

## Pendal Short Term Income Securities Fund

ARSN: 088 863 469

## Factsheet

Income & Fixed Interest

31 October 2023

### 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<sup>1</sup>. 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 October 2023)

Yield to Maturity <sup>#</sup>	5.09%
Running Yield <sup>*</sup>	4.55%
Modified duration	0.08 years
Credit spread duration	1.87 years
Weighted Average Maturity	2.05 years

<sup>#</sup> 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.

<sup>\*</sup> 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)	(pre-fee)	Benchmark Return
1 month	0.39	0.41	0.33
3 months	1.17	1.23	1.04
6 months	2.42	2.55	2.02
1 year	4.51	4.77	3.66
2 years (p.a)	2.49	2.75	2.20
3 years (p.a)	1.89	2.15	1.47
5 years (p.a)	1.94	2.20	1.31
Since Inception (p.a)	4.38	4.71	4.22

Source: Pendal as at 31 October 2023

"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 October 2023)

Money market	23.1%
Corporate	72.9%
Residential mortgage backed	4.0%
Government bond	0.0%
Other asset backed securities	0.0%

### Security Credit Ratings (as at 31 October 2023)

AAA	11.3%
AA	47.1%
A	6.2%
BBB	12.3%
Money market	23.1%

### Other Information

Fund size (as at 31 October 2023)	\$1020 million
Date of inception	January 1994
Minimum investment	\$100,000
Buy-sell spread <sup>2</sup>	
For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>	
Distribution frequency	Quarterly
APIR code	WFS0377AU

<sup>2</sup> 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 <sup>3</sup>	0.25% pa
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<sup>3</sup> 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.

<sup>1</sup> Investment grade securities refer to securities that are expected to have a high probability of payment of interest and repayment of principal.

## Market review

October was a poor month for bond markets. In almost a carbon copy of September, markets were largely unchanged for the first half of the month but collapsed in the second half. Unlike September though, the reasons for the selloff were less clear and numerous explanations were given for what was a surprise to most. In Australia three year bonds sold off 0.32% to 4.40%. 10 year bonds sold off more, moving up 0.43% to 4.92%, the highest level since early 2011. A decade long rally of over 4% in 10 year bonds has now been unwound in two years.

The key data release in Australia over October was the Q3 inflation numbers late in the month. The RBA has been on hold recently but expressing a low tolerance for inflation surprises. Unfortunately for the RBA their inflation forecasting has yet again been poor, changing their year end 2023 forecast down to an optimistic 3.9% in August. The Q3 number ended up coming in slightly higher at 1.2%, leaving the likely year end inflation rate closer to 4.2%. Whilst these are small differences in the scheme of things it will pressure the RBA into hiking, otherwise their rhetoric starts to look hollow.

The higher rates also put pressure on spreads in general. Semi government spreads were hit quite hard, out around 10 basis points on the month. This wiped out the positive performance through August and September. Swap spreads and credit markets also drifted wider but found some receiving and buying at the higher yields, limiting the spread movements.

## Credit review

In October, credit spreads widened as investor sentiment weakened. The primary catalyst for this downturn in risk appetite can be attributed to the continued rise in global bond yields, and the events in the middle east with the conflict between Israel and Hamas driving wider geopolitical fears. On the flip side, dovish Central Bank rhetoric and a positive US earnings season supported markets.

The surprise Hamas attack on Israel drove market weakness. The prevailing concern lies in the potential for regional escalation from Iran or other influential actors such as Saudi Arabia and Qatar. A wider military conflict in the Middle East could lead to a reduction in oil supply, provoking a surge in crude oil prices.

Compounding this negative sentiment was the persistent increase in U.S. interest rates. The driver of rising yields has been the resilience of the U.S. economy, higher oil prices and the anticipation of substantial Treasury supply to fund the significant US fiscal spending. Key US economic indicators such as payrolls, producer price and GDP all exceeded expectations during the month.

Federal Reserve and ECB officials spoke to monetary policy being restrictive enough to lower inflation to their goals and risks now more evenly balanced relative to the past. This was viewed favourably by markets as it indicates Central Banks may be close to the end of their hiking cycle.

A decent US Q3 earning reporting season was also supportive. With just over half of the S&P500 having reported by the end of October, 79% had beaten earnings expectations by 8% on average. Actual sales growth was 2% with profit growth of 3% vs pcp.

## Fund performance and activity

The Fund outperformed the benchmark over the month.

Industrials and financials added to performance.

Activity during the month included increasing exposure to RMBS funded out of shorter dated banks.

## Market outlook

The Reserve Bank of Australia (RBA) is likely to raise the cash rate to 4.35% at its November meeting. To not do so would risk the credibility of the new governor given the stated low tolerance the RBA has for a slower return of inflation to the target and the higher than expected 3rd quarter inflation subsequently released.

With the cash rate having already increased 4% since May last year and economic growth forecast to be sub-trend for 2024 and 2025 the RBA had viewed it as prudent to adopt a wait and see approach. The RBA remains cognisant of the uncertainties around the outlook for the Australian economy including the lagged effect from past tightening. Higher inflation and particularly services inflation however means that the RBA has little choice other than to tighten. We do not expect a follow up hike in December with 4th quarter inflation released in late January 2024 the likely catalyst should further policy action be required.

## Credit outlook

We remain tactically positive on credit spreads given the continued fall in US core inflation and the resilience of the consumer. This easing of inflation concerns should see central banks ultimately reduce cash rates which should see soft economic landing as opposed to a harder landing, and in turn would be positive for risk assets.

We are still cautious medium term as tight labour markets globally could see services inflation remain sticky and would see Central Banks maintain cash rates higher for longer, which would translate into a deeper global economic growth slowdown and potential recession.

Tightening of credit lending globally is also a risk to growth.

Higher oil prices and geopolitical concerns remain a risk for inflation.

## 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](http://pendalgroup.com)

**PENDAL**

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this factsheet and PFSL reserves the right to vary these from time to time.

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