PENDAL

Factsheet

Income & Fixed Interest

31 March 2024

Pendal Fixed Interest Fund

ARSN: 089 939 542

About the Fund

The Pendal Fixed Interest Fund (**Fund**) is an actively managed portfolio of primarily Australian fixed interest securities.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Composite 0+ Yr Index over the medium term. The return is expected to be comprised primarily of income. The suggested investment timeframe is three years or more.

Investment Approach

This Fund is designed for investors who want income, diversification across a broad range of cash and fixed interest securities and are prepared to accept some variability of returns. The Fund aims to take advantage of investment opportunities primarily within the Australian fixed interest market by investing in a combination of Commonwealth-government, semi-government and corporate debt and short-term money market securities.

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 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.

Derivatives may be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. Derivatives can also be used to gain exposure to assets and markets.

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 Strategies and Multi-Asset Strategies. The portfolio manager of the Fund is Tim Hext who has more than 34 years industry experience.

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.

Other Information

Fund size (as at 31 March 2024)	$263 million
Date of inception	August 1992
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	RFA0813AU

[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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	1.07	1.11	1.12
3 months	0.99	1.10	1.03
6 months	5.03	5.27	4.85
1 year	1.53	1.99	1.47
2 years (p.a)	0.97	1.42	0.91
3 years (p.a)	-1.31	-0.85	-1.29
5 years (p.a)	0.29	0.77	0.17
Since Inception (p.a)	5.39	5.94	5.61

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: August 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 31 March 2024)

Government bonds	29.2%
Semi-Government bonds	24.3%
Corporate bonds	32.2%
Cash & other	14.4%

Portfolio Statistics (as at 31 March 2024)

Yield to Maturity[#]	4.34%
Running Yield[*]	3.68%
Modified duration	5.98 years
Credit spread duration	1.06 years
Weighted Average Maturity	5.86 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.

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.
- **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.
- **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.
- **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 saw modest rallies in bonds, despite economic data holding up well and central bankers pushing back on rate cuts. Strong equity markets saw some flow back into bonds on rebalancing that supported bonds.

Data in Australia across the month was mixed. The Q4 GDP showed an economy struggling into year end, with quarterly GDP at 0.2% and annual growth at 1.5%. GDP per capita went backwards for the third quarter.

However, despite signs that late 2023 saw slowing growth and falling inflation, current data is seeing more resilience in 2024 than expected. Australian employment numbers in March showed a strong 116,000 jobs created and unemployment falling from 4.1% to 3.7%. Despite month-to-month volatility highlighting seasonal adjustment issues at the ABS, the trend is now that enough jobs are being created to meet new entrants, with both around 30k a month on a trend basis. This is not consistent with the RBA narrative of a slowly rising unemployment rate helping ease wage pressures.

Monthly inflation data showed a year-on-year rate of 3.4%. We expect that after the Q1 inflation is released in late April this series will also show inflation around 3.4%. This is consistent with the RBA mid-year forecast of 3.3%. On the negative front education inflation rose 5.8% in February (it is only measured once a year) but on a more positive note annual health fund rises in April were set at an average of 3.1%. The RBA needs to see service inflation move back to 4% from current levels above 5%.

Three-year yields fell from 3.72% to 3.59% in March whilst 10-year bonds fell from 4.14% to 3.96%. Australian bonds outperformed the US moving from 10 under to 20 under in the 10-year maturity. This is being driven by poorer growth outcomes in Australia, partly linked to a 6% budget deficit to GDP in the US against our balanced budget.

Credit 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

The Fund had a solid performance in March as yields moved lower into month-end. This was despite data that was overall stronger than expected over the month. The fund matched benchmark. Gains from long duration positions were offset by underperformance of semi governments and small FX option premium loss.

The fund continues to move between square and overweight duration positions, based off market levels. Medium term we think yields move lower, but we respect that growth data should hold up well near term, capping bond rallies. This happened again March as 10-year bonds in Australia tried to push though 4% mid-month but failed again. Three-year bonds likewise continue to trade in a 3.75% to 3.5% range, which we expect to hold through the next few months as rate cuts are pushed back. This near term strategy added value again in March.

The fund maintains an overweight position in semi governments. These pushed wider mid-month before partly recovering into month end. We expect issuance levels to pull back into the budget season of May and June, which should help spreads to contract. Swap spreads are likely to remain around current levels before tightening into the September quarter as rate cuts loom.

Within the semi-government holdings, we remain overweight WATC, SAFA and ACT bonds on positive budget outlooks and tighter supply factors. We are underweight QTC and NSWTC. We have been biased to being underweight TCV over the last few years but are currently at benchmark given spreads reflect the poorer economic and budget performance.

The fund maintained its modest overweight to credit early in March. Medium term the economic outlook remains friendly for credit as modest growth and lower inflation supports risk. We will keep a close eye on our leading signals if this were to change.

Finally, the global overlay had a small negative month. The long Yen position, through options, continues to be in place as a cheap defensive measure against the US slowdown turning into a sharper contraction. The Yen had a strong performance mid month, into potential Bank of Japan rate changes. However, this snapped back as the small cash rate move was dwarfed by the ongoing strong bond purchasing program announced. The Yen finished the month near levels not seen in almost 35 years. The fund also has a long US curve short Australian curve on the view the US curve will normalise (currently inverted). The short Australian curve position is to offset the small negative carry in the US position.

Market outlook

The Australian bond market was very resilient in March, managing a small rally despite generally stronger data. Whilst in the medium term we are still favourably disposed to bonds, near term we think levels are less attractive. We are currently at benchmark or slightly short duration, looking for better value to go once again overweight.

The main data in Australia in April will be the Q1 CPI data due out on the 24th. We have good visibility on this already from monthly data and expect either a 0.8% or 0.9% outcome. This will be higher than the last quarter but still shows a level of inflation in the low to mid 3% band. This is consistent with RBA forecasts and leaves rate cuts later in the year as a possibility. However, three-year bond near 3.5%, or 0.75% below cash, is too much negative carry near term and we would look for entry levels above 3.75%.

The employment data will also be closely watched to see if the recent noise resolves itself and unemployment settles around 4%. If it were to stay nearer 3.7% the RBA would be forced to question its forecast of 4.2% by the end of June. Downward revisions in unemployment levels are not usually consistent with lower rates.

Credit 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**

PENDAL