PENDAL

Factsheet

Income & Fixed Interest

30 June 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 30 June 2024)

Yield to Maturity#	5.07%
Running Yield*	4.67%
Modified duration	0.24 years
Credit spread duration	2.01 years
Weighted Average Maturity	2.22 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	0.37	0.39	0.35
3 months	1.29	1.36	1.08
6 months	2.67	2.80	2.18
1 year	5.25	5.52	4.37
2 years (p.a)	4.41	4.67	3.63
3 years (p.a)	2.85	3.11	2.44
5 years (p.a)	2.32	2.58	1.64
10 years (p.a)	2.50	2.75	1.86
Since Inception (p.a)	4.41	4.73	4.23

Source: Pendal as at 30 June 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 30 June 2024)

Money market	21.5%
Corporate	72.9%
Residential mortgage backed	5.5%
Government bond	0.0%
Other asset backed securities	0.0%

Security Credit Ratings (as at 30 June 2024)

AAA	12.6%
AA	44.9%
A	16.0%
BBB	5.1%
Money market	21.5%

Other Information

Fund size (as at 30 June 2024)	$989 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

Australian bond markets finished June with yields mixed. A strong first half of the month was punctured by a hawkish RBA mid-month and a higher-than-expected May CPI late month. Three-year bonds, hit by a change in rate expectations, were 4 bp higher over the month at 4.16%, having traded in a 3.88% to 4.26% range. 10-year bonds were 10 bp lower at 4.31%, with a range of 4.11% to 4.41%.

The growth data over June continued to paint a picture of a sluggish economy. Quarter1 GDP came in at 0.1% and was negative on a per capita basis again. The NAB survey weakened again as business conditions finally fell through long-term levels. The unemployment rate came in at 4% although employment levels continue to match the increase in the workforce.

Against the weaker data was disappointing inflation data. The NAB survey showed a pickup in price pressures which was matched by the monthly inflation data for May. Expectations were for a slight pickup in the year-on-year inflation data at 3.8% but the final number was 4%. Attention now turns to Q2 numbers due at the end of July.

The May number sees expectations for core inflation to be at 1% in Q2, 0.2% higher than the RBA previous expectations of 0.8%. Whether this potential miss is large enough to trigger a hike in early August is now the focus of the market. The RBA alluded to a close call in their mid-June press conference where the Governor revealed a hike but not cut was discussed in their meeting. Odds are drifting between a 30% and 60% chance of a hike.

Credit review

Credit spreads were wider over June on the back of European political concerns, however encouraging US economic data supported markets.

Earlier in the month, markets cheered the weaker than expected US CPI and producer prices data that supported the view that disinflation continues.

However mid-month, French President Macron’s reaction to the poor performance in the European elections triggered weakness in risk markets. He called a snap election which opens up the possibility of the new Far Right party winning, this droves concerns around this party’s general lack of fiscal discipline when delivering on their election promises. Later, far-right leader Marine Le Pen pledged to work with President Macron if she won parliamentary elections, which calmed markets.

Credit spreads underperformed over the month. The Australian iTraxx index (series 41) traded in a 8p range finishing 5bps wider to close at 71bps. Australian physical credit spreads moved out 4pts on average. The best performing sector was domestic banks that only widened 1bp, whilst the worst performing sectors were utilities and supra-nationals that both moved out 4bps. Semi-government bonds outperformed tightening 5bps to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the benchmark over the month.

RMBS was the main driver of the outperformance.

Activity during the month included increasing exposure to utilities funded out of financials.

Market outlook

The recent surge in Australian inflation data has markets focused on the Q2 CPI, due out July 31st. Data between now and then could yet sway what is a difficult call for the RBA. Unfortunately, there will be no more inflation data so unemployment mid-month could be a swing factor.

Bond markets do look beyond the potential impact of the next RBA move, and the fact that the US Fed meeting in September is considered an odds-on call for a cut is supporting longer yields. The view could well be that an RBA hike could make a recession more likely, offsetting positive news from tax cuts and subsidies.

Therefore, much of the action in July could be in the yield curve, where US moves lead to a steeper curve there, but RBA moves lead to a flatter curve here. Ultimately, we still view bonds here as good value as we still expect inflation to finish the year nearer 3%.

Credit outlook

We remain positive on credit spreads as our view is that US core inflation will continue to fall and an economy supported by a resilient consumer will underpin corporate credit fundamentals. This disinflation will see central banks ultimately ease policy rates and support a soft/no economic landing outcome which 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 positive 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, geopolitical tensions and higher oil prices are risks for markets.

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

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