

Pendal Short Term Income Securities Fund

ARSN 088 863 469

Annual report

for the year ended 30 June 2023

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Contents	Page
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	29
Independent auditor's report to the unitholders of Pendal Short Term Income Securities Fund	30

Directors' report

The directors of Pendal Fund Services Limited, the Responsible Entity of the Pendal Short Term Income Securities Fund ("the Fund"), present their report together with the Fund's financial statements for the year ended 30 June 2023.

Responsible Entity

The Responsible Entity of Pendal Short Term Income Securities Fund is Pendal Fund Services Limited (ABN 13 161 249 332). The Responsible Entity's registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

Directors

The following persons held office as directors of Pendal Fund Services Limited during the year or since the end of the year and up to the date of this report:

Amanda Apted (appointed 31 August 2023)
 Richard Brandweiner (appointed 6 March 2019, resigned 31 July 2023)
 Justin Howell (appointed 7 May 2018, resigned 1 September 2023)
 Anthony Serhan (appointed 6 December 2019)
 Simone Mosse (appointed 23 January 2023)
 Cameron Williamson (appointed 15 November 2012, resigned 23 January 2023)

Principal activities

The Fund invests in fixed interest securities, money market securities, derivatives and cash management trusts in accordance with the provisions of the governing documents.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

Review and results of operations

The Fund continued to invest in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

	30 June 2023	30 June 2022
Profit/(loss) (\$'000)	<u>37,865</u>	<u>(3,237)</u>
<i>Distributions</i>		
Distributions paid and payable (\$'000)	<u>32,594</u>	<u>8,236</u>
Distributions (cents per unit)	<u>3.329</u>	<u>0.756</u>

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 5 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in note 2 to the financial statements.

Directors' report (continued)

Significant changes in the state of affairs

On 23 January 2023, Pendal Group Limited, the parent entity of the Pendal Fund Services Limited, was acquired by Perpetual Limited. The sale is not expected to have material impact on the operation of the Fund.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Fees paid to and interests held in the Fund by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 11 to the financial statements.

No fees were paid out of Fund property directly to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 11 to the financial statements.

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund for insurance cover provided to the officers of the Responsible Entity. So long as the officers of Pendal Fund Services Limited act in accordance with the Fund's Constitution and the law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with *Australian Securities & Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 5.

This report is made in accordance with a resolution of the directors.



Director



Director

Sydney
19 September 2023



Auditor's Independence Declaration

As lead auditor for the audit of Pental Short Term Income Securities Fund for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Alexandra Richardson', written in a cursive style.

Alexandra Richardson
Partner
PricewaterhouseCoopers

Sydney
19 September 2023

Pendal Short Term Income Securities Fund
Statement of comprehensive income
For the year ended 30 June 2023

Statement of comprehensive income

	Notes	30 June 2023 \$'000	30 June 2022 \$'000
Investment income			
Interest income	3	19,962	8,979
Distribution income		12,599	1,054
Net gains/(losses) on financial instruments at fair value through profit or loss		<u>7,334</u>	<u>(10,951)</u>
Total investment income/(loss)		<u>39,895</u>	<u>(918)</u>
Expenses			
Responsible Entity's fees	11(e)	2,024	2,285
Transaction costs		6	12
Other expenses		<u>-</u>	<u>22</u>
Total expenses		<u>2,030</u>	<u>2,319</u>
Profit/(loss)		<u>37,865</u>	<u>(3,237)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u>37,865</u>	<u>(3,237)</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Pendal Short Term Income Securities Fund
Statement of financial position
As at 30 June 2023

Statement of financial position

	Notes	30 June 2023 \$'000	30 June 2022 \$'000
Assets			
Cash and cash equivalents	6	244,719	450,624
Margin accounts		258	118
Accrued income		4,984	1,783
Receivables		590	-
Financial assets at fair value through profit or loss	7	<u>792,205</u>	<u>671,691</u>
Total assets		<u>1,042,756</u>	<u>1,124,216</u>
Liabilities			
Margin accounts		-	12,585
Distribution payable	4	23,415	4,575
Payables		1,442	2,584
Financial liabilities at fair value through profit or loss	8	<u>14</u>	<u>61</u>
Total liabilities		<u>24,871</u>	<u>19,805</u>
Net assets attributable to unitholders - equity	5	<u>1,017,885</u>	<u>1,104,411</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Pendal Short Term Income Securities Fund
Statement of changes in equity
For the year ended 30 June 2023

Statement of changes in equity

	Notes	30 June 2023 \$'000	30 June 2022 \$'000
Total equity at the beginning of the year	5	1,104,411	932,206
Comprehensive income for the year			
Profit/(loss)		37,865	(3,237)
Other comprehensive income		-	-
Total comprehensive income		<u>37,865</u>	<u>(3,237)</u>
Transactions with unitholders			
Applications	5	418,558	782,658
Redemptions	5	(514,082)	(600,105)
Units issued upon reinvestment of distributions	5	3,727	1,125
Distributions paid and payable	4,5	(32,594)	(8,236)
Total transactions with unitholders		<u>(124,391)</u>	<u>175,442</u>
Total equity at the end of the year	5	<u>1,017,885</u>	<u>1,104,411</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Pendal Short Term Income Securities Fund
Statement of cash flows
For the year ended 30 June 2023

Statement of cash flows

	30 June	30 June
	2023	2022
Notes	\$'000	\$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	745,189	568,168
Purchase of financial instruments at fair value through profit or loss	(862,537)	(508,503)
Interest received	19,560	8,640
Distributions received	1,200	876
Responsible Entity's fees paid	(2,083)	(2,214)
Transaction costs paid	(6)	(12)
Other expenses paid	(2)	(23)
Net cash inflow/(outflow) from operating activities	9(a) (98,679)	<u>66,932</u>
Cash flows from financing activities		
Proceeds from applications by unitholders	417,968	782,658
Payments for redemptions by unitholders	(515,163)	(598,450)
Distributions paid	(10,027)	(4,909)
Net cash inflow/(outflow) from financing activities	(107,222)	<u>179,299</u>
Net increase/(decrease) in cash and cash equivalents	(205,901)	246,231
Cash and cash equivalents at the beginning of the year	450,624	204,393
Effects of foreign currency exchange rate changes on cash and cash equivalents	(4)	-
Cash and cash equivalents at the end of the year	6 (244,719)	<u>450,624</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 General information

These financial statements cover Pendal Short Term Income Securities Fund (“the Fund”) as an individual entity. The Fund was constituted on 29 September 1993. The Fund is domiciled in Australia.

The Responsible Entity of the Fund is Pendal Fund Services Limited (“the Responsible Entity”). The Responsible Entity’s registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

The financial statements were authorised for issue by the directors of the Responsible Entity on 19 September 2023. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets at fair value through profit or loss and net assets attributable to unitholders.

The Fund manages financial assets and liabilities at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such it is expected that a portion of the portfolio will be realised within 12 months, however an estimate cannot be reliably determined at the end of the reporting period.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholder’s option. However, holders of these instruments typically retain them for the medium to long term. As such the amount expected to be settled within 12 months cannot be reliably determined at the end of the reporting period.

Compliance with International Financial Reporting Standards

The financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Functional and presentation currency

The financial statements are presented in Australian dollars, which is the Fund’s functional currency.

Use of estimates

Management makes estimates and assumptions that affect the reported amounts in the financial statements. Estimates and associated assumptions are reviewed regularly and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Where applicable to the fair value measurement, the current changing market conditions are assessed and estimated. Actual results may differ from these estimates.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The use of estimates and critical judgements in fair value measurement that can have significant effect on the amounts recognised in the financial statements is described in note 14.

Comparatives

Certain comparative figures have been restated to conform with the financial statement presentation adopted for the current year.

New standards, amendments and interpretations adopted by the Fund

There are no standards, interpretations and amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the financial statements of the Fund.

New standards, amendments and interpretations effective after 1 July 2023 and have not been early adopted

A number of new accounting standards, amendments and interpretations have been published that are not mandatory for the 30 June 2023 reporting period and have not been early adopted in preparing these financial statements. None of these are expected to have a material impact on the financial statements of the Fund.

(b) Financial instruments

(i) Classification

The Fund classifies its financial instruments based on its business model for managing its investments and their contractual cash flow characteristics. The Fund's investments are managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about the investments on a fair value basis together with other related financial information.

For unlisted unit trusts and derivatives, the contractual cash flows are not solely principal and interest. Consequently, these investments are measured at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

For debt securities, the contractual cash flows are solely principal and interest, however, they are neither held for collecting both contractual cash flows nor held for collecting both contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the objective of the Fund's business model. Consequently, the debt securities are also classified as financial assets at fair value through profit or loss.

(ii) Recognition/derecognition

The Fund recognises financial assets and liabilities on the date it becomes party to the contractual agreement and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Financial assets and liabilities are derecognised when the contractual right to cash flows from the investments has expired or has been transferred, and the Fund has transferred substantially all of the risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement

At initial recognition, a financial asset or liability is measured at fair value. Transaction costs are expensed in the statement of comprehensive income as incurred. Subsequently, all financial assets and liabilities are measured at fair value without any deduction for estimated future selling costs. Gains and losses arising from changes in the fair value measurement are recognised in the statement of comprehensive income in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Refer to note 14 for further details on how the fair values of financial instruments are determined.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount reported in the statement of financial position, when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholder's option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

A unitholder can redeem units at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value.

The carrying amount of these units at the redemption price represents the redemption amount that is payable at the end of the reporting period if the unitholders were to exercise their right to redeem the units in the Fund.

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments are classified as equity where certain strict criteria are met. The Fund classifies the net assets attributable to unitholders as equity as they satisfy the following criteria:

- the puttable financial instruments entitle the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instruments are in the class of instruments that is subordinate to all other classes of instruments and the class features are identical;
- no contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instrument; and
- the total expected cash flows attributable to the puttable financial instruments over the life are based substantially on the profit or loss.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank, deposits held at call with financial institutions and investments in cash management trusts where they hold short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents (continued)

Payments and receipts relating to the purchase and sale of financial assets and liabilities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(e) Margin accounts

Margin accounts comprise cash held, or owed, as collateral for derivative transactions and short sales. The cash is held by, or owed to, the broker and is only available to meet margin calls.

Cash collateral is disclosed in the statement of financial position as margin accounts and is not included as a component of cash and cash equivalents.

Cash collateral paid and receivable comprises cash paid as collateral for over-the-counter derivative transactions. The cash is held by the broker and is receivable by the Fund.

Cash collateral received and payable comprises cash received as collateral for over-the-counter derivative transactions. The cash is held by the Fund and is payable to the broker.

(f) Unsettled sales/purchases

Unsettled sales/purchases represent receivables for securities sold and/or payables for securities purchased that have been contracted for but not yet delivered by the end of the reporting period.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on unsettled sales/purchases at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12-month expected credit losses. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses.

(g) Accrued income

Accrued income may include amounts owed to the Fund for dividends, trust distributions and interest. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued from the time of last payment. Amounts are generally received within 45 days of being recorded as receivable.

(h) Receivables

Receivables include Reduced Input Tax Credits ("RITC") and application monies receivable from unitholders. The carrying amount of receivables is a reasonable approximation of fair value due to their short term nature.

(i) Payables

Payables include accrued expenses and redemption monies owing by the Fund which are unpaid as at the end of the reporting period. The carrying amount of payables is a reasonable approximation of fair value due to their short term nature.

A separate distribution payable is recognised in the statement of financial position when the Fund has distributed income and this amount remains unpaid as at the end of the reporting period.

(j) Investment income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents.

2 Summary of significant accounting policies (continued)

(j) Investment income (continued)

Distribution income is recognised when the Fund's right to receive payment is established.

(k) Expenses

All expenses, including Responsible Entity's fees, are recognised in the statement of comprehensive income on an accruals basis.

(l) Income tax

The Fund is not subject to income tax provided the taxable income of the Fund is attributed to its unitholders each financial year. Unitholders are subject to income tax at their own marginal tax rates on amounts attributable to them.

The benefits of franking credits and foreign tax paid are passed on to unitholders, providing certain conditions are met.

(m) Distributions

Distributions are payable as set out in the Fund's Constitution. Such distributions are recognised as payable when they are determined by the Responsible Entity of the Fund.

(n) Goods and Services Tax ("GST")

GST is incurred on the costs of various services provided to the Fund. The Fund qualifies for RITC, hence expenses such as Responsible Entity's fees have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office. Payables are inclusive of GST. The net amount of GST recoverable is included in receivables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis.

(o) Rounding of amounts

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

3 Interest income

	30 June 2023 \$'000	30 June 2022 \$'000
Cash and cash equivalents	120	8
Debt securities	<u>19,842</u>	<u>8,971</u>
Total interest income	<u>19,962</u>	<u>8,979</u>

4 Distributions to unitholders

	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
Distributions paid				
- September	1,102	0.100	1,301	0.120
- December	3,205	0.300	1,152	0.100
- March	4,872	0.500	1,208	0.100
Distribution payable				
- June	<u>23,415</u>	<u>2.429</u>	<u>4,575</u>	<u>0.436</u>
Total distributions	<u>32,594</u>	<u>3.329</u>	<u>8,236</u>	<u>0.756</u>

5 Net assets attributable to unitholders

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2023 No. '000	30 June 2022 No. '000	30 June 2023 \$'000	30 June 2022 \$'000
Opening balance	1,050,045	878,295	1,104,411	932,206
Applications	394,153	738,110	418,558	782,658
Redemptions	(483,619)	(567,422)	(514,082)	(600,105)
Units issued upon reinvestment of distributions	3,514	1,062	3,727	1,125
Distributions paid and payable	-	-	(32,594)	(8,236)
Profit/(loss)	<u>-</u>	<u>-</u>	<u>37,865</u>	<u>(3,237)</u>
Closing balance	<u>964,093</u>	<u>1,050,045</u>	<u>1,017,885</u>	<u>1,104,411</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

(a) Capital risk management

Management manages the Fund's net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Management monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. In the event of a significant redemption, as permitted under the governing documents, management may decide to pay a special distribution and/or may delay payment of the redemption amount.

6 Cash and cash equivalents

	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	29	5,077
Cash management trusts	<u>244,690</u>	<u>445,547</u>
Total cash and cash equivalents	<u>244,719</u>	<u>450,624</u>

7 Financial assets at fair value through profit or loss

	30 June 2023 \$'000	30 June 2022 \$'000
Financial assets at fair value through profit or loss		
Money market securities	99,011	99,590
Debt securities	679,295	556,944
Derivatives		
Futures	145	44
Swaps	<u>13,754</u>	<u>15,113</u>
Total financial assets at fair value through profit or loss	<u>792,205</u>	<u>671,691</u>

8 Financial liabilities at fair value through profit or loss

	30 June 2023 \$'000	30 June 2022 \$'000
Financial liabilities at fair value through profit or loss		
Derivatives		
Futures	14	-
Swaps	<u>-</u>	<u>61</u>
Total financial liabilities at fair value through profit or loss	<u>14</u>	<u>61</u>

9 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	30 June 2023 \$'000	30 June 2022 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss)	37,865	(3,237)
Proceeds from sale of financial instruments at fair value through profit or loss	745,189	568,168
Purchase of financial instruments at fair value through profit or loss	(862,537)	(508,503)
Net (gains)/losses on financial instruments at fair value through profit or loss	(7,334)	10,951
Income reinvested	(11,601)	-
Net change in accrued income and receivables	(201)	(517)
Net change in payables	(60)	70
Net cash inflow/(outflow) from operating activities	(98,679)	66,932
(b) Non-cash transactions		
Distribution payments satisfied by the issue of units under the distribution reinvestment plan	3,727	1,125

10 Remuneration of auditors

	30 June 2023 \$	30 June 2022 \$
Auditors of the Fund - PricewaterhouseCoopers Australia (PwC)		
<i>Audit and other assurance services</i>		
Audit of financial statements	33,385	30,371
Other assurance services	2,602	2,477
Total	35,987	32,848

Audit fees were paid by the Responsible Entity.

11 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Fund is Pendal Fund Services Limited (ABN 13 161 249 332), a wholly owned subsidiary of Pendal Group Limited (ABN 28 126 385 822).

(b) Key management personnel

(i) Directors

The directors of Pendal Fund Services Limited during the year or since the end of the year and up to the date of this report were as follows:

Amanda Apted (appointed 31 August 2023)
Richard Brandweiner (appointed 6 March 2019, resigned 31 July 2023)
Justin Howell (appointed 7 May 2018, resigned 1 September 2023)
Anthony Serhan (appointed 6 December 2019)
Simone Mosse (appointed 23 January 2023)
Cameron Williamson (appointed 15 November 2012, resigned 23 January 2023)

(ii) Other key management personnel

There was no other person with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, during the year or since the end of the year.

(c) Key management personnel unitholdings

At 30 June 2023, no key management personnel held units in the Fund (2022: Nil).

(d) Transactions with key management personnel

Key management personnel services are provided by Pendal Fund Services Limited and included in the Responsible Entity's fees. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel during the year.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

(e) Responsible Entity's fees and other transactions

Under the terms of the Fund's Constitution, the Responsible Entity is entitled to receive management fees. The Fund incurred management fees of 0.25% per annum (inclusive of GST and net of RITC) for the year ended 30 June 2023 (2022: 0.25%). The management fees are calculated by reference to the net asset value of the Fund.

Where the Fund invests into other funds, the Responsible Entity's fee is calculated after rebating the fees charged in the underlying funds.

The Responsible Entity pays for the Fund's recoverable expenses and does not recover these expenses from the Fund.

11 Related party transactions (continued)

(e) Responsible Entity's fees and other transactions (continued)

The transactions during the year and amounts payable/(receivable) at the reporting date between the Fund and the Responsible Entity were as follows:

	30 June 2023	30 June 2022
	\$	\$
Responsible Entity's fees	2,023,704	2,285,331
Responsible Entity's fees payable	514,082	573,024

12 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factors in deciding control and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in unlisted unit trusts to be structured entities. The Fund may invest in related and unrelated unlisted unit trusts for the purpose of capital appreciation and earning investment income.

The unlisted unit trusts are invested in accordance with the investment strategy by their respective investment managers. The return of the unlisted unit trusts is exposed to the variability of the performance of their investments. The unlisted unit trusts finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective trusts' net assets and distributions.

The Fund's exposure to structured entities at fair value is disclosed in the following table:

	Fair value		Ownership interest	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
	\$'000	\$'000	%	%
Pendal Stable Cash Plus Fund*	244,690	445,547	16.59	16.57

*This investment is included in cash and cash equivalents.

The fair value of these entities is included in financial assets at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interests in the structured entities is equal to the total fair value of its investments in these entities as there are no off balance sheet exposures relating to them. The Fund's exposure to any risk from the structured entities will cease when these investments are disposed of.

The Fund does not have current commitments or intentions and contractual obligations to provide financial or other support to the structured entities. There are no loans or advances currently made to these entities.

13 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management program focuses on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Derivative financial instruments may also be used or are used to alter certain risk exposures. Financial risk management is carried out by the investment manager. Exceptions to compliance are reported to management on a regular basis.

All investment securities present a risk of loss of capital. The maximum loss of capital on investment securities is generally limited to the fair values of those positions. The maximum loss of capital on derivatives is limited to the notional contract values of those positions.

The investment manager mitigates these financial risks through diversification and a careful selection of securities and other financial instruments within specified limits.

The Fund's performance exceptions to its benchmark are reported to senior management committees on a regular basis.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and price risks and ratings analysis for credit risk.

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk).

The Fund is exposed to price risk predominantly through its investments for which prices in the future are uncertain.

The fair value of the Fund's investments exposed to price risk was as follows:

	30 June 2023 \$'000	30 June 2022 \$'000
Derivatives	<u>13,885</u>	<u>15,096</u>
	13,885	15,096

The table presented in note 13(b) summarises sensitivity analysis to price risk. This analysis assumes that all other variables remain constant.

(ii) Foreign exchange risk

Foreign exchange risk arises as the fair value and future cash flows value of monetary assets and liabilities denominated in other currencies fluctuates due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. However, management monitors the exposures on all foreign currency denominated assets and liabilities.

The Fund did not have any significant direct exposure to currency risk at the reporting date.

13 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is exposed to cash flow interest rate risk on financial instruments with floating interest rates. Financial instruments with fixed interest rates expose the Fund to fair value interest rate risk.

Interest rate risk is mitigated through ensuring activities are transacted in accordance with the investment mandate, overall investment strategy and within approved limits.

The table presented in note 13(b) summarises sensitivity analysis to interest rate risk.

30 June 2023	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	29	-	244,690	244,719
Money market securities	-	-	99,011	99,011
Debt securities	218,574	460,721	-	679,295
Derivatives	262	13,637	-	13,899
Total financial assets	218,865	474,358	343,701	1,036,924
Financial liabilities				
Derivatives	-	14	-	14
Total financial liabilities	-	14	-	14
30 June 2022	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	5,077	-	445,547	450,624
Money market securities	-	-	99,590	99,590
Debt securities	120,929	436,015	-	556,944
Derivatives	-	15,157	-	15,157
Total financial assets	126,006	451,172	545,137	1,122,315
Financial liabilities				
Derivatives	-	61	-	61
Total financial liabilities	-	61	-	61

The table presented in note 13(b) summarises sensitivity analysis to interest rate risk. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

13 Financial risk management (continued)

(b) Sensitivity analysis

The following table summarises the sensitivity of profit and net assets attributable to unitholders to price risk and interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's estimates, having regard to a number of factors including historical levels of changes in market indices, benchmark returns and interest rates. However actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Impact on profit/net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-5.00% (2022: -5.00%) \$'000	+5.00% (2022: +5.00%) \$'000	-1.00% (2022: -0.10%) \$'000	+1.00% (2022: +2.00%) \$'000
30 June 2023	(694)	694	(8,910)	8,910
30 June 2022	(755)	755	(959)	19,188

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund.

Credit risk primarily arises from the Fund's investments in debt securities and from the Fund's trading in derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these financial assets have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be insignificant to the Fund.

All transactions in unlisted unit trusts are settled/unitised when unit prices are issued. The risk of default is considered low except when trading in a suspended unlisted unit trust.

Concentrations of direct credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved, and
- ensuring that transactions are undertaken with a number of counterparties.

Debt securities and money market securities

The Fund invests in debt securities and money market securities which have an investment grade as rated by an independent rating agency.

13 Financial risk management (continued)

(c) Credit risk (continued)

Analysis by credit rating is set out in the table below:

	30 June 2023 \$'000	30 June 2022 \$'000
Debt securities and money market securities		
Rating		
AAA	107,066	72,449
AA	384,486	192,762
A	63,237	122,249
BBB	124,506	169,484
A-1	<u>99,011</u>	<u>99,590</u>
Total	<u>778,306</u>	<u>656,534</u>

(d) Liquidity risk

Liquidity risk is the risk that sufficient cash resources may not be able to be generated to settle obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. The liquidity risk associated with the need to meet redemption requests is mitigated by maintaining adequate liquidity to fulfil usual redemption volumes. The Fund therefore primarily holds investments that are traded in an active market and can be disposed of readily. Only a limited proportion of its assets are not traded on an active market.

The risk management guidelines adopted are designed to minimise liquidity risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty.

From time to time, investments may be held in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. These investments may not be able to be quickly liquidated at an amount close to their fair value to meet liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. Any such investments held at the end of each reporting period are disclosed in the note on derivative financial instruments below.

(i) Maturities of non-derivative financial liabilities

The non-derivative financial liabilities of the Fund comprise distribution payable, margin accounts and payables. These have no contractual maturities but are typically settled within 30 days.

13 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Maturities of derivative financial instruments liabilities

The table below details the contractual maturities of the derivative financial instruments liabilities which are measured at fair value and considered important to understanding the timing of cash flows.

	Less than 1 month \$'000	1-6 months \$'000	Greater than 6 months \$'000
30 June 2023			
<i>Net settled derivatives</i>			
Futures	-	14	-
	Less than 1 month \$'000	1-6 months \$'000	Greater than 6 months \$'000
30 June 2022			
<i>Net settled derivatives</i>			
Swaps	-	61	-

14 Fair value measurement

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), or
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(a) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For the majority of financial assets and liabilities, information provided by independent pricing services is relied upon for valuation. Fair value inputs utilise the last traded prices for both financial assets and liabilities.

Exchange traded derivatives are valued at the market closing price.

14 Fair value measurement (continued)

(b) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined by using quoted market prices, dealer quotes and/or valuation techniques. These include the use of recent arm's length transactions, reference to current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation techniques that provide a reliable estimate of prices obtained in actual market transactions.

Valuation models use observable data to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in the assumptions for these factors could affect the reported fair value of financial instruments. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

Debt securities are generally valued using broker quotes. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Management monitors credit spreads closely and conducts regular review to ensure any estimates and assumptions used in the valuation model remain appropriate.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

Recognised fair value measurements

The following table presents the financial assets and liabilities by fair value hierarchy levels:

30 June 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Money market securities	-	99,011	-	99,011
Debt securities	-	679,295	-	679,295
Derivatives				
Futures	145	-	-	145
Swaps	-	13,754	-	13,754
Total	145	792,060	-	792,205
Financial liabilities at fair value through profit or loss				
Derivatives				
Futures	14	-	-	14
Total	14	-	-	14

14 Fair value measurement (continued)

Recognised fair value measurements (continued)

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Money market securities	99,590	-	-	99,590
Debt securities	454	556,490	-	556,944
Derivatives				
Futures	44	-	-	44
Swaps	-	15,113	-	15,113
Total	<u>100,088</u>	<u>571,603</u>	<u>-</u>	<u>671,691</u>
Financial liabilities at fair value through profit or loss				
Derivatives				
Swaps	-	61	-	61
Total	<u>-</u>	<u>61</u>	<u>-</u>	<u>61</u>

Transfers between levels

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the reporting period.

There were no transfers between levels as at 30 June 2023 or 30 June 2022.

15 Offsetting financial assets and financial liabilities

Financial assets and liabilities were offset and the net amount reported in the balance sheet when there was a legally enforceable right to offset the recognised amounts and there was an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts	Gross amounts set off in the statement of financial position	Net amount presented in the statement of financial position	Amounts subject to master netting arrangements	Cash collateral	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2023						
Financial assets						
Margin accounts	258	-	258	-	-	258
Derivatives	13,899	-	13,899	-	-	13,899
Total	14,157	-	14,157	-	-	14,157
Financial liabilities						
Derivatives	14	-	14	-	-	14
Total	14	-	14	-	-	14

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts	Gross amounts set off in the statement of financial position	Net amount presented in the statement of financial position	Amounts subject to master netting arrangements	Cash collateral	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
30 June 2022						
Financial assets						
Margin accounts	118	-	118	-	-	118
Derivatives	14,978	-	14,978	-	12,585	2,393
Total	15,096	-	15,096	-	12,585	2,511
Financial liabilities						
Margin accounts	12,585	-	12,585	-	12,585	-
Derivatives	61	-	61	-	-	61
Total	12,646	-	12,646	-	12,585	61

Master netting arrangement – not currently enforceable

Most agreements with derivative counterparties are based on the International Swaps and Derivatives Association ("ISDA") Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position and have been presented separately in the above table.

16 Derivative financial instruments

A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable.

Derivative transactions are entered into in the normal course of business.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as foreign currency forward contracts, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability against a fluctuation in market values or to reduce volatility,
- a substitution for trading of physical securities, and
- adjusting asset exposures within the parameters set in the investment strategy, and/or adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio occurs if the level of exposure to the markets exceeds the underlying value of the Fund.

The following derivative financial instruments were held during the year:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price, established in an organised market. Futures contracts are collateralised by cash or marketable securities. Changes in the values of futures contracts are usually settled net daily with the exchange or broker.

(b) Swaps

Swaps are derivative instruments in which two counterparties agree to exchange one stream of cash flow against another stream.

Interest rate swaps are agreements between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

Risk exposures and fair value measurements

Information about the exposure to financial risks and the methods and assumptions used in determining fair values is provided in note 13 and note 14 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the derivative financial instruments.

17 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Fund for the year ended on that date.

18 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023 or 30 June 2022.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director



Director

Sydney
19 September 2023



Independent auditor's report

To the unitholders of Pental Short Term Income Securities Fund

Our opinion

In our opinion:

The accompanying financial report of Pental Short Term Income Securities Fund (the "Fund") is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650 Sydney NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

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Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A stylized, cursive signature of the PricewaterhouseCoopers firm, written in black ink.

PricewaterhouseCoopers

A stylized, cursive signature of Alexandra Richardson, written in black ink.

Alexandra Richardson
Partner

Sydney
19 September 2023