PENDAL

Factsheet

Bond, Income & Defensive Strategies

December 2020

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 Bond, Income & Defensive team includes fifteen 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 26 years industry experience.

Portfolio Characteristics

Weighted average maturity	+/- 0.5 years around the index
Minimum credit rating	Investment Grade
Liquidity	Following day access (before 2.30pm)

Portfolio Statistics (as at 31 December 2020)

Yield to Maturity[2]	0.57%
Modified duration	0.20 years

[2] 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.

Management Costs[3]

Issuer fee[4]	0.25% pa

[3] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[4] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.06	0.08	0.00
3 months	0.59	0.65	0.02
FYTD	1.09	1.22	0.05
6 months	1.09	1.22	0.05
1 year (pa)	1.78	2.03	0.37
2 years (pa)	2.05	2.30	0.93
3 years (pa)	2.09	2.34	1.26
5 years (pa)	2.43	2.68	1.52

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

Sector Allocation (as at 31 December 2020)

Money market	25.1%
Corporate	70.1%
Residential mortgage backed	4.8%
Government bond	0.0%
Other asset backed securities	0.0%

Security Credit Ratings (as at 31 December 2020)

AAA	8.3%
AA	25.1%
A	24.6%
BBB	16.9%
Money market	25.1%

Other Information

Fund size (as at 31 Dec 2020)	$824 million
Date of inception	January 1994
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Quarterly
APIR code	WFS0377AU

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

[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

Equity markets continued their move higher in December. In the United States, the S&P500 rose 3.7%, resulting in an annual gain of 16.3%. The NASDAQ performed even better, rising 5.7% in December and by 43.6% over 2020. Bond yields had small rises, with US 10 year bond moving from 0.85% to 0.91%.

Along with the ongoing COVID-19 and vaccines news, fiscal stimulus packages in the United States and ongoing Brexit discussions dominated offshore headlines during the month. President Trump approved the USD 2.3trn Covid-19 and government funding relief package late in the month. All eyes now turn to the run-off elections to be held in Georgia in early January. Currently the Republicans hold 50 seats in the senate with the Democrats holding 48 seats. Should the Democrats win the 2 run-off elections they will have control as Vice President elect Kamala Harris will act as a tie breaker. The UK and the EU finally reached an agreement over the UK's divorce on Christmas Eve.

The Reserve Bank of Australia (RBA) left monetary policy unchanged at its December meeting. In its accompanying statement, the RBA noted that the economic recovery in Australia is underway and that recent data had generally been better than expected. Employment and inflation remain the key focus, with the RBA not looking to increase the cash rate until actual inflation is sustainably within the 2-3% target range. For this to occur the RBA sees significant employment growth and a tight labour market being required. The RBA is not expecting to raise the cash rate for at least 3 years.

Third quarter gross domestic product (GDP) was released after the RBA meeting and exceeded market expectations. The economy expanded by 3.3% (against expectation of 2.5%) in the quarter, resulting in a contraction of 3.8% for the year ended 30th of September 2020. The household savings ratio remains elevated at 18.9%, a slight fall from the 22.1% level recorded in the 2nd quarter data.

The NAB business survey reflected the best business conditions since the pandemic began in February, driven by strength particularly in retail, mining and wholesale. Improvement also occurred in the transport and finance, business and property sectors within the survey. The employment index however remains in negative territory.

In ratings action S&P downgraded New South Wales' credit rating by one notch to AA+ from AAA. Victoria had their rating downgraded by 2 notches from AAA to AA. The downgrades were not unexpected, although the 2 notches for Victoria was a surprise. TCV spreads widened by a modest 6bp to Government bonds, highlighting the cushioning impact of RBA QE and bank balance sheet buying.

In the United States, the Federal Reserve left the Fed Funds rate unchanged at 0-0.25% although did provide new guidance on the timeline for tapering asset purchases. The Federal Reserve stated that it would continue to increase its asset holdings at the current rate until substantial further progress has been made towards the Committee's maximum employment and price stability goals. Previously the Fed stated that it would maintain its asset purchases over the coming months.

The European Central Bank (ECB) expanded its Pandemic Emergency Purchase Program (PEPP) by EUR 500bn at its December meeting, taking the size of the program to EUR 1.85trn in total. The duration of the program has also been extended, to March 2022, although ECB President Lagarde stated that the full size of the program might not be deployed if conditions improve more quickly than expected. The ECB also provided further policy accommodation via expanding and extending the third series of their targeted longer-term refinancing operations (TLTRO III) and introducing the pandemic emergency longer-term refinancing operations (PELTROs). Inflation forecasts were revised down, with the ECB now seeing inflation at 1.1% in 2022 and 1.4% in 2023.

Risk sentiment was again positive during the month and saw equity markets rally and credit spreads contract. The Australian dollar and the trade-weighted index were up 4.6% and 3.1% respectively. Bond yields again moved higher with the Australian 10 year bond yields ending the month 8 basis points higher in yield at 0.98%. This mirrored the move in US 10-year yields which ended the month at 0.92%.

The month of December finished the year off a little stronger in credit markets.

Vaccine news and hope for improvements in 2021 supported the market with the UK becoming the first country in the world to approve the Pfizer/BioNTech covid-19 vaccine. The initial tiered rollout of vaccination started mid-month, ahead of the US and EU.

However, factors weighing on markets included the rising global infections, renewed lockdowns in Europe and reports of a new strain of the covid-19 virus, together with the unclear path of US stimulus negotiations.

The Australian iTraxx index (Series 34 contract) traded in a tight 4p range finishing the month 4bps tighter to +56bps. Physical credit spreads were also a little stronger narrowing 1bp on average. The best performing sectors were infrastructure, real estate and resources tightening 14, 12 & 10bps respectively. The worst performing sectors were domestic banks and supranationals widening 2 & 1bp respectively. Semi-government bonds tightened 1bp to commonwealth government bonds.

Fund performance and activity

The Fund outperformed the benchmark by 0.08% (pre-fee) in December. Financials, industrials, infrastructure and utilities drove the performance.

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

Outlook

The Reserve Bank of Australia (RBA) is likely to be on hold for new policies until the middle of 2021. The RBA will maintain its cautious tone for 2021 and policy action is unlikely to change from current levels, with another round of QE expected to begin May. The RBA have stated they will not be increasing the cash rate until full employment is reached and actual inflation is sustainably within their 2-3% target band. That is something that will not be happening anytime soon. There will remain a significant amount of slack in the labour market for an extended period, in turn resulting in benign wage inflation outcomes. This is key for the RBA in achieving its goal of actual inflation that is sustainably in the 2-3% target band. The coronavirus continues to cause havoc on the economy, despite the very small number of cases. Closing state borders certainly does nothing to assist economic growth. The ongoing appreciation of the Australian dollar, buoyed by the elevated iron ore price, will also be acting as a headwind to near term inflation. The RBA are on hold for an extended period.

We maintain our bullish view on credit markets on the back of significant global central bank and government support measures, positive vaccine news and a more conciliatory new US government.

With the high covid case numbers and concerns on the impact on the global economy, policy makers will remain in a 'whatever it takes mindset' and will continue to support economies from both fiscal and monetary stimulus perspectives. This support will be the main driver of markets going forward.

The news of effective covid vaccines with high efficacy is incredibly important for the improvement of global economic growth. Once the vaccines are distributed, the world will hopefully be able get back to normal which will see a sharp recovery in economic growth supporting risk markets.

The Biden victory in the US elections is also positive for markets as a Biden government should see an improvement in global trade talks moving away from the more aggressive Trump US-China trade wars.

The excess liquidity in the Australian system and attractive credit spreads against a very low cash and bond rates will continue to attract buyers to the sector supporting credit markets.

Continued policy measures should be supportive for risk assets which leaves us with a constructive stance on credit 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.
- **Valuation risk -** The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

For more information please call **1800 813 886**,
contact your key account manager or visit **pendalgroup.com**

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