

Pendal Fixed Interest Fund

ARSN: 089 939 542

Income & Fixed Interest

30 June 2024

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.

Description of Fund

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. The Fund may also invest tactically in international fixed interest 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 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.

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.

Other Information

Fund size (as at 30 June 2024)	\$372 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)	(pre-fee)	Benchmark Return
1 month	0.71	0.75	0.77
3 months	-0.98	-0.87	-0.84
6 months	0.00	0.22	0.18
1 year	3.66	4.13	3.68
2 years (p.a)	2.60	3.06	2.45
3 years (p.a)	-2.12	-1.66	-2.06
5 years (p.a)	-0.56	-0.09	-0.60
Since Inception (p.a)	5.32	5.86	5.53

Source: Pendal as at 30 June 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 30 June 2024)

Government bonds	37.5%
Semi-Government bonds	21.2%
Corporate bonds	26.4%
Cash & other	14.8%

Portfolio Statistics (as at 30 June 2024)

Yield to Maturity [#]	4.68%
Running Yield [*]	3.90%
Modified duration	5.13 years
Credit spread duration	1.01 years
Weighted Average Maturity	6.69 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.

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
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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.

Market review

Australian bond markets finished June with yields mixed. A strong first half of the month was punctured by a hawkish RBA mid-month and a higher-than-expected May CPI late month. Three-year bonds, hit by a change in rate expectations, were 4 bp higher over the month at 4.16%, having traded in a 3.88% to 4.26% range. 10-year bonds were 10 bp lower at 4.31%, with a range of 4.11% to 4.41%.

The growth data over June continued to paint a picture of a sluggish economy. Quarter1 GDP came in at 0.1% and was negative on a per capita basis again. The NAB survey weakened again as business conditions finally fell through long-term levels. The unemployment rate came in at 4% although employment levels continue to match the increase in the workforce.

Against the weaker data was disappointing inflation data. The NAB survey showed a pickup in price pressures which was matched by the monthly inflation data for May. Expectations were for a slight pickup in the year-on-year inflation data at 3.8% but the final number was 4%. Attention now turns to Q2 numbers due at the end of July.

The May number sees expectations for core inflation to be at 1% in Q2, 0.2% higher than the RBA previous expectations of 0.8%. Whether this potential miss is large enough to trigger a hike in early August is now the focus of the market. The RBA alluded to a close call in their mid-June press conference where the Governor revealed a hike but not cut was discussed in their meeting. Odds are drifting between a 30% and 60% chance of a hike.

Credit review

Credit spreads were wider over June on the back of European political concerns, however encouraging US economic data supported markets.

Earlier in the month, markets cheered the weaker than expected US CPI and producer prices data that supported the view that disinflation continues.

However mid-month, French President Macron's reaction to the poor performance in the European elections triggered weakness in risk markets. He called a snap election which opens up the possibility of the new Far Right party winning, this drove concerns around this party's general lack of fiscal discipline when delivering on their election promises. Later, far-right leader Marine Le Pen pledged to work with President Macron if she won parliamentary elections, which calmed markets.

Credit spreads underperformed over the month. The Australian iTraxx index (series 41) traded in a 8p range finishing 5bps wider to close at 71bps. Australian physical credit spreads moved out 4pts on average. The best performing sector was domestic banks that only widened 1bp, whilst the worst performing sectors were utilities and supra-nationals that both moved out 4bps. Semi-government bonds outperformed tightening 5bps to commonwealth government bonds.

Fund performance

The fund had a positive month in June, as a rally in longer bonds outweighed a small rise in short-end yields. The fund slightly underperformed the benchmark as markets priced in the chance of hikes and as semi-government bonds continued to be under pressure.

The fund continues to move between square and overweight duration positions, based off market levels. The fund entered June overweight in duration. The market rallied into the middle of the month, but we reduced some risk as the RBA tilted to a more hawkish stance. However, the high inflation number at the end of month saw short ends get hit hard which weighed on

performance. We recognise the risk of an August tightening but still see good value in medium term duration around these levels.

The fund still holds a small overweight position in semi government bonds, which is focused more on front end bonds. Trying to reconcile the attractive higher yields that semis offer with the potential pressure from large borrowing tasks is making our positioning more tactical (short term) than strategic. The poor performance of semis through the budget season came in the face of positive markets domestically and globally for spread product.

The fund participated in the new AOFM Green bond in early June. The AOFM were very keen to issue lower than their normal curve (called a 'greenium') given the significant effort and cost in establishing the program. Unfortunately, this meant no follow-through performance. However, limited supply should see this bond perform over time.

The credit portion of the fund had a flat month after a strong performance earlier in the year. Narrow spreads means accrual rather than capital is driving returns and the risk/reward is moving against credit. Equity markets appear strong but that is an increasingly narrow story around tech in the US and banks in Australia. Given the defensive nature of this fund we are watching our recession signals closely to potentially reduce our credit exposure back to benchmark.

Finally, the global overlay had a positive month. The fund has a US steepener (long 2yrs v short 10yrs) versus an Australian flattener (short 3yrs v long 10yrs). This is a conservative way of expressing the view that US cash rates will fall to Australian cash rate levels in the next six months. Both sides provided positive returns this month although it is the US position where our stronger conviction lies.

Market outlook

The recent surge in Australian inflation data has markets focused on the Q2 CPI, due out July 31st. Data between now and then could yet sway what is a difficult call for the RBA. Unfortunately, there will be no more inflation data so unemployment mid-month could be a swing factor.

Bond markets do look beyond the potential impact of the next RBA move, and the fact that the US Fed meeting in September is considered an odds-on call for a cut is supporting longer yields. The view could well be that an RBA hike could make a recession more likely, offsetting positive news from tax cuts and subsidies.

Therefore, much of the action in July could be in the yield curve, where US moves lead to a steeper curve there, but RBA moves lead to a flatter curve here. Ultimately, we still view bonds here as good value as we still expect inflation to finish the year nearer 3%.

Credit outlook

We remain positive on credit spreads as our view is that US core inflation will continue to fall and an economy supported by a resilient consumer will underpin corporate credit fundamentals. This disinflation will see central banks ultimately ease policy rates and support a soft/no economic landing outcome which 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 positive 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, geopolitical tensions and higher oil prices are risks for markets.

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