PENDAL

Factsheet

Income & Fixed Interest

30 June 2025

Pendal Government Bond Fund

ARSN: 098 011 048

About the Fund

The Pendal Government Bond Fund (**Fund**) is an actively managed portfolio of predominantly government bond securities which aims to take advantage of investment opportunities within bond markets.

Fund Objective

The Fund aims to provide a return (before fees and expenses) that exceeds the Bloomberg AusBond Govt 0+ Yr Index over a rolling 3-year period. The suggested investment timeframe is three years or more.

Description of Fund

This Fund is designed for investors who want to take advantage of opportunities within the government bond markets and are prepared to accept some variability of returns. The Fund offers income and a diversified portfolio of government bonds and cash securities. The Fund invests primarily in the Australian government bond market across a combination of Commonwealth government bonds, semi government bonds (State issued bonds), corporate bonds (which are Government guaranteed), foreign sovereign and supranational bonds. The Fund may also invest tactically in international government bonds, which are in developed 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 government bonds 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 and yield curve management.

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)	$329 million
Date of inception	July 1992
Minimum investment	$500,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	BTA0111AU

[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]	0.32% 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.78	0.81	0.78
3 months	2.64	2.72	2.72
6 months	4.01	4.18	4.00
1 year	6.75	7.09	6.67
2 years (p.a)	5.04	5.38	4.94
3 years (p.a)	3.88	4.21	3.57
5 years (p.a)	-0.29	0.03	-0.49
Since Inception (p.a)	5.61	5.96	5.63

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: July 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	58.4%
Semi-Government bonds	36.9%
Cash & other	4.7%

Fund Statistics (as at 30 June 2025)

Yield to maturity[#]	3.93%
Running yield[*]	3.24%
Modified duration	5.42 years
Credit spread duration	0.06 years
Weighted average maturity	5.79 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.

Market review

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. First quarter gross domestic data came in at 0.2% and 1.3% annually, below market and RBA forecasts. Markets ended the month pricing over a 90% chance of a rate cut in early July priced, up from 70% at the start of month.

In offshore events economic data and trade talk headlines took a back seat to geopolitical tension in the Middle East. Israel launched airstrikes against Iran mid-month and saw the oil price rising quickly in response. Brent oil rose 13% in the aftermath. Escalating the situation further was the involvement of the United States, which conducted air strikes targeting Iran's nuclear sites. Iran retaliated by targeting the US base in Qatar. Their retaliation was viewed as being at the lower end and saw the oil price fall back to levels seen pre-Israel's airstrike.

European bonds underperformed their US counterparts during the month. Weighing on European yields was an increase in annual defence spending to 5% of gross domestic product by 2035 announced following the NATO summit. The amount is split with 3.5% going towards core defence requirements and 1.5% allocated towards protecting critical infrastructure and strengthening the defence industrial base. US bonds benefitted from more dovish central bank language. Headlines suggesting changes to Supplementary Leverage Ratio (SLR) that apply to globally systemic important US banks also assisted. The move is intended to increase capacity for large US banks to engage in low-risk activities such market intermediation in US treasuries. US ten-year bond yields ended the month 17 basis points lower at 4.23%. German ten-year yields finished the month 11 basis points higher at 2.61%.

Equity markets were also mixed. In the US the S&P500 reached a new peak following a monthly gain of 5%. Diversified banks rose by 9%, assisted by the potential SLR changes. European bourses didn't reflect the same strength during the month, although remain at or near all-time highs. The DAX (Germany) ended the month -0.4% and the CACS (France) fell by 1.1%.

In the United States the Federal Reserve left policy settings unchanged. The Federal Reserve provided updated economic forecasts via their 'dot plot'. The median forecast continues to reflect 2 rate cuts by the end of this year. Further policy easing of 25 basis points is forecast for 2026 and 2027. The prior forecast had 50 basis points of easing for 2026 and 25 basis points for 2027. Economic growth was revised lower with inflation and unemployment revised upward. In his semi-annual testimony Powell indicated that he is in no rush to cut rates soon given the strength of the labour market. Uncertainty about the impact from yet to be resolved tariffs is also supporting the case for remaining on hold.

Economic data was tilted towards the weaker than expected side. The ISM services index was weaker than expected and dipped below 50, indicating a contraction in activity. The ISM manufacturing index continues to indicate contraction as well. The unemployment rate was unchanged at 4.2%, in line with expectation. Non-farm payrolls were slightly better for the month, although the prior 2 months data had a net downward revision of 95,000 jobs. Monthly headline and core inflation undershot consensus when rising by 0.1% (against 0.2% and 0.3%). The Conference Board Consumer Confidence survey was weaker and fell sharply. The fall was attributed to concerns over the impact of tariffs on the economy and jobs.

Other central banks to leave policy settings unchanged during the month included the Bank of Japan. The BoJ left its policy rate unchanged at 0.50%. They did announce their intention to reduce quarterly government bond purchases by 200bn yen from April 2026. The current pace of bond purchases is 400bn yen per quarter. The Bank of England left policy unchanged, although the 6-3 vote surprised the market and increased expectations of policy easing at their next meeting in August. The Bank of Canada also left their policy rate unchanged at 2.75%.

Central banks that eased during the month included the European Central Bank. The ECB eased by 25 basis points to 2%, in line with market expectations. ECB President Lagarde was however more hawkish with her comments post the decision and saw yields rise. Lagarde stated that "I think we are getting to the end of a monetary policy cycle'. Headlines suggested that the ECB may pause at their next meeting in July and some see the easing cycle as having finished.

The Swiss National Bank also eased by 25 basis points, taking their policy rate to zero. The Bank has expressed a reluctance to move back into negative interest rate policy territory and signaled they would intervene in the foreign exchange market if required.

The Norges Bank surprised the market when easing policy by 25 basis points to 4.25%, marking the first policy change from the bank since December 2023. In Sweden the Riksbank continued policy easing when reducing their policy rate by 0.25% to 2%.

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. Gains in duration contributed to performance.

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 particualrly 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.

Market outlook

As indicated by market pricing the RBA will most likely ease the cash rate further in July to 3.60%. The market is also pricing a follow-up cut at their meeting in August as being highly likely. The key piece of domestic economic data that will solidify policy easing is the 2nd quarter inflation data to be released in late July. International events continue to provide headwinds for global economic growth. The 90-day pause on 'Liberation day' tariffs announced in April and subsequent trade deals will garner headlines during July. How events unfold around US trade policy will determine the pace and extent of further policy easing from the RBA.

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