PENDAL

Factsheet

Income & Fixed Interest

31 March 2024

Pendal Sustainable Australian Fixed Interest Fund

Class R

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,
- social practices,
- corporate governance, and
- 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 (post-fee)	(pre-fee)	Benchmark Return
1 month	1.12	1.15	1.12
3 months	1.14	1.24	1.03
6 months	5.23	5.44	4.85
1 year	2.21	2.62	1.47
2 years (p.a)	1.10	1.51	0.91
3 years (p.a)	-1.23	-0.84	-1.29
5 years (p.a)	0.67	1.08	0.17
Since Inception (p.a)	1.48	1.88	1.21

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 2016.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 31 March 2024)

Government bonds^	26.7%
Semi-Government bonds^	3.3%
Sustainability Screened Corporate bonds	24.8%
ESG Thematic bonds - Climate	21.7%
- Social	8.7%
- Sustainable	11.6%
Cash & other	3.1%

^ Ex Green, Social & Sustainable Bonds

CERTIFIED RESPONSIBLE INVESTMENT
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.responsiblereturns.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.

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 31 March 2024)

Yield to Maturity#	4.41%
Running Yield*	3.57%
Modified duration	5.04 years
Credit spread duration	1.53 years
Weighted Average Maturity	6.20 years
Average Credit Rating	AA

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)	$833 million
Date of inception	August 2016
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR Code	BTA0507AU

[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]	0.40% pa

[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.

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 and activity

The Fund performed in line with 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. It was surprising stronger data has not seen better opportunities.

The physical portfolio performed well, outperforming the benchmark. The government sector positioning performed inline whilst the non-government portion of the portfolio added to performance. Supra-nationals and financials sector positioning added to performance.

Activity during the month included adding exposure to utilities and domestic bank sub-debt funded out of domestic bank senior and telcos. We also completed a semi-government bond switch into South Australia out of shorter dated New South Wales bonds.

This month the fund invested in the inaugural South Australian Sustainability Bond. South Australia ranks strongly on our assessment of the different states of Australia using the Sustainable Development Goals in part because of its strong commitment to renewable energy with over 70% of electricity generated through renewable energy. This bond continues South Australia's commitment to the energy transition and will help fund the state's target of 100% renewable energy generation by 2030. This includes green hydrogen projects and a large-scale export terminal for this purpose, a virtual power plant with an emphasis on accessibility of public housing, and Australia's first statewide electric vehicle charging network. As a sustainability bond, there is scope to include social as well as green projects. This should also include expenditure associated with the new Women's and Children's Hospital and operational expenditure for fee free TAFE and vocational education.

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.

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**

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