Factsheet

Income & Fixed Interest

29 February 2024

Pendal Short Term Income Securities Fund

ARSN: 088 863 469

About the Fund

The Pendal Short Term Income Securities Fund (**Fund**) is an actively managed portfolio of primarily Australian cash and fixed interest securities. The Fund invests in a combination of short-term money market instruments and medium-term floating and fixed rate securities.

The Fund invests in short-term and medium-term securities that are investment grade[1]. Duration is managed in a range of +/- 0.5 year around the index.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Bank Bill Index. The recommended investment time frame is 12 months or more.

Investment Approach

The Fund aims to add value through active management by exploiting market inefficiencies through the shape of the money market curve and the mispricing of credit securities. Research is focused on assessing economic factors, the likely direction of interest rates and credit analysis. Credit margin relative value is assessed with reference to rating, sector, maturity, liquidity and underlying credit fundamentals.

Investment Team

Pendal's Income & Fixed 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 Characteristics

Weighted average maturity	+/- 0.5 years around the index
Minimum credit rating	Investment Grade
Liquidity	Following day access (before 2.00pm)

Portfolio Statistics (as at 29 February 2024)

Yield to Maturity#	4.97%
Running Yield*	4.59%
Modified duration	0.11 years
Credit spread duration	1.90 years
Weighted Average Maturity	2.07 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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.48	0.50	0.34
3 months	1.39	1.45	1.09
6 months	2.55	2.68	2.12
1 year	4.93	5.19	4.10
2 years (p.a)	3.44	3.70	2.92
3 years (p.a)	2.36	2.62	1.95
5 years (p.a)	2.16	2.42	1.47
Since Inception (p.a)	4.40	4.72	4.23

Source: Pendal as at 29 February 2024

"Post-fee" return is based on management fees deducted from the unit price: currently 0.25% (pa). "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: January 1994.

Past performance is not a reliable indicator of future performance.

Sector Allocation (as at 29 February 2024)

Money market	16.2%
Corporate	77.8%
Residential mortgage backed	6.0%
Government bond	0.0%
Other asset backed securities	0.0%

Security Credit Ratings (as at 29 February 2024)

AAA	13.3%
AA	48.5%
A	7.9%
BBB	14.2%
Money market	16.2%

Other Information

Fund size (as at 29 February 2024)	$1,017 million
Date of inception	January 1994
Minimum investment	$100,000
Buy-sell spread[2] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	WFS0377AU

[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.

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]	0.25% 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.

[1] Investment grade securities refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

Market review

Yields were higher over the month, driven by better-than-expected economic data and central bankers continuing to push back against the market pricing of rate cuts. The common theme was central bankers preferring to wait and see that inflation is easing further before reducing policy rates. The easing of financial conditions from lower bond rates and higher equity markets was not seen as helpful.

Fed Chair Jerome Powell noted the 'danger of moving too soon is that the job's not quite done, and that the really good readings we've had for the last six months somehow turn out not to be a true indicator of where inflation is heading'. The RBA minutes for their February meeting noted that 'inflation had moderated but was still high', further noting 'it was not yet possible to rule in or out further increases in interest rates.'

The Reserve Bank of Australia (RBA) left the cash rate unchanged at 4.35%. The RBA also provided an updated set of economic forecasts in their quarterly Statement on Monetary Policy. Economic growth was revised down by 0.2% to 1.8% for 2024 with both household consumption (-0.4%) and dwelling investment (-1.5%) key drivers for the downward revision. Inflation is forecast to be back within the target range by the end of 2025 and back to around the mid-point by mid-2026. Nearer term, however, inflation is forecast to be lower than previously expected with trimmed mean for the year ended June 2024 and December 2024 expected to be at 3.6% and 3.1%.

Employment grew by a weaker than expected 500 jobs in January, resulting in the unemployment rate increasing from 3.9% to 4.1%. The participation rate was unchanged at 66.8%. This is the first time unemployment has been above 4% since January 2022.

The 4th quarter wage price index rose by 0.9%, resulting in an annual gain of 4.2% (consensus of 0.9% and 4.1%). Enterprise agreements indicate that 4% wage growth will be the pace of rises across early 2024 before potential moderation in the second half.

Australian three year bonds finished February at 3.70%, against a January close of 3.56%. 10 year bonds finished at 4.15% against 4.02%.

Credit review

February was a positive month for credit spreads as US company earnings provided a positive back drop, as did the supportive US economic data.

4th quarter US company reporting was a tailwind for markets. By the end of February, 98% of companies had reported with 76% beating earnings expectations by 7% on average. Sales grew 4% whilst earnings growth was 8% compared to the prior corresponding period.

US economic data continues to show a resilient economy with payrolls, jobless claims and manufacturing all printing better than expected during the month. We saw a further easing of bank lending standards in the US which is also a bullish sign for markets as this eases the ability of companies to access their bank funding requirements.

Credit spreads narrowed over the month. The Australian iTraxx index (series 40) traded in a 9bp range finishing 4bp tighter to close at 64bps. Australian physical credit spreads tightened 3bps on average. The best performing sectors were infrastructure and domestic banks that both narrowed 5bps, whilst the worst performing sector was industrials that only tightened 1bp. Semi-government bonds underperformed widening 2bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the benchmark over the month.

Financials and industrials were the main drivers of the outperformance.

Activity during the month included adding exposure to industrials and telcos funded out of domestic banks.

Market outlook

The RBA are likely to remain on hold over the first half of 2024. It is not a requirement that inflation is below 3% before they start to ease monetary policy. Should the labour market ease and inflation move sustainably towards the inflation target then the RBA will have the set of conditions in place to ease policy. Those conditions are more likely to be met later this year.

Credit outlook

We are positive on credit spreads given the continued fall in US core inflation and the resilience of the consumer. This easing of inflation concerns will see central banks cut policy rates which will likely see a soft economic landing as opposed to a hard landing and in turn would be positive for risk assets.

The data on credit lending globally shows that the tightening of lending standards is easing which is a great sign for corporates, economic growth and markets.

We are still keeping a watchful eye on global labour market and services inflation given this will be a driver of Central Bank policy.

Higher oil prices, a slowing China and geopolitical concerns remain a risk 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 asset.
- **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.

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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