PENDAL

Factsheet

Income & Fixed Interest

30 June 2025

Pendal Dynamic Income Fund

Class R

ARSN: 622 750 734

About the Fund

The Pendal Dynamic Income Fund (**Fund**) is an actively managed diversified portfolio of Australian and international fixed income securities.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate by 2-3% p.a. over the medium term. The suggested investment timeframe is three years or more.

Description of Fund

The Fund is designed for investors who seek income from a portfolio of Australian and international fixed income securities across a range of market conditions and are prepared to accept some variability of returns.

The Fund is an actively managed portfolio that invests primarily in Australian issued investment grade corporate bonds[1]. The Fund may also invest in emerging markets[2] sovereign debt and international credit (including high yield), to provide portfolio diversification and enhance returns when we believe market conditions are supportive. The Fund's international credit exposure is typically obtained through indices, primarily using derivatives.

The Fund has the ability to decrease its allocation to credit and invest in cash. The Fund actively manages interest rate duration throughout the interest rate cycle and may use active currency management as part of its investment strategy to enhance returns when we believe market conditions are supportive.

Pendal uses a combination of quantitative modelling and qualitative research to construct the Fund's portfolio.

The Fund's portfolio is constructed using the following three step approach:

1. Generate investment signals through quantitative models
2. Reaffirm investment signals with qualitative research
3. Asset Allocation

If the themes also point towards lower interest rates and a negative correlation environment exists between interest rates and credit, the Fund can increase its Australian interest rate duration.

The Fund may hold its Australian and international credit exposures in non-investment grade credit securities. At the time of purchase, Australian credit securities (including corporate bonds) must be rated investment grade. However, if a corporate bond is downgraded after purchase, it can continue to be held. International credit securities may be rated non-investment grade at the time of purchase. The Fund's maximum investment exposure to Australian and international non-investment grade credit securities (in aggregate) is limited to 15% of the value of the Fund.

Investment Team

Pendal's Income & Fixed Interest team has extensive and varied experience across both local and international Fixed Interest markets. The team manages a range of strategies including Cash, Government bond, Composite bond, specialised Insurance solutions, Income solutions and Sustainable and Impact funds. The portfolio manager of the Fund is Amy Xie Patrick who has more than 20 years industry experience, supported by Co-Portfolio Manager Oliver Ge who has more than 15 years industry experience.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.65	0.70	0.32
3 months	2.42	2.56	1.00
6 months	3.93	4.22	2.06
1 year	8.13	8.72	4.31
2 years (p.a)	7.97	8.57	4.34
3 years (p.a)	6.23	6.81	3.88
5 years (p.a)	3.34	3.90	2.38
Since Inception (p.a)	3.07	3.58	1.97

Source: Pendal as at 30 June 2025

"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: December 2017.

Past performance is not a reliable indicator of future performance.

Asset Allocation (as at 30 June 2025)

Australian Credit	75.7%
Emerging Market Sovereign Debit	7.6%
High Yield Credit	13.7%
Cash	23.6%

Allocations may not add to 100% due to the use of derivatives to obtain Australian and international credit and emerging markets sovereign exposure.

Top 10 Issuer Exposure (as at 30 June 2025)

NATIONAL AUSTRALIA BANK LTD	8.6%
WESTPAC BANKING CORP	6.5%
COMMONWEALTH BANK OF AUSTRALIA	4.9%
AUSTRALIA & NEW ZEALAND BANKING GROUP LTD	4.3%
NBN CO LTD	3.7%
COLES GROUP TREASURY PTY LTD	3.3%
LONSDALE FINANCE PTY LTD	3.0%
GAIF BOND ISSUER PTY LTD	3.0%
WESFARMERS LTD	2.8%
CNH INDUSTRIAL CAPITAL AUSTRALIA	2.8%

[1] Corporate bonds held within the Fund are required to be rated investment grade at the time of investment. Downgraded securities can continue to be held up to 15% of the Fund (in aggregate). Investment grade bonds refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

[2] The Fund can invest up to 30% of the value of the Fund (in aggregate) in Emerging Markets Sovereign Debt and international non-investment grade securities. However, the Fund can only invest up to 15% of the value of the Fund (in aggregate) in Australian and international non-investment grade credit securities.

Portfolio Characteristics

Benchmark	RBA Cash rate
Liquidity	Daily

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[3]	0.55% pa

[3] 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.

Fund Statistics (as at 30 June 2025)

Yield to Maturity[4]	4.42%
Running Yield[5]	3.72%
Modified duration	0.02 years
Credit spread duration	3.36 years
Weighted Average Maturity	2.79 years
Average Australian Credit Rating	A+

[4] Yield to maturity is an estimate, at a point in time, of an individual security's expected annual rate of return, assuming the security is held to maturity and all coupon payments are made on time and reinvested at the same rate. The Fund's yield to maturity uses this calculation on a weighted average basis for all physical securities held in the Fund. The Fund's yield to maturity does not represent the actual return of the Fund over any period.

[5] Running yield is an estimate, at a point in time, of the annual income generated by an individual security expressed as a percentage of its current market price. It is calculated by dividing the coupon of the security by the market value of that security. The Fund's running yield uses this calculation on a weighted average basis for all physical securities held in the Fund. Running yield does not reflect the actual income return of the Fund.

Other Information

Fund size (as at 30 June 2025)	$301 million
Date of inception	December 2017
Minimum investment	$25,000
Buy-sell spread[6] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA8657AU

[6] 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.

Market review

Strong evidence of disinflation in both the US and Australia dominated fixed interest markets in June. Contrary to the pervasive anxiety around tariffs and sticky price pressures, both economies delivered consumer price data that came in below expectations. This shift fundamentally altered market expectations for monetary policy and reinvigorated demand for duration and risk assets alike. The knock-on effects were felt across government bonds, investment-grade credit, equities, and high yield, as investors recalibrated to a world where rate cuts looked not just possible, but increasingly imminent.

US Treasuries staged a modest rally in June, propelled by softer-than-expected inflation data and mounting signals of slowing economic momentum. The May CPI report showed headline inflation was up just 0.1% month-over-month, below consensus. The annual rate ticked up to 2.4% but only from a four-year low. Critically, core CPI also surprised on the downside at 0.1% for the month and 2.8% annually, both below forecasts. These results led to a swift repricing across the curve, with the yield on the 10-year Treasury falling over the course of June, ending the month at around 4.23%.

The narrative that "the last mile" of inflation would be the most stubborn gave way to recognition that policy was, in fact, biting harder than many had appreciated. A series of data points confirmed the trend: US retail sales were weak, with consumer spending moving backwards, and leading indicators such as ISM manufacturing softened further. Fed Chair Powell's public remarks became more balanced, still cautioning against overreacting to one or two data prints but explicitly acknowledging that the case for holding rates "higher for longer" had weakened in light of the new inflation trajectory. By late June, markets were pricing in at least two rate cuts by the end of 2025.

Similarly in Australia, the rally in bond yields was catalysed by a downside surprise in the May CPI. Headline inflation printed at just 2.1% year-over-year, down from 2.4% in April. More telling was the trimmed mean which fell to 2.4%, solidly within the RBA's 2–3% target. This data was immediately digested as a green light for the RBA to begin easing, with market pricing for a July rate cut surging to over 90%.

Further supporting the downward move in yields was the weaker-than-expected GDP print. Data for the first quarter of 2025 showed the economy growing by just 0.2% in volume terms, with annual growth stuck at 1.3%, well below population growth. While poor weather dampened mining and tourism activity, the real disappointment was the lacklustre response from the consumer. Despite a confluence of supportive factors including tax cuts, rate cuts, and rising real wages, households remained cautious, channelling much of their income boost into savings rather than spending. The lack of momentum in consumer-heavy states like New South Wales and Victoria, as well as ongoing productivity stagnation, reinforced the view that private sector demand was not yet ready to pick up the slack from tapering government investment.

Fund performance

The Dynamic Income Fund delivered a total return of 0.65% (net of fees), outperforming the RBA Cash benchmark by 0.33%. Key drivers of performance came largely from the risk asset space including Australian investment grade (IG), emerging market (EM) and US high yield credit. Duration was broadly flat as interest rate risk was minimal over the month.

Fund positioning

Despite the modest rally in domestic yields, the decision to keep portfolio duration at minimal levels remained well justified throughout June. While headline growth was sluggish and consumers clearly preferred to save rather than spend, the RBA remained notably sceptical about pivoting to an outright easing cycle. Labour market conditions continued to display considerable resilience, with unemployment hovering near historic lows and wage growth holding up. This ongoing strength in employment provided the RBA with a strong rationale to maintain a cautious, data-dependent approach rather than respond reflexively to a single soft growth print or a temporary uptick in the household savings rate.

Moreover, although the May monthly CPI indicator was materially weaker than anticipated, it is important to remember that the RBA does not rely primarily on this relatively volatile series for its policy decisions. Instead, the Bank's focus remains on the quarterly inflation data, which it considers more reliable for assessing underlying price pressures and setting the policy path. Consequently, even as front-end yields dipped and the market rushed to price in an increased likelihood of near-term rate cuts, the underlying uncertainty around the timing and magnitude of policy easing justified a defensive approach to duration. We resisted the temptation to chase the rally, instead maintaining a minimal duration stance, in recognition of the RBA's still-cautious posture and the potential for yields to rebound if incoming data proved more robust than anticipated.

Australian IG credit markets benefitted from the absence of major negative headlines and ongoing demand for high-quality yield. Credit spreads remained broadly stable to slightly tighter over the month, reflecting a benign default environment and continued investor appetite for corporate bonds relative to cash and government paper.

New issuance in the IG space was well received, particularly from financials and select corporates in defensive sectors. Issuers continued to enjoy relatively attractive funding conditions, with the premium over swap rates holding steady or tightening marginally. However, there was a discernible bifurcation in demand, with investors showing a clear preference for top-tier names and more defensive balance sheets amid lingering macro uncertainty.

The macro backdrop for IG credit continues to be mixed but manageable. On one hand, the slowing consumer activity posed headwinds for some sectors, while on the other, steady employment and positive net migration supported overall credit fundamentals. Credit rating actions were muted, with no significant downgrades among the major banks or leading corporates. We remain broadly positive of IG credit.

US high yield had another positive month as the disinflation theme and growing conviction in forthcoming Fed rate cuts drove renewed risk appetite. High yield spreads, which had widened sharply in April, reversed course and tightened substantially through June. Although some market participants voiced concern that the easy gains from earlier credit spread compression had mostly played out, we believed the thirst for yield would override any concerns of valuation. We ended the month with maximum high yield exposure, 15%.

EM credit benefitted from a stable US dollar and supportive commodity prices. China's stable growth helped anchor sentiment, and a more dovish global central bank outlook reduced fears of disruptive capital outflows. While some frontier markets continued to face idiosyncratic risks, the general tone was constructive, with investors rotating back into EM in search of income and diversification. We tactically lifted our EM intra-month but ended June with a 7.5% exposure.

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

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