PENDAL

Fund Manager Commentary

Month ended 30 April 2018

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Market review

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index, advanced by 3.8% in April, more than recouping the losses made in the previous month. Investors turned risk-on as geopolitical risks abated somewhat after North Korean leader Kim Jong Un met with South Korean President Moon Jae-in at the Demilitarised Zone. The Royal Commission remained an overhang for the Financials industry domestically; the unveiling of AMP's misconduct in particular occupied media headlines and saw its share price retreat by 19% over the month.

Performance from Resources (+9.5%) was particularly strong: the latest US sanctions on the world's largest aluminium producer, Rusal sparked fears of near-term supply shortage and saw the aluminium price soar. The iron ore price also edged marginally higher even though concerns around Chinese steel demand remained lingering. Conversely, global oil prices reached levels that were only seen back in 2014, as a result of heightened geopolitical risks in Syria and Iran. OPEC's production curtailment also continued to keep oil supply from the area in check. These benefited the miners and the oil companies in general, with sector heavyweights BHP (BHP, +9.7%), Rio Tinto (RIO, +9.9%), Woodside Petroleum (WPL, +10.2%) and South 32 (S32, +15.5%) all recording solid returns. Oil and gas explorer, Santos (STO, +21.1%), further benefited from a non-binding/conditional acquisition offer from global peer, Harbour Energy. The indicative offering price represented a 28% premium to STO's March closing price, and was the third attempt made by Harbour Energy over the past twelve months.

On the other side of the spectrum, performance from Financials (+0.1%) was positive yet lacklustre in April. There were limited upbeat company specific developments within the sector to offset the bearish sentiment stemming from the Royal Commission. For example, despite APRA's latest move in dropping its 10% cap on investor loan growth that was first introduced in 2014, the share price response from the big four banks was muted, with limited gains from NAB (NAB, +1.6%) and Westpac (WBC, +0.1%) being largely offset by minor losses from ANZ Bank (ANZ, -0.1%) and Commonwealth Bank (CBA, -0.7%). In addition, poor performance from health/medical insurer NIB Holdings (NHF, -12.7%) and fund manager, Perpetual (PPT, -13.5%), also weighed on the sector. It was concerns over structural headwinds in private health insurance that impacted the former, and the continuous net outflow that dragged the latter.

Returns from other sectors were broadly strong, including Health Care (+7.2%), Consumer Staples (+5.7%) and Real Estate (+4.1%), despite a higher long-term bond yield at month end. While sector heavyweights CSL (CSL, +9.6%) and Cochlear (COH, +6.9%) both advanced higher, Healthscope (HSO, +25.6%) was the standout within Healthcare after it received a conditional acquisition proposal from a consortium of investors. The indicative price represented a 16% premium to HSO's closing price at the time, and remains preliminary/non-binding at this stage.

Portfolio performance

The Pendal Australian Share Fund (formerly the BT Wholesale Core Australian Share Fund) returned 3.97% (post-fee, pre-tax) in April, outperforming its benchmark by 0.19%.

Contributors

Overweight Metcash

The share price of Metcash (MTS, +15.0%) advanced in April following a sell-side upgrade and channel checks which indicated improved trading and a more benign competitive environment for their IGA supermarket franchisees. The upgrade was well received by investors and more than offset some noise around disgruntled IGA retailers at the beginning of the month. Metcash remains one of our highest conviction stocks.

Overweight Santos

The oil price reached levels last seen in 2014 as a result of heightened geopolitical risks relating to Syria and Iran. OPEC's production curtailment also continued to keep oil supply from the area in check. This benefited oil/gas explorers, including Santos (STO, 21.1%). In addition, STO received a non-binding and conditional acquisition proposal from global peer, Harbour Energy, the third attempt from the company over the past 12 months. The indicative price represented a 28% premium to STO's March closing price. Concerns over the leveraged nature of the takeover bid, the fear that due diligence may uncover impediments to the deal, and the possibility of a Foreign Investment Review Board (FIRB) veto, are holding the market back from bidding the stock further towards the takeover price. At this point our view is more sanguine than the market. There is considerable stability and tenacity to the bidding party, consisting of seasoned oil executives and having had several attempts at STO now. The highly leveraged nature of the bid does increase the risk of some unforeseen outcome from due diligence impeding the deal; however, at this stage we believe the due diligence process is unlikely to reveal anything too problematic. At the same time, while LNG supply is a sensitive political issue, analysis of the actual dynamics of STO supply and the contracts involved suggest that the situation is sufficiently different from when the Government blocked Shell from buying out Woodside Petroleum (WPL) in 2001. Due diligence is likely to take five to six weeks to complete which, should a firmer bid follow, we believe will see the discount to the bid price close further.

Overweight BHP

Diversified miner, BHP (+9.7%), rose in April after commodity prices general moved higher. Despite lingering concerns around China's seemingly weakened steel demand, the iron ore price recouped some of its losses from the previous month. We continue to favour BHP for three reasons: the Chinese supply side discipline remains crucial and we see no sign of changes there; consensus expectations of the iron ore price still remain well below the spot price, leaving BHP cum-upgrade; and improvement in the company's capital discipline/allocation continues to progress.

Overweight Macquarie Atlas

Toll road operator, Macquarie Atlas (MQA, +13.7%), reported its first quarter traffic data during April. Revenue was up 5.4% whereas traffic was up 3.4% vs. the previous corresponding period (pcp); although the timing of holiday periods during this quarter had a mixed impact on traffic performance of some of its assets. MQA's major asset, APRR in France, benefitted from a continued favourable French economic environment and positive calendar and network effects over the quarter, and the update was well received by the market. We continue to favour MQA given its high quality asset portfolio.

Detractors

Overweight Qantas

It was a volatile month for the national airliner Qantas (QAN, -1.0%), with its share price advancing by as much as 4.6% intra-month before reverting back to finish April moderately lower. There was a lack of any material news-flow tied to the company, and we suspect some of the selling could be attributed to the increasing oil price. We believe the company is well positioned for its trading update in May, and it remains one of our highest conviction ideas, underpinned by a stable domestic duopoly and improving trends in the international business.

Overweight AMP

AMP (-19.0%) dominated news headlines over the month after it was revealed in the Royal Commission that it charged clients for services that were never provided and management was criticised for the lack of transparency post this event. While we acknowledge it will take time for AMP to rebuild trust with the market, regulators and the public, we also think the circa 25% fall in the share price (from its recent peak) is out of proportion to the likely earnings and valuation impacts. Errors in the business were compounded with misrepresentations to the regulators; however, the overcharging related to only $800k of revenue. There is no doubt that senior management and the board must be held accountable, and the likely outcomes we see from here are management and board changes in conjunction with fines and higher regulatory costs. Nevertheless, we expect the franchise risks around adviser and customer departures to likely recede as negative publicity subsides. Given where stock valuations are at the moment, we continue to hold AMP in the Fund.

Underweight South32

South32 (S32, +15.5%) recorded a strong month in April as the aluminium price spiked after the latest US sanctions on the world's largest aluminium producer, Rusal, sparked fears of near-term supply shortage for the commodity. The miner also reported its third quarter production results, where it upgraded the manganese production guidance by 5-6% in both Australia and South Africa. Offsetting some of the tailwinds from the surge in the aluminium spot price, the Constitutional Court of Columbia ruled against S32's Cerro Matoso operation, potentially leading to either increased costs or operational suspension for the division. S32 has initiated its appeal against the court's decision.

Overweight Boral

Boral (BLD, -7.5%) finished April lower as management downgraded earnings expectations for both the Australian and North American business, citing adverse weather in both instances, as well as some small operational issues. Despite management's focus on the weather, we think there are three underlying issues that the market is focusing on. The first is whether a reduction in coal-fired electricity production in the US means that BLD's ability to grow margins in their fly ash unit is lower than first thought. The second is whether the other smaller parts of the Headwaters acquisition in the US are proving more problematic than anticipated. The third issue is the surprising lack of leverage to the Australian construction cycle - possibly as a result of issues with the Western Australian brick business. These are certainly the areas we are investigating to understand if there is a change in the thesis on BLD.

Strategy and outlook

The Fund outperformed the market's strong bounce back in April and is well ahead of the index over 12 months (after fees). There was a broad mix of positive contributors during the month, with Metcash (supermarkets), Santos (energy), BHP (mining), and Macquarie Atlas Roads (infrastructure) all outperforming. Qantas detracted, most likely driven by a higher oil price in the absence of any news flow, although we remain confident ahead of their trading update in early May.

The Royal Commission tended to dominate headlines in April, dragging on the performance of the banks and, in particular, AMP. Bank valuations have reached historical lows relative to the market and are at a point similar to that in mid-2016 when the market was concerned about the housing cycle, corporate debt, and the potential for banks to raise capital. That proved to be a good buying point, as these fears proved overdone in subsequent months and the banks re-rated, outperforming the market. However, we do not believe that the banks offer a similar opportunity today. Given we are still at a relatively early stage in the Royal Commission, we believe there will be further negative news flow to weigh on sentiment, while at the same time a gradual decline in near-term margins is unlikely to provide a fundamental catalyst for improved performance.

We do believe some of the more extreme predictions being touted in the market are unlikely to come to pass. There is a view, for example, that tighter lending standards would prompt a credit crunch and a recession, which we see as unlikely given this is not in anyone's interests. Further downside in the banks is possible, although there is a lot priced in at these levels and the dividend yield is attractive. Nevertheless, we remain cautious on the domestic banking sector at this point; it is just still too early to gain any actionable insight into the range and materiality of potential outcomes.

The Fund retains an overweight in resources, expressed mainly via the position in BHP. We believe the success of Chinese steel capacity cuts in addressing pollution and profitability at large state-owned companies will see the policy sustained, supporting iron ore prices. Other key positions in include Qantas, Metcash, JB Hi-Fi and Santos.

Pendal Smaller Companies Fund

Market review

The S&P/ASX Small Ordinaries Accumulation Index finished April in the black with a gain of 2.8%, underperforming its large cap counterpart by 1%. Resources (+6.9%) contributed the most to the Index return, whereas performance from Industrials (+1.5%) lagged. Over the month, the majority of sectors advanced, with the exceptions being Health Care (-2.5%) and Financials (-5.1%). Real Estate (+1.7%), Consumer Discretionary (+1.6%) and Industrials (+1.5%) also underperformed the headline Index, despite recording a positive return in April.

Company performance was divergent within Index heavyweight, Consumer Discretionary; with the likes of APN Outdoor (APO, +17.7%), HT&E (HT1, +23.9%) and Corporate Travel Management (CTD, +6.0%) contributing positively; while the others including Navitas (NVT, -13.7%), G8 Education (GEM,-14.4%) and iSelect (ISU, -44.1%) detracted. Media and entertainment company, HT1, received a bid for its street furniture advertising business, which was well received by the market. However, management considered the bid to be undervalued and subsequently rejected the offer. In contrast, financial products comparison service provider, ISU, cut its earnings guidance by more than 60%, quoting higher customer acquisition costs and a volatile market environment. This was followed by the company's CEO stepping down.

Elsewhere, while the Royal Commissions kept the lid on investor sentiment within the Financials sector for the large cap universe, it was more company-specific news that was the source of lower returns within the small cap Financials universe. Alternatives investment manager, Blue Sky Alternatives (BLA, -70.4%), saw its share price drop further last month as investor jitters continued following the release of a research report from US hedge fund, Glaucus. News of the chief executive, Rob Shand, stepping down and some share buying from management was not enough to stem the share price decline. Alongside BLA, car leasing and loans company, Eclipx (ECX, -9.2%), also fell over the month ahead of its results in May. There are a number of issues that the market is focused on, including an increase in funding costs and progress in digesting an acquisition from last year. Offsetting some of the negative returns were financial services group, Flexigroup (FXL, +14.4%), and investment platform operator, HUB24 (HUB, + 10.3%). The latter reported a 42% increase in net inflows over the third quarter over the previous corresponding period (pcp), and management flagged an upbeat outlook of strong flows for the rest of FY18.

On the other side of the spectrum, Energy (+11.5%) fared the best in absolute return terms amid a rising global oil price, which reached a level that has not been seen since 2014. Beach Energy (BPT, +30.0%) was the standout amongst peers in April, as the company released a strong set of quarterly results, with sales revenue more than doubling compared to the prior year. Free cash flow generation improved and the surplus cash helped to reduce net gearing to 29%. Partially offsetting the strong gains from BPT, Liquefied Natural Gas (LNG, -8.0%) pulled back over the month. The company reported negative cash flows for the first quarter of the year.

Portfolio performance

The Pendal Smaller Companies Fund (formerly the BT Wholesale Smaller Companies Fund) returned 2.81% (post-fee, pre-tax) in April, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.06%.

Contributors

Overweight Synlait Milk

Synlait Milk (SML, +18.5%) is a New Zealand-listed diary processing company which, among other things, is the exclusive supplier of the A2 Milk Company's infant formula to China and Australasia. Its strong run over the year to date extended into April as the baby formula sector benefits from the tailwinds of Chinese demand. The outlook for Synlait was bolstered by the news in April that it signed a multi-year agreement to secure supply to underpin the doubling of lactoferrin production capacity at its Christchurch plant. Lactoferrin is a protein derived from milk which is used in a range of Synlait's nutritional products, including infant formula.

Underweight Blue Sky Alternative

A report from a US-based research firm questioning the stated value of Blue Sky Alternative's (BLA, -70.3%) assets prompted intense media scrutiny, the instigation of an internal review and the resignation of the managing director. We do not hold BLA, which had a beneficial effect on relative performance.

Detractors:

Underweight Beach Petroleum

Constrained supply has helped lift the price of oil in recent months, driving a strong quarterly report for Beach Petroleum (BPT,+30.0%). We do not own BPT, which dragged on relative performance. However, we do have exposure to the oil/LNG sector, both via a direct producer as well as through a service contractor which should benefit from a pickup in spending on well maintenance and expansion.

Overweight Eclipx Group

Car leasing and loans company, Eclipx (ECX, -9.2%) declined over the month ahead of its results in May. There are a number of issues that the market is focused on, including a pick-up in funding costs and progress in digesting an acquisition from last year. We believe the company's management will be able to address these issues and have scope to pass on funding costs to consumers. On an underlying basis, the company is benefiting from greater penetration into government business, while they are extracting the advantages of scale as the industry consolidates.

Strategy and outlook

The Fund's performance was broadly in line with the performance of the S&P/ASX Small Ordinaries Index +2.8% gain in April. There were positive contributions from across a broad range of industries, including dairy producer, Synlait Milk, industrial contractor, Cleanaway Waste Management, and agricultural chemical producer, Nufarm. The key drag came from not holding Beach Petroleum as well as a weak month for Eclipx Group.

The Fund has delivered strong relative performance in what has been a volatile period for smaller companies over the year to date. The Index's strong performance in April means that it is broadly unchanged from its level at the end of 2017 and is sitting at a -0.1% return. However, the Fund has delivered a +4.6% return after fees over the same period.

There are indications of a pick-up in new small cap listings, following a period in which there were very few. However, corporate activity remains largely driven by M&A. While the domestic economy remains patchy, with limited opportunities for organic growth, these pockets do exist in areas such as the insurance cycle, renewables, tourism and technology. Another good current example is mining services. After several years of tight cost discipline and delayed expenditure, we are now seeing an increase in spending from the mining companies in terms of both maintenance and also to sustain or replace existing mines. This is proving a boon after several lean years for mining service contractors, some of whom also have exposure to the pipeline of transport infrastructure projects on Australia's east coast. We have invested in this opportunity via companies such as Seven Group.

Outside of Seven Group, other key positions include Bapcor, which owns an auto parts distribution network and offers relatively resilient exposure to the Australian consumer, given the degree of disruption facing other parts of the consumer sector. We also like IDP Education, whose student placement and English testing services are well placed to benefit from the growth in demand for overseas education from countries such as India and China.

International Shares

Pendal Concentrated Global Share Fund

Market review

Confidence returned to share markets in April after tensions eased on a number of fronts. Trade tensions simmered after comments from President Trump indicated optimism on a trade deal with China, together with hints that the US may reconsider joining the Trans-Pacific Partnership free-trade accord. Tensions that have weighed on trade-related sectors eased and spurred a recovery in oil and gas prices, with crude oil moving above US$74 a barrel - its highest level since 2014. Production cuts by OPEC and Russia over the past year have also supported the oil price. Tensions around economic stability in the UK and the pan-European region diminished with increasing signs of sustainable economic growth.

The US market generated a positive return for the month after Trump's comments allowed investor attention to shift back to fundamentals. Momentum moved in favour of trade-related and growth oriented sectors, with Energy the standout performer. Consumer Staples lagged on concerns that a stronger US dollar would impact profitability, with many of the major operators having businesses outside of the US. Expectations of higher interest rates also weighed on the sector. Growth in the broader economy remained solid at an annual rate of 2.3%, albeit down from the 2.9% growth rate in Gross Domestic Product recorded for the prior quarter. The market closed the month in positive territory, with the S&P500 delivering a total return of 0.4%, while the NASDAQ increased by just 0.04%.

All major European equity markets delivered good gains in April, led by France (+6.8%), the UK (+6.4%) and Germany (+4.3%). Positive sentiment stemmed from strong corporate earnings announcements, the higher oil price and receding trade tensions. Readings on industrial activity remained in expansionary territory, while the European Central Bank retained its policy settings and noted it is seeing a "solid and broad-based expansion of the euro-area economy", which acted to support sentiment.

Most share markets in the Asian region also followed the path of major developed markets, rising in response to diminishing trade war fears and signs of improvement in relations between North Korea and the US-allied collective. China, Hong Kong, Japan and Korea all performed well, while Taiwan, the Philippines and Indonesia lagged.

The Australian dollar weakened by 1.6% against the US dollar in April, but was marginally higher against the euro and British pound and 1.7% stronger against the Japanese yen. Overall, the local currency's weakness contributed to higher returns from overseas equities for Australian investors.

Portfolio performance

The Pendal Concentrated Global Share Fund (formerly the BT Concentrated Global Share Fund) returned 1.85% (post fee, pre-tax) in April, underperforming its benchmark by 0.90%.

By the end of April, 65% of the S&P500 companies had reported quarterly earnings, with 88% of those companies reporting positive earnings growth which averaged 24% over the prior quarter. Contributing to the underperformance of the Fund this month was our circa 7% cash positon, our holding in MGM Resorts, and the underperformance of our semi-conductor stocks after a period of prolonged outperformance.

Our holding in MGM Resorts underperformed in April, which declined by around 11% following a disappointing quarterly result. While results were within consensus expectations, guidance for the full year at their Las Vegas operations was below expectations. Revenue per average room growth was guided to 1-3% rather than the previous guidance of 2-4%. Earnings (EBITDA) margins were also guided down between 50 to 100 basis points (bp), whereas previous guidance had suggested a 50bp improvement. A muted outlook for the convention business, disruption at their Monte Carlo property due to a substantial refurbishment, and a longer than expected recovery in bookings post the Mandalay Bay shooting were all cited as reasons for the softer outlook.

Over the longer term we expect the ramp up of their second integrated resort in Macau, which opened in February, to significantly add to earnings, as well as increase the company's overall exposure to the higher growth Macau market. The opening of their Springfield, Massachusetts resort in August this year should signal the peak in capital expenditure and be an inflection point for free cash flow generation. Management have flagged an interest in obtaining a license to operate an integrated resort in Japan. However, in the near term there is no appetite for any further large-scale developments. As such, as shareholders we expect to be rewarded with increasing amounts of cash flow being returned to us.

Also detracting from the Fund's performance this quarter was our holding in Pepsi Co. The share price was down by 7% despite delivering quarterly results in line with consensus. 2018 guidance was reiterated which implies a 9% year-on-year increase in core earnings per share, and a 2.3% increase in revenues. While we expect continued muted top-line growth and cost pressures for 2018, we believe Pepsi's management team are taking deliberate steps to positon the company to withstand an environment where retail models are rapidly evolving as consumers are becoming increasingly demanding and advertising channels have fragmented. As a result, Pepsi are investing in new operating infrastructure and actively assessing how to best optimise the structure of their North American beverage division. We believe both Pepsi and Coca-Cola, by virtue of their powerful brands, scale and strong balance sheets, are best positioned to emerge from a period of disruption in the global consumer packaged goods industries, with improved market share and margins.

Our holding in French oil and gas company, Total, performed well with the share price rising by 13% this month. While the 10% move in oil prices certainly helped performance, Total also delivered a first quarter result that was consistent with management's prior guidance for operating metrics and strategy. However, guidance for production growth was increased to greater than 6% for the year versus previous guidance of 5% growth. Management continue down the path of lowering the overall break-even level for the portfolio, with around $5 billion of low cost development projects announced over the quarter. Importantly, while growing the proportion of low cost production in the portfolio, management have also stayed true to script in "wanting to share the oil price with shareholders". Consequently, a larger than expected number of shares was bought back in the quarter and the dividend was raised in line with management's 10% increase within its three year target.

Strategy and outlook

Our view at Fund inception was that the next five years would be unlike the previous five years, and that the tailwinds of falling interest rates, quantitative easing and compelling valuations post the global financial crisis would be reversed. To that end, we expect further sector rotation and increased volatility. While global economic data has been generally favourable since we launched the Fund in August 2016, it has often been a case of two steps forward and one step back. Corporate earnings continue to grow and surpass consensus expectations. Our cash level at the end of the quarter was 7.4%, and while it was a drag on performance this month, it has allowed us the opportunity to add to positons where the share price reaction has not been commensurate with strong earnings and an outlook consistent with our thesis. Our preference, as always, is to own a select portfolio of companies, only buying them at what we believe to be significant discount to their intrinsic value, and to take a long term view on their ability to revert to their intrinsic value.

Pendal Core Global Share Fund

Market review

Confidence returned to share markets in April after tensions eased on a number of fronts. Trade tensions simmered after comments from President Trump indicated optimism on a trade deal with China, together with hints that the US may reconsider joining the Trans-Pacific Partnership free-trade accord. Tensions that have weighed on trade-related sectors eased and spurred a recovery in oil and gas prices, with crude oil moving above US$74 a barrel - its highest level since 2014. Production cuts by OPEC and Russia over the past year have also supported the oil price. Tensions around economic stability in the UK and the pan-European region diminished with increasing signs of sustainable economic growth.

The US market generated a positive return for the month after Trump's comments allowed investor attention to shift back to fundamentals. Momentum moved in favour of trade-related and growth oriented sectors, with Energy the standout performer. Consumer Staples lagged on concerns that a stronger US dollar would impact profitability, with many of the major operators having businesses outside of the US. Expectations of higher interest rates also weighed on the sector. Growth in the broader economy remained solid at an annual rate of 2.3%, albeit down from the 2.9% growth rate in Gross Domestic Product recorded for the prior quarter. The market closed the month in positive territory, with the S&P500 delivering a total return of 0.4%, while the NASDAQ increased by just 0.04%.

All major European equity markets delivered good gains in April, led by France (+6.8%), the UK (+6.4%) and Germany (+4.3%). Positive sentiment stemmed from strong corporate earnings announcements, the higher oil price and receding trade tensions. Readings on industrial activity remained in expansionary territory, while the European Central Bank retained its policy settings and noted it is seeing a "solid and broad-based expansion of the euro-area economy", which acted to support sentiment.

Most share markets in the Asian region also followed the path of major developed markets, rising in response to diminishing trade war fears and signs of improvement in relations between North Korea and the US-allied collective. China, Hong Kong, Japan and Korea all performed well, while Taiwan, the Philippines and Indonesia lagged.

The Australian dollar weakened by 1.6% against the US dollar in April, but was marginally higher against the euro and British pound and 1.7% stronger against the Japanese yen. Overall, the local currency's weakness contributed to higher returns from overseas equities for Australian investors.

Portfolio performance

The Pendal Core Global Share Fund (formerly the BT Wholesale Core Global Share Fund) returned 1.96% (post-fee, pre-tax) in April, underperforming its benchmark by 0.79%.

The Fund underperformed its benchmark over April, with negative active contributions from each core region. Underperformance in the US was primarily due to weakness in valuation and investor sentiment signals, which outweighed positive performance from business stability signals. The underperformance in Europe was driven by valuation and industry momentum signals, with notable positive contributions from indirect momentum and business stability signals. In Japan, the underperformance was largely attributable to indirect momentum and investor sentiment signals, outweighing positive performance of earnings quality and valuation themes.

From a stock and industry attribution perspective, both stock selection within industries and, to a lesser extent, active industry tilts, detracted from returns over the month. The negative returns to stock selection within industry groups was most pronounced within Information Technology and Industrials sectors, with positive contributions from positioning within Health Care the largest positive offset. At a sector level, the underweight to Energy was the largest detractor, and the underweight to Consumer Staples the largest positive contributor over the month.

At a stock level, the largest contributors to active returns came from overweight positions in Humana Inc., an American health insurance provider; Michael Kors Holdings Limited, a US fashion designer and retailer; and UnitedHealth Group Inc., a US managed health care company. The largest detractors over the month were overweight positions in Micron Technology Inc., a US headquartered manufacturer of semi-conductors and data storage devices; Southwest Airlines Co., a major US discount airline; and Applied Materials Inc., a US headquartered supplier of equipment, services and software to the electronics and technology industries.

Strategy and outlook

Moving into May, the largest sector tilts are overweights in Consumer Discretionary and Industrials, and underweights in Consumer Staples and Financials. Relative to long-term allocations, we remain mildly tilted towards higher quality companies with positive momentum and away from cheaper industry peers in the US, Europe and Japan.

Australian Fixed Income

Pendal Fixed Interest Fund

Market review

Australian bond yields followed their US counterparts higher in April with the US 10 year yield briefly breaking the 3.00% level for the first time in four years. Meanwhile, the BBSW-OIS spread widening that had dominated cash market discussions in prior months appeared less concerning to the market in April. In terms of monetary policy, the Reserve Bank left rates unchanged for the 18th consecutive month and issued a relatively unchanged statement. Market pricing has the first rate hike fully priced in by August 2019. The RBA's preferred measure of CPI, the trimmed-mean, rose 0.5% quarter-on-quarter, which brought the year-on-year rate to 1.9% - still below the targeted 2-3% range. Other domestic data was mixed. At the weaker end; employment rose by only 4,900, business confidence and consumer confidence both fell, as did business conditions (albeit from a record high). This was in contrast to retail sales, which posted a solid 0.6% increase. Finally on market movements, the Australian 3 year yield rose 7bp to 2.18% and the 10 year gained 16bp to 2.77%. In the money market space, 90 day BBSW added 1bp to 2.04%.

Portfolio performance

The Pendal Fixed Interest Fund (formerly the BT Wholesale Fixed Interest Fund) returned -0.42% in April (post-fees, pre-tax), underperforming its benchmark by 0.07%.

The portfolio marginally underperformed its benchmark in April. In the alpha overlay, the Yield Curve strategy added to performance, while the Macro, Duration and FX strategies detracted and the Relative Value strategy was flat. The Government bond component outperformed its benchmark with the Duration strategy and yield curve positions in the physical assets being the main contributors. Finally, the Credit component underperformed its benchmark which was largely attributable to a short supranationals position, was among the strongest performing sectors for the month.

Strategy and outlook

The Reserve Bank's Statement on Monetary Policy is next due to be released in early May. In their previous Statement the Reserve Bank forecast annual underlying inflation to be at 1.75% for 2018 before rising to 2% for the year ended June 2019. These forecasts do not imply any near term policy tightening from the Reserve Bank. Any revision to the inflation forecasts could see the market bring forward their expectation for the timing of the next move from the Reserve Bank. The Reserve Bank have however continued to talk down the prospect of any near term policy tightening and appear to be on hold for the remainder of 2018. Bank funding costs have increased in recent months. Should funding costs remain elevated some tightening may occur for households and businesses if banks choose to pass on higher costs.

International Fixed Income

Pendal Global Fixed Interest Fund

Market review

Global bond yields followed the US higher in April with the US 10 year yield briefly breaking the 3.00% level for the first time in four years. This was tied to several reasons including continued Fed hike expectations supported by solid economic data, as well as an improvement in broader risk appetite. Meanwhile, the LIBOR-OIS spread widening that had dominated cash market discussions in prior months appeared less concerning to the market in April. Market sentiment was also buoyed by fading trade war concerns, positive progress on the Korean peninsula and a strong US first quarter earnings season. In terms of US economic data, first quarter GDP rose an annualised 2.3%, which was a decline from the previous quarter but still received positively by the market. Meanwhile, leading indicators were reasonable with the ISM Manufacturing gauge at 59.3 (from a peak of 60.8 in the prior month) and Retail Sales gaining 0.6% after a period of previous weakness. On the inflation front, Core PCE rose 0.2% for the month and FOMC communication suggested confidence on both the growth and inflation outlook. The US 2 year yield climbed 22bp to 2.49% and the 10 year rose 21bp to 2.95%.

Portfolio performance

The Pendal Global Fixed Interest Fund (formerly the BT Wholesale Global Fixed Interest Fund) returned -0.61% in April (post-fees, pre-tax), underperforming its benchmark by 0.16%.

Over the month, the Yield Curve strategy added to performance, while the Macro, Duration and FX strategies detracted and the Relative Value strategy was flat. The portfolio maintained the same risk level of 7 risk units through the month.

The Duration strategy marginally detracted over the month. Losses mainly came from long duration positions in the German Bund and short real yield position in Europe. We reduced our exposure in the German Bund during the month. The nominal leg of the European real yield position was closed as we perceive upside risks to long term inflation expectations. Losses from Europe were offset by gains from short duration positions in the US. Toward the end of the month, we added a long duration position in Australian long end with a small gain and added a long duration position in Korean long end with a flat performance.

The FX strategy detracted slightly over the month. We maintained our long USD bias through the month and took an opportunity from the late month rally to reduce our long USD exposures. In developed markets, our long USD positions were mainly against short EUR which paid off in the end of the month as the currency pair broke out of the tight range which has been in place for the past three months. In emerging markets, the long USD positions were against a basket of currencies, with CNH, INR and IDR being the main exposures. Our long volatility positions were closed during the month.

The Yield Curve strategy added to performance over the month. Most of the gains were from steepening positions in the front end and flattening positions in the long end of the US curve as the belly of the curve sold off more aggressively than the wings. During the month we reduced our curve steepeners in JPY and performance was roughly flat over the month. There were no trades in the Cross-Market strategy for the month.

The Macro strategy was the largest detractor over the month. Majority of the losses were from the CDX HY vs Europe Main decompression trade. Risk aversion sentiment settled down after the volatile period of last month. Losses were also contributed by the buy-protection positions in CDX

IG, Korea and Turkey sovereigns. In the CDX EM basket decompression trade, we took profit in the buy-protection position in Mexico and continue to hold buy-protection positions in the rest of the sovereigns.

The Relative Value strategy was largely flat over the month. We closed Australian 10Y EFP narrowing positions and maintained the Australian 3y EFP widening positions.

Strategy and outlook

For much of April, economic data around the world disappointed versus expectations, but markets were dominated by the perceived de-escalation of political and geopolitical risks. However, underlying data has deteriorated, with further slowing of global trade ahead as indicated by the waning momentum in Asian exports. Weaker European data coupled with US ten-year yields rising above 3% during the month led to Dollar strength into month end, in particular against the Euro and various emerging market currencies. This has yet to be reflected in emerging market credit spreads but will prove significant as the tailwinds of a weak dollar environment turn into stronger headwinds. Similarly, a fall in US high yield issuance year-to-date has allowed high yield credit spreads to outperform US equities this month, but this dynamic cannot persist, and high yield-like issuance has been rising in US investment grade credit. We continue to express our concerns through shorts in US credit. Amidst a strong US earnings season, capex intentions are starting to roll over, signalling a weaker economic impetus for continued higher yields. Whilst in the near term, we expect supply-demand imbalances to dominate the momentum in US yields; there will come a point later this year where owning bonds will provide positive-carry defensiveness once again.

Credit

Pendal Enhanced Credit Fund

Market review

Australian credit finished the month marginally negative, but outperformed its government counterpart. This was on the back of a rise in underlying yields, which more than offset the positive return from a slight tightening in credit spreads. The spread tightening was tied to an improvement in risk appetite as trade war concerns eased, positive progress was made on the Korean peninsula and the US data was well-received.

Turning to local credit market activity, issuance during April totalled $5b, which was higher than the previous month and the post-GFC average for April. Financials accounted for the majority with $3.9b. $450 million was issued by Westpac which was alongside a string of smaller deals from smaller domestic banks. Offshore banks rose $2.6b in debt capital which included issuance from the Bank of Canada and ICBC.

The new supply was absorbed well with stronger risk appetite and previously held issuance maturing. This was reflected in synthetic credit spreads as the Australian iTraxx index (Series 29 contract) traded in a 9bp range finishing the month 5.5bps tighter to +64.5bps. Physical credit spreads were on average 2bps narrower with the best performing sectors being supranationals and resources which tightened 3 and 2bps respectively whilst the worst performing sectors were telcos and real estate who both widened 1bp. Semi-government bond spreads performed well, narrowing 3bps to government bonds over the month.

Portfolio performance

The Pendal Enhanced Credit Fund (formerly the BT Wholesale Enhanced Credit Fund) returned -0.15% in April (post-fees, pre-tax), underperforming its benchmark by 0.09%.

The Fund's underperformance over the month was driven by a rise in underlying swap rates, which more than offset accruals. Positions in infrastructure and utilities, where the fund is overweight underperformed. The fund purchased issuance from fuel distributor, Caltex, as well as regional financial services provider, Bank of Queensland.

Strategy and outlook

Our macro credit view is neutral. While we continue to remain cautiously constructive on a fundamental basis, we acknowledge risks have increased due to increasing volatility across markets. This has been driven by changing expectations on US inflation and rates outlook. That said, geopolitical risks including trade wars appear less worrying to investors than earlier in the year.

Over the remainder of the year, it is expected there will be further cash rate increases in the US and the reduction of QE by the ECB. Market price dislocations will occur should expectations of central bank actions and emerging economic growth, inflation and labour data not align to market positioning.

Balancing these risks are solid corporate fundamentals and in turn we are constructive on investment grade credit. Balance sheets are generally strong and earnings are improving as evidenced by solid corporate earnings seasons in Australia, the US and Europe. Further, Australian domestic issuers have not increased balance sheet leverage over the past number of years. The major Australian banks have stronger capital ratios than previous years and should support domestic financial stability.

Domestically we expect the Australian economy to exhibit improving growth that has become more balanced in recent years. However, weak wage growth could continue to dampen overall domestic demand and housing appears to be softening. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as Utilities and Infrastructure that provide higher yield to index returns.

Cash

Pendal Managed Cash Fund and Pendal Enhanced Cash Fund

Market review

Australian bond yields followed their US counterparts higher in April with the US 10 year yield briefly breaking the 3.00% level for the first time in four years. This was tied to several reasons including continued Fed hike expectations supported by solid economic data, as well as an improvement in broader risk appetite. The BBSW-OIS spread widening that had dominated cash market discussions in prior months appeared less concerning to the market in April. The spread on the 3 month maturity widened from 53bp to a high of 58bp mid-month, but retraced to end higher by only 1bp at a still-elevated 54bps.

The Reserve Bank left rates unchanged for the 18th consecutive month and issued a relatively unchanged statement. Market pricing has the first rate hike fully priced in by August 2019. During the month Governor Lowe warned that an eventual increase may be a surprise to many, who have not seen a hike in more than seven years.

The RBA's preferred measure of CPI, the trimmed-mean, rose 0.5% quarter-on-quarter, which brought the year-on-year rate to 1.9% - still below the targeted 2-3% range. Other domestic data was mixed. At the weaker end; employment rose by only 4,900 business confidence and consumer confidence both fell, as did business conditions (albeit from a record high). This was in contrast to retail sales, which posted a solid 0.6% increase.

Looking abroad, market sentiment was buoyed by fading trade war concerns, positive progress on the Korean peninsula and a strong US first quarter earnings season. In terms of US economic data, first quarter GDP rose an annualised 2.3%, which was a decline from the previous quarter but still received positively by the market. Meanwhile, leading indicators were reasonable with the ISM Manufacturing gauge at 59.3 (from a peak of 60.8 in the prior month) and Retail Sales gaining 0.6% after a period of previous weakness. On the inflation front, Core PCE rose 0.2% for the month and FOMC communication suggested confidence on both the growth and inflation outlook.

In the Eurozone, Core CPI rose a more modest 1.0% and the ECB left its policy measures as well as its forward guidance unchanged. Data was mixed, with the Composite PMI stable, but only marginal gains in other leading indicators like retail sales and consumer confidence.

In Asia, the PBOC's Reserve Ratio Requirement cut of 1% made headlines and was interpreted as greater potential for credit growth. President Xi's announcement of opening trade and investment barriers mid-month was also perceived as a positive. Data from the Asian giant revealed a moderate, albeit relatively stable growth rate at 6.8% year-on-year.

Turning to market movements, the Australian 3 year yield rose 7bp to 2.18% and the 10 year gained 16bp to 2.77%. In the money market space, 90 day BBSW added 1bp to 2.04%. In the US, the 2 year yield climbed 22bp to 2.49% and the 10 year rose 21bp to 2.95%. Beyond rates, the Australian Dollar erased an early gain against the greenback to finish lower by 1.6% on broad US Dollar strength and soft Australian inflation data. In the commodities space, news was dominated by US sanctions on Russian producers, which in turn sparked a 13.7% rally in Aluminium. Crude oil also finished higher (WTI +5.7%) as speculation over supply disruption risks persisted.

Portfolio performance

Managed Cash

The Pendal Managed Cash Fund (formerly the BT Wholesale Managed Cash Fund) returned 0.14% in April (post-fees, pre-tax), marginally underperforming its benchmark by 0.02%.

The Fund performed broadly in line with its benchmark for the month. With a higher running yield than the index remains well positioned to outperform. Themes and credit exposure remain consistent with prior months, with excess spread from A-1 rated issuers and yield curve positioning likely to be the main driver of outperformance. The fund ended the month with a weighted average maturity of 47 days (maximum limit of 70 days). Yields further out the curve continue to offer better relative value and the weighted average maturity has consistently been longer than benchmark due to this. With longer dated yields offering better value and with Reserve Bank monetary policy tightening a distant prospect we will remain longer than benchmark. The fund is well positioned to continue to outperform its benchmark.

Enhanced Cash

The Pendal Enhanced Cash Fund (formerly the BT Wholesale Enhanced Cash Fund) returned 0.19% in April (post-fees, pre-tax) outperforming its benchmark by 0.03%.

The portfolio's positive relative performance came from financials, industrials, infrastructure and RMBS sectors. The portfolio has outperformed its benchmark by 1.10% over the past 12 months (post fees).

Activity during the month included a slight increase in exposure to infrastructure and resources funded out of cash.

As at the end of the month, the portfolio had a credit spread of 56bps over bank bills, interest rate duration of 0.15 years and credit spread duration of 1.40 years.

Strategy and outlook

The Reserve Bank's Statement on Monetary Policy is next due to be released in early May. In their previous Statement the Reserve Bank forecast annual underlying inflation to be at 1.75% for 2018 before rising to 2% for the year ended June 2019. These forecasts do not imply any near term policy tightening from the Reserve Bank. Any revision to the inflation forecasts could see the market bring forward their expectation for the timing of the next move from the Reserve Bank. The Reserve Bank have however continued to talk down the prospect of any near term policy tightening and appear to be on hold for the remainder of 2018. Bank funding costs have increased in recent months. Should funding costs remain elevated some tightening may occur for households and businesses if banks choose to pass on higher costs.

Australian Property

Pendal Property Securities Fund

Market review

The ASX A-REIT Index rose by 4.5% in April, outperforming the broader market by 60bp, despite the Australian 10-year bond yield increasing by 19bp to 2.77%. Global REITs returned 2.1% for the month (in US$ terms), with Hong Kong the best performer (+4.3%) and the US the lowest performing market (+1.3%). Over the year-to-date period, Japan has been the best performer (+10.1%), while Australia has been worst performer (-5.4%).

Major news for the month came from a number of REITs in the form of quarterly updates. Scentre Group saw March sales improve +2% versus +1.4% over the prior year period, with an improvement in sales in apparel and general retail. Mirvac confirmed it was on track to settle 3,400 residential lots, office leasing spreads were +12.1% and comparable specialty retail annual turnover was up 4.5%. GPT also reported solid sales growth with specialty annual turnover +3.9%.

The US equity market rose by 0.4% over the month (in US$ terms) as fears of a trade war receded. Globally, the best performing sector was energy, driven by a rising oil price. US Treasury yields hit 3% during the month, reaching that level for the first time since 2014.

In Australia, the Reserve Bank left interest rates on hold. Higher base metal and oil prices saw the Energy sector (+10.8%) and Materials (+7.6%) sector perform strongly. Financials were under pressure as the Royal Commission raised questions over lending standards and board and senior management conduct. Data was mixed, with employment rising less than forecast (+5,000 new jobs) with employment growth moderating to 3%, although the unemployment rate remained stable at 5.5%. Residential building approvals were down 6.2%; however, retail sales (+0.6%) were solid and led to an annual growth rate of 3%. The NAB Business Conditions Index continued to show a solid reading of +14.1, although the measure is weaker than the +20 reached in the prior month.

Portfolio performance

The Pendal Property Securities Fund (formerly the BT Wholesale Property Securities Fund) returned 4.35% in April (post-fee, pre-tax), outperforming its benchmark by 0.07%.

The Fund's outperformance over the month was driven by positive contributions from underweight positions in Vicinity Centres and overweight positions in Iron Mountain, Charter Hall Long WALE, Investa Office Fund and Mirvac Group. Underweight positions in Cromwell Property Group and Shopping Centres Australia together with overweight positions in Westfield Group, Arena REIT and Charter Hall Group detracted from performance.

Over the month we reduced our overweight positions in Stockland Group and Mirvac Group and increased our underweight in Scentre Group.

Strategy and outlook

The A-REIT sector is now priced on an FY18 dividend yield of 5.5%, a price-earnings ratio of 15.0 times and an 11% premium to NTA, below its long-term average of 15%. Cap rates will likely compress further in the next reporting period (on the back of recent transaction evidence), but asset valuation uplift thereafter will depend on income growth and tenancy retention. Balance sheets are stable, with sector gearing at 29%.

International Property

Pendal Global Property Securities Fund

Market review (in US$)

Performance of the global property securities market (on an ex-Australia basis) as measured by the FTSE EPRA/NAREIT Developed Index rose in April, posting a total return of 2.0%. Asia Pacific (+3.1%) was the strongest performing region, followed by Europe (+2.6%) and North America (+1.3%). In Asia Pacific, results were largely positive across the region. Hong Kong (+4.3%) was the strongest performer, followed by Japan (+2.6%) and Singapore (+1.9%), while New Zealand (-0.1%) was the only negative performer. In Europe, results were mostly positive across the region as well. Italy (+9.3%) posted the largest gain, followed by The Netherlands (+5.3%) and France (+3.3%). In North America, the US and Canada returned 1.3% and 0.3%, respectively.

Portfolio performance

The Pendal Global Property Securities Fund (formerly the BT Wholesale Global Property Securities Fund) returned 3.00% in April (post-fee, pre-tax), outperforming the benchmark by 0.23%.

North America

The North America portfolio returned 1.2% in April (before fees and withholding taxes), slightly trailing the FTSE EPRA/NAREIT North America Index by 10 basis points. Modest underperformance relative to the benchmark was attributable to negative stock selection results, which were partially offset by positive sector allocation results. In terms of stock selection, results were weakest in the health care, industrial and shopping centre sectors and were strongest in the triple net lease, data centre and storage sectors. Regarding sector allocation, modest positive results were driven by the portfolio's overweight to the outperforming Industrial sector. Among the portfolio's holdings, top individual contributors to relative performance included overweight positions in Rexford Industrial Realty (REXR), Gramercy Property Trust (GPT) and CubeSmart (CUBE). Detractors most notably included a lack of exposure to outperforming DCT Industrial Trust (DCT) as well as overweight positions in Healthcare Trust of America Class A (HTA) and Boston Properties (BXP), both of which underperformed for the month.

Europe

The European portfolio returned 3.2% in April (before fees and withholding taxes), outperforming the regional EPRA benchmark by 60 basis points. Outperformance relative to the benchmark was driven by positive stock selection results and, to a lesser extent, positive country allocation results. In terms of stock selection, results were strongest in Sweden, the United Kingdom and The Netherlands and were weakest in France, Germany, and Switzerland. Regarding country allocation, positive results were attributable to the portfolio's underweight to the underperforming Switzerland and a lack of exposure to the underperforming Belgium. Conversely, the portfolio's small cash position was a detractor to relative performance, given the regional benchmark's positive absolute performance for the month. Among the portfolio's holdings, top contributors to relative performance included overweight positions in Fabege AB (Sweden), Workspace Group PLC (United Kingdom) and Segro PLC (United Kingdom). Detractors most notably included overweight positions in the underperforming Gecina SA (France) and Vonovia SE (Germany), and a lack of exposure to the outperforming Safestore Holdings Plc. (United Kingdom).

Asia

The Asia portfolio returned 3.4% in April (before fees and withholding taxes), outpacing the regional EPRA benchmark by 23 basis points. Outperformance relative to the benchmark was driven by positive stock selection results, while country allocation results were neutral. In terms of stock selection, results were strongest in Japan and Singapore and weakest in Hong Kong. Among the portfolio's holdings, the top contributors to relative performance included a lack of exposure to the underperforming City Developments (Singapore) and United Urban Investment (Japan), and an overweight position in Wharf REIC (Hong Kong) which outperformed the market. Detractors most notably included overweight positions in the underperforming LaSalle Logiport REIT (Japan) and NTT Urban Development (Japan), and an underweight position in the outperforming Mitsubishi Estate (Japan).

Active Balanced

Pendal Active Balanced Fund

Markets review

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index advanced by 3.8% in April, more than recouping the losses made in the previous month. Investors turned risk-on as geopolitical risks abated somewhat after North Korean leader Kim Jong Un met with South Korean President Moon Jae-in at the Demilitarised Zone. The Royal Commission remained an overhang for the Financials industry domestically; the unveiling of AMP's misconduct in particular occupied media headlines and saw its share price retreat by 19% over the month.

Performance from Resources (+9.5%) was particularly strong: the latest US sanctions on Rusal, the world's largest aluminium producer, sparked fears of near-term supply shortage and saw the aluminium price soar. The iron ore price also edged higher even though concerns lingered around Chinese steel demand. Conversely, the global oil price reached levels last seen back in 2014, as a result of heightened geopolitical risks in Syria and Iran. The OPEC's production curtailment also continued to keep oil supply from the area in check. These benefited miners and oil companies in general.

On the other side of the spectrum, performance from Financials (+0.1%) was positive yet lacklustre. There was limited upbeat company specific development within the sector to dampen the bearish investor sentiment stemming from the Royal Commission. For example, despite APRA's latest move in dropping its 10% cap on investor loan growth that was first introduced in 2014, the share price response from the big four banks was muted.

Returns from other sectors were broadly strong. However, including Health Care (+7.2%), Consumer Staples (+5.7%) and Real Estate (+4.1%), despite higher long-term bond yields at month end.

Confidence returned to share markets in April after tensions eased on a number of fronts. Trade tensions simmered after comments from President Trump boosted optimism for a trade deal with China, together with hints that the US may reconsider joining the Trans-Pacific Partnership free-trade accord. Tensions that have weighed on trade-related sectors eased and spurred a recovery in oil and gas prices, with crude oil moving above US$74 a barrel - its highest level since 2014. Production cuts by OPEC and Russia over the past year have also supported the oil price. And tensions around economic stability in the UK and the pan-European region diminished with increasing signs of sustainable economic growth.

The US market generated a positive return for the month after Trump's comments allowed investor attention to shift back to fundamentals. Momentum moved in favour of trade-related and growth oriented sectors, with Energy the standout performer. Consumer Staples lagged on concerns that a stronger US dollar would impact profitability, with many of the major operators having businesses outside of the US. Expectations of higher interest rates also weighed on the sector. Growth in the broader economy remained solid at an annual rate of 2.3%, albeit down from the 2.9% growth rate in Gross Domestic Product recorded for the prior quarter. The market closed the month in positive territory, with the S&P500 delivering a total return of 0.4%, while the NASDAQ increased by just 0.04%.

All major European equity markets delivered good gains in April, led by France (+6.8%), the UK (+6.4%) and Germany (+4.3%). Positive sentiment stemmed from strong corporate earnings announcements, the higher oil price and receding trade tensions. Readings on industrial activity remained in expansionary territory, while the European Central Bank retained its policy settings and noted it is seeing a "solid and broad-based expansion of the euro-area economy", which acted to support sentiment.

Most share markets in the Asian region also followed the path of major developed markets, rising in response to diminishing trade war fears and signs of improvement in relations between North Korea and the US-allied collective. China, Hong Kong, Japan and Korea all performed well, while Taiwan, the Philippines and Indonesia lagged.

The Australian dollar weakened by 1.6% against the US dollar in April, but was marginally higher against the euro and British pound and 1.7% stronger against the Japanese yen. Overall, the local currency's weakness contributed to higher returns from overseas equities for Australian investors.

Australian bond yields followed their US counterparts higher in April with the US 10 year yield briefly breaking the 3.00% level for the first time in four years. In terms of monetary policy, the Reserve Bank left rates unchanged for the 18th consecutive month and issued a relatively unchanged statement. Market pricing has the first rate hike fully priced in by August 2019. The RBA's preferred measure of CPI, the trimmed-mean, rose 0.5% quarter-on-quarter, which brought the year-on-year rate to 1.9% - still below the targeted 2-3% range. Other domestic data was mixed. At the weaker end, employment rose by only 4,900, business confidence and consumer confidence both fell, as did business conditions (albeit from a record high). This was in contrast to retail sales, which posted a solid 0.6% increase.

Global bond yields followed the US higher in April. This was tied to several reasons including continued Fed hike expectations supported by solid economic data, as well as an improvement in broader risk appetite. Meanwhile, the LIBOR-OIS spread widening that had dominated cash market discussions in prior months appeared less concerning to the market in April. Market sentiment was also buoyed by fading trade war concerns, positive progress on the Korean peninsula and a strong US first quarter earnings season. In terms of US economic data, first quarter GDP rose an annualised 2.3%, which was a decline from the previous quarter but still received positively by the market. On the inflation front, Core PCE rose 0.2% for the month and FOMC communication suggested confidence on both the growth and inflation outlook. The US 2 year yield climbed 22bp to 2.49% and the 10 year rose 21bp to 2.95%.

Portfolio performance

The BT Wholesale Active Balanced Fund returned 2.44% (post-fee, pre-tax) for the month of April, outperforming its benchmark by 0.29%.

The Fund delivered strong returns in April, supported by a material rebound in equity markets. Positive returns from Australian and international equities and listed property drove the gains, while fixed income sectors lagged with negative returns. The Fund's underweight exposure in these sectors was beneficial, as was exposure to alternatives. At a Fund level, the contribution to performance was significantly higher from asset allocation, while manager selection delivered a small contribution.

Tactical asset allocation contributions were driven by the Fund's overweight exposure to Australian and global equities and an underweight to Australian and international fixed income. However, during the month we took the opportunity to reduce the overweight position in equities and reduce the underweight exposure to bonds.

The key factors influencing our active management returns were strong stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Metcash, Santos, BHP and Macquarie Atlas together with exposure to small caps which outperformed the broader market contributed value. Partially offsetting these contributions were overweight positions in Qantas and AMP.

Within the global equities portfolio, returns from the Core and Concentrated portfolios fell short of the benchmark but positively contributed to overall returns. Within the Core portfolio, weakness in some of its quantitative signals detracted from performance in the US, Europe and Asia. The Concentrated portfolio's holdings in MGM Resorts and Pepsi Co detracted from performance, while its holding in oil and gas company, Total, benefited from rising energy prices.

Our Alternatives portfolio contributed from returns this month, whereby with four of the eight sub-strategies within the core portfolio contributed positively to active returns, while four detracted from returns. This negative impact was more than offset by equity income and fixed income absolute return strategies, with the Alternatives strategy delivering a total return (before fees) of 0.92% vs. a cash return of 0.16%.

The Global Macro strategy made a positive contribution with good performance from the cross-sectional currency and commodity strategies, while notable gains accrued from the Fixed Income Relative Value component. The cross-sectional interest rate and currency strategies were the notable drivers of positive results, largely driven by carry themes. Detractions were registered from the Equity Market Neutral, Managed Futures and Dedicated Short bias strategies. Within the Equity Market Neutral strategy, losses were sourced from most developed and emerging market segments. Losses were predominantly due to weakness in Value measures during the month.

Within Managed Futures, losses came from currency and equity market positioning, offset somewhat by profits from fixed income and commodity market positions. Within the Dedicated Short Bias strategy, losses were predominantly sourced from the market-neutral stock portfolio.

In relation to our tactical positioning within Alternatives, our long and then short volatility position contributed to returns, as we were able to profit from both the rise in volatility at the start of the month and the subsequent decline as market conditions became calmer. At the end of April we closed our long positions in managed futures and moved to a short stance, while moving to a long position in Australian and German bonds. A long position in crude oil also contributed to returns.

Strategy and outlook

The current environment for investing offers a good balance between challenge and reward. Markets are moving through a period of inflection, bringing with it a greater degree of uncertainty. These uncertainties are particularly focused on the future trajectory of interest rates, inflation and the likely success of government policy agendas in contributing to sustainable economic growth.

While we appreciate that heightened variations in asset prices can increase investors' concerns on the stability of their investments, such an environment is actually favourable for active managers like Pendal in generating additional returns on these investments and managing risks, These developments can provide both short term and medium term opportunities for the funds we manage and we focus on understanding the underlying sources of market dislocation and the degree to which they represent structural or cyclical changes. We have recently taken advantage of such moves which have been supported by our modelling. By further neutralising our relative exposures to growth and defensive assets and maintaining a material allocation to the diversifying properties of Alternatives, we have demonstrated that opportunities do exist to add value by employing a dynamic approach to allocating capital.

Notwithstanding these shorter term opportunities, we have also recently reviewed the Fund's strategic asset allocation. This is part of our periodical approach to reviewing the Fund's longer term objectives and the degree of alignment with its current strategic allocation settings. Investors can expect to see some refinements in asset allocation as we go through this review process to ensure the Fund remains well positioned to meet its longer term targeted outcomes. Through this process we also retain the ability to take advantage of active allocation opportunities as they arise through the investment cycle and thereby contribute to longer term outperformance of the strategic benchmark.

Performance as at 30 April 2018

(%)	1 Month	3 Months	6 Months	FYTD	1 year (pa)	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Incp. (pa)
Australian Shares - All Cap									
Pendal Australian Share Fund									APIR - RFA0818AU
Total Return (post-fee, pre-tax)	3.97	1.57	5.35	11.59	10.98	13.59	6.56	8.78	10.04
Total Return (pre-fee, pre-tax)	4.04	1.77	5.76	12.34	11.88	14.49	7.40	9.64	11.04
Benchmark	3.78	0.25	3.44	8.45	5.71	11.45	5.79	7.52	9.91
Pendal Imputation Fund									APIR - RFA0103AU
Total Return (post-fee, pre-tax)	3.80	0.80	3.34	8.56	6.58	11.65	4.54	6.72	9.49
Total Return (pre-fee, pre-tax)	3.88	1.02	3.81	9.37	7.55	12.65	5.48	7.68	10.51
Benchmark	3.78	0.25	3.44	8.45	5.71	11.45	5.79	7.52	8.65
Pendal Focus Australian Share Fund									APIR - RFA0059AU
Total Return (post-fee, pre-tax)	4.21	2.28	6.60	12.87	13.36	16.34	8.49	10.95	9.46
Total Return (pre-fee, pre-tax)	4.39	2.81	7.61	14.40	15.66	18.01	9.82	12.15	10.62
Benchmark	3.78	0.25	3.44	8.45	5.71	11.45	5.79	7.52	7.42
Pendal Ethical Share Fund									APIR - RFA0025AU
Total Return (post-fee, pre-tax)	4.05	1.31	5.34	11.48	10.59	13.44	6.68	8.95	8.66
Total Return (pre-fee, pre-tax)	4.13	1.55	5.84	12.37	11.65	14.52	7.70	9.99	9.72
Benchmark	3.78	0.25	3.44	8.45	5.71	11.45	5.79	7.52	8.01
Australian Shares - Mid Cap									
Pendal MidCap Fund									APIR - BTA0313AU
Total Return (post-fee, pre-tax)	4.00	3.85	10.79	21.34	25.11	20.61	14.35	15.51	11.20
Total Return (pre-fee, pre-tax)	4.28	4.75	12.41	23.66	27.71	22.41	15.93	17.30	13.53
Benchmark	3.37	1.29	6.51	14.41	16.52	16.58	12.80	12.85	6.05
Australian Shares - Small Cap									
Pendal Smaller Companies Fund									APIR - RFA0819AU
Total Return (post-fee, pre-tax)	2.81	5.50	10.07	21.39	24.59	15.40	12.54	11.16	13.40
Total Return (pre-fee, pre-tax)	2.93	5.83	10.76	22.66	26.16	16.83	13.94	12.55	14.69
Benchmark	2.75	0.44	7.11	18.57	18.45	14.17	11.07	8.05	7.85
Australian Shares - Micro Cap									
Pendal MicroCap Opportunities Fund									APIR - RFA0061AU
Total Return (post-fee, pre-tax)	-1.48	-4.10	2.97	14.38	18.55	17.34	15.22	18.24	18.38
Total Return (pre-fee, pre-tax)	-1.38	-4.08	3.57	15.55	21.01	20.06	18.01	22.53	23.61
Benchmark	2.75	0.44	7.11	18.57	18.45	14.17	11.07	8.05	3.25
International Shares									
Pendal Core Global Share Fund									APIR - RFA0821AU
Total Return (post-fee, pre-tax)	1.96	1.16	4.42	12.36	12.21	14.52	8.74	16.50	5.90
Total Return (pre-fee, pre-tax)	2.05	1.40	4.93	13.27	13.29	15.62	9.78	17.62	7.07
Benchmark	2.75	1.78	5.08	12.36	12.40	14.65	9.24	16.78	7.34
Pendal Global Emerging Markets Opportunities Fund - WS									APIR - BTA0419AU
Total Return (post-fee, pre-tax)	2.77	1.33	1.74	14.53	17.62	21.27	6.50	13.16	12.11
Total Return (pre-fee, pre-tax)	2.90	1.67	2.45	15.84	19.26	22.94	8.00	14.85	14.32
Benchmark	1.17	-0.02	6.45	18.93	20.58	21.08	7.56	11.63	12.02
Pendal Concentrated Global Share Fund									APIR - BTA0503AU
Total Return (post-fee, pre-tax)	1.85	1.74	7.22	14.13	15.39	N/A	N/A	N/A	16.55
Total Return (pre-fee, pre-tax)	1.96	2.05	7.89	15.32	16.83	N/A	N/A	N/A	18.00
Benchmark	2.75	1.78	5.08	12.36	12.40	N/A	N/A	N/A	14.34
Property									
Pendal Property Securities Fund									APIR - BTA0061AU
Total Return (post-fee, pre-tax)	4.35	0.85	3.00	6.75	1.13	4.03	7.25	9.46	7.38
Total Return (pre-fee, pre-tax)	4.40	1.01	3.33	7.33	1.78	4.71	7.94	10.17	8.20
Benchmark	4.28	1.10	3.12	7.48	1.60	3.83	7.62	9.99	7.27
Pendal Global Property Securities Fund									APIR - RFA0051AU
Total Return (post-fee, pre-tax)	3.00	-1.19	0.71	2.35	4.19	4.37	3.46	6.29	9.04
Total Return (pre-fee, pre-tax)	3.09	-0.96	1.18	3.15	5.17	5.33	4.42	7.28	10.03
Benchmark	2.77	-1.42	0.66	1.75	3.26	4.52	3.56	6.40	8.75
Fixed Interest									
Pendal Fixed Interest Fund									APIR - RFA0813AU
Total Return (post-fee, pre-tax)	-0.42	0.55	0.56	1.49	1.73	1.96	1.74	3.41	6.37
Total Return (pre-fee, pre-tax)	-0.38	0.68	0.81	1.91	2.24	2.47	2.25	3.92	6.93
Benchmark	-0.35	0.79	0.86	1.90	2.16	2.38	2.71	3.91	6.61
Pendal Global Fixed Interest Fund									APIR - RFA0032AU
Total Return (post-fee, pre-tax)	-0.61	0.28	-0.20	0.62	0.75	1.04	1.79	3.42	5.96
Total Return (pre-fee, pre-tax)	-0.57	0.41	0.07	1.07	1.29	1.58	2.33	3.97	6.55
Benchmark	-0.45	0.77	0.38	1.48	1.77	1.71	3.06	4.32	6.89
Pendal Enhanced Credit Fund									APIR - RFA0100AU
Total Return (post-fee, pre-tax)	-0.15	0.60	1.00	2.55	2.91	3.30	3.18	4.23	5.72
Total Return (pre-fee, pre-tax)	-0.11	0.72	1.23	2.93	3.37	3.77	3.65	4.70	6.25
Benchmark	-0.06	0.69	1.07	2.51	2.92	3.24	3.21	4.26	5.83
Cash & Income									
Pendal Enhanced Cash Fund									APIR - WFS0377AU
Total Return (post-fee, pre-tax)	0.19	0.45	1.21	2.35	2.90	2.94	2.67	2.87	4.94
Total Return (pre-fee, pre-tax)	0.21	0.51	1.34	2.57	3.16	3.20	2.93	3.12	5.28
Benchmark	0.16	0.44	0.87	1.45	1.75	1.82	1.96	2.26	4.88
Pendal Managed Cash Fund									APIR - WFS0245AU
Total Return (post-fee, pre-tax)	0.14	0.43	0.87	1.47	1.77	1.86	1.98	2.24	6.45
Total Return (pre-fee, pre-tax)	0.16	0.49	0.98	1.66	2.00	2.09	2.20	2.47	6.75
Benchmark	0.16	0.44	0.87	1.45	1.75	1.82	1.96	2.26	6.52
Pendal Monthly Income Plus Fund									APIR - BTA0318AU
Total Return (post-fee, pre-tax)	0.24	0.15	1.39	4.09	4.37	4.32	3.64	4.61	5.49
Total Return (pre-fee, pre-tax)	0.29	0.31	1.72	4.66	5.06	5.00	4.32	5.30	6.16
Benchmark	0.12	0.37	0.75	1.26	1.51	1.55	1.71	2.04	2.92
Diversified									
Pendal Active Balanced Fund									APIR - RFA0815AU
Total Return (post-fee, pre-tax)	2.44	0.18	3.04	8.52	8.22	9.72	5.47	8.35	7.70
Total Return (pre-fee, pre-tax)	2.53	0.41	3.53	9.39	9.26	10.75	6.47	9.38	8.78
Benchmark	2.15	0.60	2.96	7.17	6.18	8.80	5.89	7.94	7.49

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