PENDAL

Factsheet

Income & Fixed Interest

31 March 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 31 March 2024)

Yield to Maturity#	4.97%
Running Yield*	4.63%
Modified duration	0.12 years
Credit spread duration	1.90 years
Weighted Average Maturity	2.08 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	0.42	0.44	0.37
3 months	1.36	1.42	1.09
6 months	2.63	2.76	2.15
1 year	5.11	5.38	4.19
2 years (p.a)	3.71	3.97	3.11
3 years (p.a)	2.49	2.75	2.07
5 years (p.a)	2.19	2.45	1.51
Since Inception (p.a)	4.40	4.72	4.23

Source: Pendal as at 31 March 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 31 March 2024)

Money market	17.6%
Corporate	76.5%
Residential mortgage backed	5.9%
Government bond	0.0%
Other asset backed securities	0.0%

Security Credit Ratings (as at 31 March 2024)

AAA	12.2%
AA	48.8%
A	9.3%
BBB	12.1%
Money market	17.6%

Other Information

Fund size (as at 31 March 2024)	$1,005 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

March saw modest rallies in bonds, despite economic data holding up well and central bankers pushing back on rate cuts. Strong equity markets saw some flow back into bonds on rebalancing that supported bonds.

Data in Australia across the month was mixed. The Q4 GDP showed an economy struggling into year end, with quarterly GDP at 0.2% and annual growth at 1.5%. GDP per capita went backwards for the third quarter.

However, despite signs that late 2023 saw slowing growth and falling inflation, current data is seeing more resilience in 2024 than expected. Australian employment numbers in March showed a strong 116,000 jobs created and unemployment falling from 4.1% to 3.7%. Despite month-to-month volatility highlighting seasonal adjustment issues at the ABS, the trend is now that enough jobs are being created to meet new entrants, with both around 30k a month on a trend basis. This is not consistent with the RBA narrative of a slowly rising unemployment rate helping ease wage pressures.

Monthly inflation data showed a year-on-year rate of 3.4%. We expect that after the Q1 inflation is released in late April this series will also show inflation around 3.4%. This is consistent with the RBA mid-year forecast of 3.3%. On the negative front education inflation rose 5.8% in February (it is only measured once a year) but on a more positive note annual health fund rises in April were set at an average of 3.1%. The RBA needs to see service inflation move back to 4% from current levels above 5%.

Three-year yields fell from 3.72% to 3.59% in March whilst 10-year bonds fell from 4.14% to 3.96%. Australian bonds outperformed the US moving from 10 under to 20 under in the 10-year maturity. This is being driven by poorer growth outcomes in Australia, partly linked to a 6% budget deficit to GDP in the US against our balanced budget.

Credit review

March was generally a positive month for credit spreads as the US Federal Reserve kept their 2024 rate cut expectations unchanged relative to market expectations of reducing the number of cuts, and the Fed's preferred inflation gauge printing lower than the previous month. However, slightly stronger than expected US CPI and producer prices data weighed on the market.

The Federal Open Market Committee left their cash rates unchanged and also kept their Dot plots unaltered in 2024 (75bps of cuts). The market responded positively to this as there was an expectation that they may take a cut out of their 2024 projections. However, the slightly higher CPI and PPI data saw them take one cut out in 2025 & flows through to 2026 to a further 75bp cut each year. They also slightly increased their long term cash rates by 6bps to 2.56%

Credit spreads were mixed over the month. The Australian iTraxx index (series 40) traded in a tight 5bp range finishing 4bp tighter to close at 60bps. The new series 41 contract ended the month at 64bps. Australian physical credit spreads widened 1bp on average. The best performing sectors were domestic and offshore banks that both narrowed 1bp, whilst the worst performing sector was real estate that widened 2bps. Semi-government bonds widened 1bp to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the benchmark over the month.

Financials and RMBS were the main drivers of the outperformance.

Activity during the month included adding exposure to utilities funded out of covered bonds.

Market outlook

The main data in Australia in April will be the Q1 CPI data due out on the 24th. We have good visibility on this already from monthly data and expect either a 0.8% or 0.9% outcome. This will be higher than the last quarter but still shows a level of inflation in the low to mid 3% band. This is consistent with RBA forecasts and leaves rate cuts later in the year as a possibility. The employment data will also be closely watched to see if the recent noise resolves itself and unemployment settles around 4%. If it were to stay nearer 3.7% the RBA would be forced to question its forecast of 4.2% by the end of June. Downward revisions in unemployment levels are not usually consistent with lower rates.

Credit outlook

We are constructive on credit spreads on the back of the continued fall in US core inflation and the resilience of the consumer. This disinflation will see central banks ease policy rates and support a soft/no economic landing outcome and not a hard landing, this 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 good news 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, higher oil prices, a slowing Chinese economy, and geopolitical tensions are potential risks 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**