PENDAL

Factsheet

Income & Fixed Interest

30 June 2025

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.

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 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 Tim Hext who has more than 35 years industry experience.

Other Information

Fund size (as at 30 June 2025)	$349 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	0.75	0.78	0.75
3 months	2.57	2.69	2.63
6 months	3.99	4.22	3.95
1 year	7.04	7.52	6.81
2 years (p.a)	5.34	5.81	5.23
3 years (p.a)	4.06	4.53	3.88
5 years (p.a)	-0.22	0.24	-0.10
Since Inception (p.a)	5.37	5.91	5.57

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: 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 2025)

Government bonds	45.4%
Semi-Government bonds	24.2%
Corporate bonds	25.5%
Cash & other	4.9%

Fund Statistics (as at 30 June 2025)

Yield to Maturity#	4.08%
Running Yield*	3.55%
Modified duration	5.00 years
Credit spread duration	0.96 years
Weighted Average Maturity	5.58 years

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.

* 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.

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.

Market review

June was a relatively quiet month for Australian bonds, despite volatile oil prices and middle east tensions. There was also little new major news about tariffs from the US. Domestic data was slightly weaker than expected, and the markets have over 90% chance of a rate cut in early July priced (from 70% at the start of month). Three-year bonds finished five basis points lower in yield at 3.28% and 10-year bonds eight basis points lower at 4.18%.

The Reserve Bank of Australia (RBA) did not meet in June, but after a dovish cut in mid May left the market leaning towards another cut in July. Activity data during June added to the case for another rate cut. Quarter 1 2025 GDP data came in at 0.2% and 1.3% annually, below market and RBA forecasts. Employment was flat although the unemployment rate remained at 4.1%. Finally, household spending grew at only 0.1% in May.

The RBA believes inflation is now near the mid-point of their target band. Their forecast is for trimmed mean inflation to be around 2.6% over the period ahead despite headline inflation moving higher towards 3% as the dampening impact of electricity subsidies is removed. The May monthly CPI data, although an incomplete series, backed this up with trimmed mean inflation 2.4% higher than May 2024. Pricing for the RBA cash rate is at 3% by year end and terminal pricing is at 2.85% in mid 2026.

Credit review

Australian credit spreads were mixed over the month.

US economic data was supportive with CPI/Producer prices printing lower than expected, payrolls and jolts data were better than expected, however jobless claims have been rising.

Geopolitical risks dominated markets. These risks rose mid-month when the Israel and Iran conflict escalated on the back of drone and missile strikes. The conflict raised concerns about global energy prices and regional stability. A day later, there were reports that Iran was looking to de-escalate tensions with Israel, and about a week later, the US attacked key Iranian nuclear facilities in the hope of killing off Iran's nuclear weapons ambitions. Finally late in the month, a tentative ceasefire in the Middle East was agreed which supported markets.

Credit spreads finished the month mixed. The Australian iTraxx index (series 43) traded in a tight 9bp range finishing 2bps narrower to close at 73bps. Australian physical credit spreads on the other hand were flat to 3bps wider on average as the market digested heavy new issuance supply. The best performing sector was covered bonds that narrowed 1bp, whilst the worst performing sectors were industrials, infrastructure and utilities that all widened 2bps. Semi-government bonds moved out 1bp to Commonwealth government bonds.

Fund performance and activity

The Fund had a positive month in June, as modest rallies in bonds drove capital performance. The Fund performed in line with the benchmark on gains in duration and credit.

The Fund entered June with duration positioning slightly longer than benchmark. Australian bonds remain rangebound but with likely rate cuts supporting bonds we have expected the lower end of that range to be tested. 10-year bonds did finally reach 4.10% by month end, at which point we reduced positioning. We remain sceptical that long maturity bond markets offshore can sustain a strong rally given massive fiscal spending. We therefore think Australian 10-year government bonds will struggle to break below 4% for now.

Australian semi-government bonds had a quiet month, with state budget season not providing any major surprises. The Queensland budget was improved from the politically impacted mid-year update but remains under pressure with a $33.5 billion funding task in 2025/26. The NSW budget saw few revisions and leaves the state needing to borrow $24.2 billion in 2025/26. Offshore demand for Australian bonds and particularly semis has picked up recently, absorbing the extra supply.

The Fund remains invested in two-year inflation bonds, as headline inflation picks up into falling government electricity subsidies. We expect headline inflation nearer 3% in the year ahead, providing strong capital gains for inflation bonds and all-in yields significantly higher than nominal bonds.

The Fund maintains a small overweight to credit. Whilst we are cautious about credit markets into July, current spreads provide a decent medium-term return and therefore justify a modest overweight, keeping some cash back should markets dislocate with new tariff news.

Finally, the global overlay was flat for June, as US curve steepeners saw little volatility despite big swings in oil prices. This is a more medium-term position as we think the Fed will cut rates, but the fiscal spending will see longer term debt lag any rallies.

Market outlook

The Australian market enters July with a rate cut almost fully priced plus a terminal cash rate below 3%, yet 10-year bonds remain rangebound between 4.5 and 4%. US bond yields continue to partly hold back the Australian market from fully reacting to better inflation data and weaker growth here. However, we continue to expect that US growth will weaken and the Fed will cut rates further in September, pushing US and therefore Australian bond yields lower.

We expect the key quarter 2 inflation data, released at the end of July, to show 0.9 to 1% headline and 0.7 to 0.8% trimmed mean. This supports cuts but does not on its own require cuts. The RBA will be more focused on growth and employment data in the months ahead.

Credit outlook

We maintain a cautious view on the credit market given the uncertainty that Trump has created with his tariff policies. The tariff threats followed by quick reversals and threats again are impacting sentiment. Prolonged uncertainty will be a drag on economic activity by keeping businesses in wait-and-see mode impacting supply chains and dampening the confidence of consumers who are bracing for a potential inflationary shock.

If however Trump does in fact soften his stance on tariffs and follows through with that and maintains a dovish pivot on tariffs, this would be constructive for credit spreads given the backdrop of a resilient US consumer and economy supported by government spending, easy financial conditions and a weaker USD which will continue to benefit US corporate earnings and credit fundamentals.

We also continue to closely monitor labour markets as a deterioration in US employment conditions is a risk to markets as this would increase the risk of a recession.

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

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