cuts, and the Fed's preferred inflation gauge printing lower than the previous month. However, slightly stronger than expected US CPI and producer prices data weighed on the market.

The Federal Open Market Committee left their cash rates unchanged and also kept their Dot plots unaltered in 2024 (75bps of cuts). The market responded positively to this as there was an expectation that they may take a cut out of their 2024 projections. However, the slightly higher CPI and PPI data saw them take one cut out in 2025 & flows through to 2026 to a further 75bp cut each year. They also slightly increased their long term cash rates by 6bps to 2.56%

Credit spreads were mixed over the month. The Australian iTraxx index (series 40) traded in a tight 5bp range finishing 4bp tighter to close at 60bps. The new series 41 contract ended the month at 64bps. Australian physical credit spreads widened 1bp on average. The best performing sectors were domestic and offshore banks that both narrowed 1bp, whilst the worst performing sector was real estate that widened 2bps. Semi-government bonds widened 1bp to commonwealth government bonds.

Fund performance and activity

The Fund performed broadly in line with the Bloomberg AusBond Non-Government Bond Index over the month.

Financials, infrastructure and real estate sector positioning added to performance.

Activity during the month included adding exposure to infrastructure, utilities, and domestic bank sub-debt funded out of shorter dated bank senior securities.

Outlook

We are constructive on credit spreads on the back of the continued fall in US core inflation and the resilience of the consumer. This disinflation will see central banks ease policy rates and support a soft/no economic landing outcome and not a hard landing, this in turn should be positive for risk assets.

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

However, we are closely monitoring global labor markets and services inflation, as these will influence central bank decisions. Additionally, higher oil prices, a slowing Chinese economy, and geopolitical tensions are potential risks for markets.

For more information please call **1300 346 821**,
contact your key account manager or visit **pendalgroup.com**

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