PENDAL

Fund Manager Commentary

Month ended 31 January 2019

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Market Review

Australian equities were strong in January, exhibiting a rebound from the last few days of 2018 that extended well into the new year and ultimately led to a 3.9% gain in the S&P/ASX 300 Accumulation Index. Gains were underpinned by a shift in sentiment on two of the key issues which weighed on markets through the last quarter – US Federal Reserve (Fed) policy and China's economic growth.

In the US there has been a material shift in rhetoric from the Fed; comments now indicate a more dovish stance suggesting the board is not as deaf to market feedback as many feared. We are still facing an environment of reduced liquidity, however investors are now less concerned that a sharp liquidity crunch could drive a more sustained correction.

On the other side of the Pacific, China has continued to unveil piecemeal stimulus measures in response to a decelerating economy. This serves as a reminder that Beijing does have several levers it can pull to maintain reasonable economic growth, without having to resort to the relatively blunt tool of property stimulus. That said, the trade dispute continues to simmer and remains a source of risk. While the Australian mining sector is ultimately driven by demand from China, it was developments in Brazil which saw a 22% increase in the iron ore price in January. A disastrous collapse in a tailings dam at Corrego de Feijao has seen Vale—one of the world's largest producers of iron ore—announce that it will close around 40m tonnes of production, equating to about 10% of its annual production. Beyond the short-term squeeze in iron ore markets, this could have more profound consequences as mines around the world review tailing dams constructed on the same lines as the one which failed so tragically.

A collapsing oil price also weighed on markets in late 2018 and here, too, we have seen a recovery, with the price up 17% as OPEC production cuts begin to take effect and fears of a major global slowdown recede. Oil companies form a significant part of global corporate credit markets and an improvement in the oil price has relieved some pressure here and seen corporate credit spreads narrow, signalling more confidence.

Energy was the market's strongest sector in January, up 11.5%, closely followed by Information Technology (+8.8%). Strong performance from small cap tech stocks such as Afterpay Touch (APT, +28.3%) and Wisetech (WTC, +20.4%), along with growth stocks like A2 Milk (A2M, +17.1%) shows that appetite for smaller growth stocks remains undiminished, with investors ready to resurface at any signs of improving market sentiment. We remain wary of valuations here.

Communication Services (+7.7%) was also strong, as TPG Telecom's (TPM, +8.5%) announcement that they would no longer build a 5G telecom network—regardless of whether the ACCC approves their tie-up with Vodafone—also saw a bounce in their competitor Telstra (TLS, +9.1%).

Financials (-0.25%) was the only sector to lose ground, as the market remained cautious on exposure to the banks and wealth management companies ahead of the final recommendations of the Royal Commission. Coincidentally, both Challenger (CGF, -23.7%) and AMP (AMP, -7.8%) made pre-reporting season confessions as new CEOs sought to temper market expectations.

Consumer Staples (+2.7%) made gains but underperformed. China-related agriculture plays such as Bellamy's (BAL, +19.0%) and A2 Milk (A2M, +17.1%) did well, but couldn't offset softer performance from the heavyweights such as Woolworths (WOW, -0.2%). Industrials (+3.4%) finished just behind the benchmark. Qantas (QAN, -6.0%) was among the weakest, driven partly by

a stronger oil price but also from concerns arising through extrapolation of an earnings downgrade announced by Air New Zealand.

Portfolio performance

The Pendal Australian Share Fund (formerly the BT Wholesale Core Australian Share Fund) returned 3.29% (post-fee, pre-tax) in January, underperforming its benchmark by 0.58%.

Contributors

Overweight Santos

January saw a marked bounce in oil prices as OPEC production cuts moderated supply and fears of a sharp slump in global growth receded. The West Texas Intermediate (WTI) crude oil price rose 19.2% and Brent Crude gained 20.4% in US dollar terms for the month. Santos (STO, +18.1%) has the greatest leverage to the oil price among the Australian energy names and performed accordingly. Its oil price tailwind was enhanced by a well-received production report for CY-2018, with revenue of US$3.7b well ahead of the US$3.5b expected by the market. Management production guidance for CY-2019 also came in ahead of expectations.

Underweight National Australia Bank

The major banks did not participate in the market's January rebound, with investors remaining wary of the Royal Commission's final recommendations which were released in February. The Fund held an underweight exposure to National Australia Bank (NAB, -0.9%) and an overweight position in ANZ Bank (+2.3%) which made some gains but lagged the broader market, whilst the share prices of the other major banks weakened. The findings of the Commission, which had been released as at the time of writing, confirmed there will be no material extension to responsible lending rules. This relieved some of the concerns that a reduced ability to lend would exacerbate an already challenging environment for banks.

Overweight Rio Tinto

A demand shift from scrap metal to iron ore at Chinese steel mills has kept the market tight and supported the iron ore price even as steel demand has softened in response to decelerating growth for China's economy. However, the shutdown of production in Brazil has seen markets tighten even further, driving the iron ore price back up towards US$90 a tonne. Australian miners such as Rio Tinto (RIO, +10.9%) continue to demonstrate good discipline, suggesting that the fillip from stronger ore prices should translate to strong cash flow and capital return to shareholders.

Detractors

Overweight Qantas

While a stronger oil price weighed on Qantas (QAN, -6.0%), the lower share price was primarily a function of the market's response to a large earnings downgrade from fellow airliner, Air New Zealand. In our view, it is important to focus on the essential driver of QAN's turnaround – the industry discipline which has seen no material domestic capacity added for the last 3-4 years, resulting in less need for ticket discounting. By contrast, the New Zealand domestic market has been growing capacity at around 5% per annum, while demand has not kept pace. Beyond this, the kiwi carrier had headwinds from a strong New Zealand dollar and engine issues on some planes which led to groundings. Neither of these issues are relevant to QAN and we retain our conviction, despite the short term drag on our portfolios in January.

Overweight ResMed

Despite a strong second quarter bottom-line result ResMed (RMD, -17.9%) was sold off after the company missed their revenue target, driven by weaker rest of the world (ROW) flow-generator (FG) growth and a slight miss on revenues from its recent acquisition, Brightree. The mask business globally continues to do well and is supported by recent product launches. Issues around FG growth in the ROW segment are likely to persist over the next two to three quarters, in addition to concerns surrounding the growth rate declines at Brightree. That said, positives from other recent acquisitions are expected to feed through in coming halves.

Overweight Costa Group

Costa Group (CGC, -25.5%) downgraded earnings as a number of factors have combined to squeeze margins, including a mix of weaker demand and rising seasonal supply plus issues with frost in Morocco and delays to its mushroom farm expansion. We maintain our conviction in the stock, which operates in one of the higher growth food categories and is diversifying its business across more produce and geographically in a capital efficient way, generating high incremental returns which both adds to earnings growth but also dampens the usual cyclicality of agriculture-related stocks.

Strategy and outlook

The portfolio made decent absolute gains in January, with strong gains from its positions in oil/LNG producer, Santos, and in iron ore producers. The underweight in banking also worked well. However, the portfolio underperfomed the Index due largely to the drag from Qantas. We believe that while the oil price will continue to influence the company's share price at the margin, despite its hedging program dampening the effect at an operational level. However, concerns stemming from the Air New Zealand downgrade should prove unfounded and we retain strong conviction in QAN as one of the key undervalued industrial cyclicals in the Index.

The Royal Commission's conclusion removes an overhang from the banking system. However, the sector's operating environment remains uninspiring. Revenue headwinds persist—particularly in retail mortgages—while the banks will potentially remain as political lightning rods during a federal election campaign, limiting their ability to reprice mortgages. Dividend yields remain high, although NAB may face pressures to cut their payout ratio. However, there is little to support any conviction in outperformance following a short-lived post-Commission jump. We remain underweight the banking sector in aggregate.

The upcoming reporting season will serve as an important gauge of Australian economic health. While a broad range of indicators suggest a softer environment, we are not seeing any signs of a drastic slump in growth. The Royal Commission's outcome reduces the risk of a credit-crunch induced recession, while the housing market continues to see a relatively orderly slowdown rather than a catastrophic slump. In this vein, it is important to note there is little sign of repayment stress or forced sales in the property market. While construction is likely to decline for a period, we are seeing a pick-up in capital expenditure from the miners, while the transport infrastructure pipeline also offers an avenue for growth.

Looking forward, while we seem to have shifted from a stance of fear to optimism within a few weeks, we remain mindful that we are in an environment of elevated macro uncertainty, with some signs of a softer growth outlook and, as such, would not be surprised if the market moved into a consolidation phase as we shift into reporting season. It is still not the time to be taking large macro positions, given the lack of visibility around some key risks such as US-China trade and Brexit. The market's rebound on better sentiment does leave it vulnerable to any disappointment on these issues and we move into reporting season with a lower valuation cushion. As a result, while we continue to see opportunities and have used the recent volatility to build some new positions, we would counsel investors to be very specific as to where they deploy capital in the market at these levels.

Pendal Smaller Companies Fund

Market review

The S&P/ASX Small Ordinaries Index enjoyed a strong rebound in January, gaining 5.6%. The sharp positive reversal in market sentiment was underpinned by a shift in prevailing views on two of the key issues which weighed on markets during the fourth quarter of 2018 – US Fed policy and Chinese economic growth.

In the US, there has been a material shift in rhetoric from the Fed; it now holds a more dovish stance, suggesting it is not as deaf to market feedback as many feared. We are still facing an environment of reduced liquidity, however investors are now less concerned that a sharp liquidity crunch could drive a more sustained correction.

On the other side of the Pacific, China has continued to unveil piecemeal stimulus measures in response to a decelerating economy. This serves as a reminder that Beijing does have several levers it can pull to maintain reasonable economic growth, without having to resort to the relatively blunt tool of property stimulus.

Small caps outperformed the broader market in January. It was interesting to note the strong performance of software companies, which formed part of the high-growth cohort which surged through much of the past year. The outperformance from companies such as Afterpay Touch (APT, +28.3%), Appen (APX, +24.4%) and Wisetech Global (WTC, +30.4%) shows that appetite for smaller growth stocks remains undiminished, ready to resurface at any signs of better market sentiment. We remain wary of valuations here.

Technology (+13.6%) was the strongest performing sector, alongside Energy (+13.2%) as the oil price surged after experiencing a collapse in late 2018. The oil price rose 18.5% as OPEC production cuts began to take effect and fears of a major global slowdown recede. Oil companies form a significant part of global corporate credit markets and an improvement in the oil price has relieved some pressure here which has seen corporate credit spreads narrow, signalling more confidence. Industrials (+9.9%) also outperformed, helped by Nearmap (NEA, +41.3%), which was the best-performing stock in the Index.

Defensives generally underperformed in this risk-on environment. Utilities declined 3.2%, while Consumer Staples fell by 1.5%, driven largely by a downgrade from Costa Group (GCG, -25.5%).

Portfolio performance

The Pendal Smaller Companies Fund (formerly the BT Wholesale Smaller Companies Fund) returned 4.33% (post-fee, pre-tax) in January, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.43%.

Contributors

Overweight Technology One

There were no company-specific developments for Technology One (TNE, +13.2%) in January. The stock outperformed along with the technology sector as sentiment improved and investors flocked back to the higher-growth sectors of the market. We are wary of valuations across much of the technology space and a more attractive valuation than its peers forms a key part of our thesis for TNE. This is complemented by a relatively predictable earnings path, backed by a demonstrable track record of success in rolling out its enterprise software systems.

Overweight Seven Group

We like Seven Group (SVW, +11.4%) for its exposure to both a pick-up in mining capital investment in Western Australia as well the transport infrastructure pipeline on the east coast. This is one of the few pockets of solid growth in the domestic economy, with the miners in particular needing to spend in order to replace depleted mines and maintain aging equipment fleets. While this is a story which should extend into the medium term, SVW received a short-term boost in January via its stake in Beach Energy (BPT), which reported a solid quarterly production result.

Detractors

Overweight Costa Group

Costa Group (CGC, -25.5%) downgraded earnings as a number of factors have combined to squeeze margins, including a mix of weaker demand and rising seasonal supply, plus issues with frost in Morocco and delays to its mushroom farm expansion. We maintain our conviction in the stock, which operates in one of the higher growth food categories and is diversifying its business across more produce and geographically, in a capital efficient way, generating high incremental returns, which both adds to earnings growth, but also dampens the usual cyclicality of agriculture-related stocks.

Overweight AUB Group

AUB Group (AUB, -4.8%) —previously Austbrokers—is an insurance broker to small-to-medium sized businesses (SME). There was some concern leading up to the final recommendations of the Royal Commission that there may be some adverse implications for this sector, given the focus upon mortgage brokers. As it transpired, there was nothing in the final report which had an impact on the business insurance broking sector and, although the risk of regulatory impost has not disappeared, it has receded on a medium-term view.

Strategy and outlook

The portfolio made good gains in January despite underperforming the Index, with a strong surge from some of the positions in Energy and Health Care in particular. Positions in Costa Group and AUB Group weighed on performance, as did an underweight exposure to the higher-profile technology stocks such as Afterpay Touch, Wisetech and Appen. The position in Technology One offset some of this effect, but the surge in these stocks was so great that it formed a material detraction from relative performance.

The upcoming reporting season will serve as an important gauge of Australian economic health. While a broad range of indicators suggest a softer environment, we are not seeing any signs of a drastic slump in growth. The Royal Commission's outcome reduces the risk of a credit-crunch induced recession, while the housing market continues to see a relatively orderly slowdown rather than a catastrophic slump. Nevertheless, we are seeing housing weakness translate to a softer path in terms of retail consumer demand. In this vein, it is important to note there is little sign of repayment stress or forced sales in the property market. While construction is likely to decline for a period, we are seeing a pick-up in capital investment by the miners, while the transport infrastructure pipeline also offers an avenue of growth.

The small cap sector has seen a pick-up in corporate activity in recent times, with private equity firms being very active and several companies coming under takeover offers. This does drive some opportunities, although it is important to note the market has not been immediately responsive to new deals, with relatively muted stock responses suggesting a degree of investor scepticism.

Looking forward, while we seem to have shifted from a stance of fear to optimism in a few weeks, we remain mindful that we are in an environment of elevated macro uncertainty, with some signs of

a softer growth outlook and as such, would not be surprised if the market moved into a consolidation phase as we shift into reporting season.

We are continuing to find decent investment opportunities, with the recent market volatility providing attractive entry points into some longer-term opportunities. It is also interesting to note the continual refreshment of the universe, as just over one-third of the Small Industrials Index having listed within just the last five years. In a broad thematic context, some of our highest conviction ideas have been drawn from the food/agriculture sector, alongside aged care/retirement, travel/tourism, outdoor media and some very specific retail opportunities where a niche product or services is providing insulation from the broader consumer headwinds.

International Shares

Pendal Concentrated Global Share Fund

Market review

Global equity markets experienced a significant recovery in January following the broad-based sell-off in the prior month. Investor sentiment was supported by comments from the US Fed indicating it may put further interest rate increases on hold, along with a sense of optimism that US-China trade talks will avoid an all-out trade war. The US corporate earnings season commenced with a number of positive results that supported valuations, while in Europe after much consternation the British House of Commons reached agreement to support the UK's Brexit agreement, thereby improving the prospects for a viable deal with the European Union. For January, the benchmark MSCI World ex Australia Index closed 4.1% higher.

US shares undoubtedly led the world's equity markets higher as investor confidence returned. The market was buoyed by a solid start to the quarterly earnings season, albeit with less earnings surprises than the market has become accustomed to in recent years. Sector rotation was prevalent in January, with the Industrials and Energy sectors leading the gains. Energy stocks were supported by a solid bounce in crude oil prices, with the West Texas Intermediate crude price recording a solid 18.5% gain. Boeing was the standout for the Industrials sector after reaching a significant milestone of US$102b in sales—the highest in its 102-year history. Despite a degree of intra-month volatility, the S&P500 closed the month with a 7.9% gain, while the NASDAQ rose an even more impressive 9.7%.

European share markets generally recovered their losses incurred in December as investors renewed confidence in the market's prospects for the New Year. While buoyed by similar sentiments in the US, European investors seemed to form a consensus on expectations for the EU's monetary tightening bias moving towards being on hold. Economic growth data for the eurozone came in a 0.2% for the December quarter, with the annual rate being a modest 1.2% to fall below the 2017 level. Italy's economy appears to be faring worse after it slipped into a technical recession in the fourth quarter when the economy contracted by 0.2%, following a 0.1% contraction for the prior quarter. Sector performance across the region was generally positive and countries registering the strongest gains were Italy (+7.7%), Switzerland (+6.4%) and Spain (+6.1%), followed closely by France (+5.5%), Germany (+5.8%) and the UK (+3.6%).

Most Asian equity markets were spurred on by the New Year rally in the developed world. Investors established confidence in a further simmering of the Sino-US trade tensions and took comfort in signals of a pause in US monetary tightening. This saw an improvement in some of the export-oriented currencies against the US dollar. Hong Kong (+8.1%) and Korea (+9.6%) led the region's gains reflecting this dynamic, while south-east Asian markets also performed very well (the

exception being Malaysia with a -0.4% return). Japan (+3.8%) was also a relative laggard in the region as some key economic indicators failed to impress.

The Australian dollar strengthened against its major trading partners while the Trade Weighted Index expanded 1.5%. The local unit rose 3.2% against the US dollar, 3.4% against the euro and 2.4% on the Japanese yen. In commodity markets the oil price's strong rebound followed the 11% decline in December to close at US$3.79 per barrel, while the Gold price surprisingly rose to a 3% gain, closing at US$1321.21.

Portfolio performance

The Pendal Concentrated Global Share Fund (formerly the BT Concentrated Global Share Fund) returned 4.05% (post fee, pre-tax) in January, marginally underperforming its benchmark by 0.03%.

After the worst December in decades, the S&P 500 posted its best January monthly performance since 1987, and the best overall monthly return since October 2015. The move in US markets was broadly replicated by most other global markets, with the UK's FTSE being a relative underperformer, amid the ongoing uncertainty relating to BREXIT negotiations. Through January global markets appeared to be driven by encouraging headlines on US/China trade negotiations, a reset in expectations for any further US interest rates increases in 2019, Chinese stimulus measures and a better than feared start to the US reporting season.

The US quarterly reporting season approached the half way by the end of January. Of the 235 S&P 500 companies having reported, 78% announced earnings growth averaging 14.5% and sales growth of around 6%. Whilst these numbers are encouraging, it is worth noting that the number of earnings reports coming in ahead of expectations is the lowest since 2016 and a number of companies sought to lower market expectations in the weeks prior to reporting earnings (most notably Apple). The technology sector underperformed the broader market, with around 73% of companies reporting average earnings growth of only 4.3% and sales growth of 2%. Outlook statements were generally cautious, with many companies expecting the tough conditions experienced in the fourth quarter to continue into the first quarter of 2019. Guidance for the second half of 2019 appears more upbeat, with companies confident (hopeful) on a resolution of the US /China trade dispute.

The Fund's position in Boeing (+19.6%) contributed to outperformance this month after the company posted a result which reinforced our view on the underlying fundamentals for the business. With an order book covering seven years of production and an underlying strength in air traffic, we expected to see continued positive cash flow momentum. Operating margins came in ahead of expectations, with the success of the 787 program and impressive 737 volumes. The 737 is sold out into the next decade, and is scheduled to increase production to 57 per month in 2019, whilst the 787 is on track for expanded production of 14 per month in 2019. Having increased the dividend by 20% in December and approved a US$20b buy-back program, the Board is clearly confident of the demand profile for the company. Management have yet to make a decision on the launch of a new aircraft optimised for medium-haul routes, and are currently in discussions with customers to determine the demand and the business case. Having learned the lessons from the bungled development cycle of the 787, we believe management will take a prudent approach to the prospect of any new aircraft launch.

Our holding in US rail operators—Union Pacific and Norfolk Southern—also delivered strong results this quarter, with their respective stock prices responding accordingly with respective increases of 15% and 12%.

Positive commentary on the pricing environment and operational improvement was a feature of the results. The implementation of Precision Scheduled Railroading (PSR), a method employed by the Canadian railway companies with great success and now becoming a more widespread operating model for the US rail operators is driving efficiencies by running longer trains, increasing car velocities and using fixed timetables. Union Pacific, who introduced the PSR operating model in

September 2018 are starting to reap the benefits, guided to an operating ratio (operating costs as a percentage of revenue) of below 61% in 2019 and below 60% in 2020 after reporting 61.6% for the fourth quarter. Norfolk Southern are just starting to make changes to their operating model and reported an operating ratio of 67.8%. We believe that management will commit to lowering operating targets in 2019 and beyond at their investor day in February and as they roll out efficiency plans.

Strategy and outlook

Whilst the negative macroeconomic and geopolitical headlines of December 2018 have become more muted in January and valuations have become more palatable, we believe that equity markets will continue to be volatile. The market return for January does not reflect some of the underlying volatility we have witnessed at a stock level during the month, and corporate outlook statements have become less certain than they were 12 months ago. As long term investors we remain focused on owning companies that are equipped with robust business models, nimble management teams and dominant market shares. We buy these companies when valuations are compelling and hold confidence in their ability to not only withstand but prosper, regardless of what the economic cycle has to offer. Our cash position stood at around 10% at the end of January, and we look forward to deploying more capital in 2019 as opportunities arise.

Pendal Core Global Share Fund

(managed by AQR Capital Management)

Market review

Global equity markets experienced a significant recovery in January following the broad-based sell-off in the prior month. Investor sentiment was supported by comments from the US Fed indicating it may put further interest rate increases on hold, along with a sense of optimism that US-China trade talks will avoid an all-out trade war. The US corporate earnings season commenced with a number of positive results that supported valuations, while in Europe after much consternation the British House of Commons reached agreement to support the UK's Brexit agreement, thereby improving the prospects for a viable deal with the European Union. For January, the benchmark MSCI World ex Australia Index closed 4.1% higher.

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registering the strongest gains were Italy (+7.7%), Switzerland (+6.4%) and Spain (+6.1%), followed closely by France (+5.5%), Germany (+5.8%) and the UK (+3.6%).

Most Asian equity markets were spurred on by the New Year rally in the developed world. Investors established confidence in a further simmering of the Sino-US trade tensions and took comfort in signals of a pause in US monetary tightening. This saw an improvement in some of the export-oriented currencies against the US dollar. Hong Kong (+8.1%) and Korea (+9.6%) led the region's gains reflecting this dynamic, while south-east Asian markets also performed very well (the exception being Malaysia with a -0.4% return). Japan (+3.8%) was also a relative laggard in the region as some key economic indicators failed to impress.

The Australian dollar strengthened against its major trading partners while the Trade Weighted Index expanded 1.5%. The local unit rose 3.2% against the US dollar, 3.4% against the euro and 2.4% on the Japanese yen. In commodity markets the oil price's strong rebound followed the 11% decline in December to close at US$3.79 per barrel, while the Gold price surprisingly rose to a 3% gain, closing at US$1321.21.

Portfolio performance

The Pendal Core Global Share Fund (formerly the BT Wholesale Core Global Share Fund) returned 4.63% (post-fee, pre-tax) in January, outperforming its benchmark by 0.55%.

Thematically, the outperformance in North America was driven by the positive performance of our valuation and investor sentiment themes. In Europe, both valuation and momentum themes contributed materially to outperformance. In Asia, strong returns to valuation and quality themes were offset by weakness in investor sentiment and momentum.

From a stock and industry attribution perspective, intra-industry stock selection drove outperformance, while industry selection detracted slightly from active returns over the month. Stock selection within industries was strongest within Health Care, Materials and Consumer Discretionary sectors. At a sector level, an overweight to Health Care industries was the notable detractor, partially offset by the positive contributions of an underweight to Consumer Staples and overweight to Energy.

At a stock level, the largest contributors to active returns came from overweight positions in: Celgene Corporation, a US biotechnology company which specialises in the development of medicines for cancer and inflammatory disorders; Southwest Airlines Co., a major US discount airline; Facebook, Inc., the online social media and social networking company; Synchrony Financial, a US-based consumer financial services company; and Covestro AG, a producer of high tech polymers and adhesives based in Germany. The largest detractors from active returns came from: underweight positions in Bank of America Corporation and Citigroup—US multi-national investment bank and financial services companies; an underweight position in Netflix Inc., a US-headquartered global media services provider; an overweight position in Bristol-Myers Squibb, a US pharmaceutical company; and an overweight position in Macy's, Inc., a US holding company operating a portfolio of department store chains, including Macy's and Bloomingdale's.

Strategy and outlook

Moving into February, the largest sector tilts are overweights in Health Care and Information Technology and underweight positions in Financials and Consumer Staples.

Australian Fixed Income

Pendal Fixed Interest Fund

Market review

Australian bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. The swings were driven predominantly by a combination of offshore developments including a more dovish US Federal Reserve (Fed). Meanwhile domestic monetary policy news was limited with no Reserve Bank of Australia (RBA) Board meeting during January. This left the market continuing to price a greater chance of a cut over the next year rather than a hike by the Board.

Local data was mixed through the month. The top-tier release was inflation data which revealed a 0.4% quarter-on-quarter increase in the RBA's preferred measure of inflation, the trimmed mean. In turn, the year-on-year rate remained at 1.8%, well below the midpoint of its target 2-3% band. Employment data indicated 22,000 jobs were added and the unemployment rate fell by 0.1% to 5.0%. Leading indicators were mostly weaker as business conditions fell 9 points to +2 and consumer confidence dropped from 104.4 to 99.6. Finally, turning to market movements, Australian 3- and 10-year yields both fell by 8 basis points (bp) to 1.76% and 2.25%, respectively. At the very front-end, the 3-month BBSW declined by a marginal 2bp to 2.07%, however its spread to OIS remained relatively elevated.

Portfolio performance

The Pendal Fixed Interest Fund (formerly the BT Wholesale Fixed Interest Fund) returned 0.29% in January (post-fees, pre-tax), underperforming its benchmark by 0.35%.

The Fund underperformed its benchmark during January, driven by the alpha overlay. The Macro strategy was the largest drag on returns as the recovery in risk-assets hurt short credit exposures. The Yield Curve strategy also detracted due to a European curve flattener. Duration was also slightly negative as an Italian BTP short weighed on returns. In contrast, the FX and Relative Value strategies were positive. The former constituted a USD/MXN short that continued to perform well and the latter was reflective of a US invoice spread position. Finally, the Government Bond component also underperformed, while the domestic credit sleeve added value.

Strategy and outlook

The RBA left the cash rate unchanged at its meeting in early February, although the list of downside risks seems to be increasing. Global economic growth forecasts continue to be revised down, weighed down by trade tensions between the United States and China. The secondary effect of these is also clearly weighing on Europe, with Italy now in technical recession and the German economy also stalling. Brexit is unlikely to be resolved any time soon.

Domestically, household spending showed signs of deteriorating in the latter part of 2018 despite the improving labour market. The RBA sees the unemployment rate falling further and leading to a rise in wage inflation. The housing market, particularly in Sydney and Melbourne, continues to fall; however, this needs to be kept in context with the significant appreciation in house prices witnessed since the GFC. The RBA did not tighten monetary policy despite a rampant property market and similarly, we do not expect the Board to ease monetary policy in response to a weakening housing market. However, if inflation disappoints it may be a different story. Inflation pressures are contained and a long way from the mid-point of the RBA's 2 to 3% target band–

something that is highly unlikely to change over the rest of 2019. The RBA is reluctant to ease policy further given the already accommodative stance, however a further deterioration in the inflation landscape may force their hand.

International Fixed Income

Pendal Global Fixed Interest Fund

Market review

Global bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. This occurred as investor concerns of further Fed tightening were soothed by comments from FOMC members through the month. This messaging was later reinforced by the Fed's January meeting statement that signaled "patience" on additional rate increases and flexibility on balance sheet normalisation. US data echoed the need for a cautious approach by the Fed; both manufacturing activity and consumer confidence fell sharply during the month. Also in the US, attention was on fourth-quarter earnings where constructive results helped buoy market confidence. However, several names such as Caterpillar and Nvidia flagged a drag on revenues from weaker Chinese growth as the effects of the trade war are felt. The International Monetary Fund (IMF) also cited the impact of tariffs as a rationale for downgrading its 2019 growth forecast. On the trade front, tensions wavered as encouraging comments from trade officials were offset by intellectual property theft accusations towards Huawei. At the same time, concerns on the government shutdown shifted with exchanges between House Democrats and Trump, until a temporary solution was finally reached towards month-end. Turning to market movements, US 2-year and 10-year rates declined by 3bp and 6bp to 2.46% and 2.63%, respectively.

Portfolio performance

The Pendal Global Fixed Interest Fund (formerly the BT Wholesale Global Fixed Interest Fund) returned 0.37% in January (post-fees, pre-tax), underperforming its benchmark by 0.39%.

Over the month, the Relative Value, Cross-Market and FX strategies added to performance, while the Yield Curve, Duration and Macro strategies detracted.

The Duration strategy detracted from performance over the month. The largest losses were from the short duration positions in the Japanese curve in both the front end and long end. In Europe the gains were mainly sourced from long duration positions in the front end of the curve. However, in the long end of the curve the gains in long German Bunds were offset by losses in short positions in Italian BTPs and French OATs. Early in the month we initiated a new long duration position in the front end of the Swedish curve which ended the month with a small gain. This position was added to during the month as we believe risks remain tilted to the downside on European growth. In the middle of the month we added a long duration position in the Chinese market, with a flat performance over the month. We plan to add to this position if holiday-related funding tightness leads to higher yields over the Chinese New Year period.

The FX strategy added to performance over the month. The majority of the gains were from long emerging market currencies against US dollar and euro, with the long currency positions in Mexico, China and Indonesia being the most profitable trades. In the middle of the month we took profit on all our emerging market positions. Towards the end of the month, we initiated a long yuan versus short Korean won position in light of the continued slowing of the global trade cycle. A small long position was also initiated in Indian rupee versus US dollar after the January FOMC. In the developed market currencies, we added short euro and NZ dollar positions against long Japanese yen and US dollar, which netted a relatively neutral impact on performance for the month.

The Yield Curve strategy detracted from performance over the month. We closed the flattener in Europe early in the month as we expect no further flattening in the curve in near term. We continued to hold the steepener in New Zealand, which ended the month with a small loss.

The Macro strategy was the largest detractor of the month. Credit spreads tightened as risk sentiment improved in the month. Most of the losses were from investment grade and high yield CDX, both of which were initiated in December and were closed when trailing stop loss levels were hit. In emerging markets, a CDX EM short was initiated and stopped out during the month, and the Turkey CDS was also closed out. Whilst we remain concerned over the long-term investment case for Turkey, the lack of near-term negative catalysts, coupled with a more optimistic turn in market risk sentiment is likely to bring further narrowing of spreads. On the positive side, we continued to profit from the flattening position along the CDX high yield curve. Later in the month we converted our outright credit shorts in Europe to a XOVER-Main decompression position, and initiated the same decompression trade in the US between CDX high yield and CDX investment grade. Given the substantial tightening in global credit spreads since the volatility witnessed in December 2018, decompression trades entered at current levels offer asymmetry and good risk-reward as pseudo-short trades on credit.

The Relative Value strategy was one of the best performing for the month. The majority of the gains were from a newly added receiving position in US real yields. At month end, we continued to hold a small US 5-year invoice spread widening position, which turned around and ended the month with a small gain.

The Cross-Market strategy added to performance over the month. Gains were mainly from long New Zealand vs short Australia in the front end of the curves. In the middle of the month we added a long German Bunds vs short French OATs position which had a neutral impact on performance for the month. This position was closed off into month end as technical dynamics and risk sentiment have shifted, but is a position we look for opportunities to re-establish in the future.

Strategy and outlook

The distinct shift in policy stance from the Fed has been the strongest driving factor behind January's recovery in risk assets. The dovish turn is unlikely to alter due to a desire to support equity markets, considering that US equity markets were higher in January compared to December when they last hiked rates. It is also unlikely due to a much worse US economic outlook, at least judging from the latest slew of US economic data. However, the data coming in from the rest of the world has been weaker. The European slowdown has already put Italy into recession and a similar outcome for Germany is also likely. Chinese growth is clearly still slowing and we view the ongoing stimulus as being domestically focused, targeted at the new economy and unlikely to lift global growth akin to the experience of 2016. The trade cycle and the tech cycle are continuing to weaken, and despite pockets of strength, the outlook for commodities does not inspire optimism. Against such a backdrop, some of the shine is likely to come off the US economy. In line with our expectation of a further economic slowdown globally, we are likely to see a larger opportunity set return to the Duration strategy this year.

Credit

Pendal Enhanced Credit Fund

Market review

Domestic credit generated another positive return for the month. This was driven by the combination of a fall in underlying yields, tightening of credit spreads and strong accruals. A strong

recovery in risk appetite led the narrowing for spreads as the Fed signaled a more patient and flexible path for policy normalisation. Sentiment was also bolstered by a constructive US fourth-quarter earnings season and a temporary resolution to the US Government shutdown.

Although the risk backdrop improved, issuance remained relatively light, which was likely owing to seasonally low liquidity. The domestic banks accounted for the majority of issuance, with Commonwealth Bank, Westpac and ANZ Bank all tapping the market for debt capital. Meanwhile, there were no deals from general corporates.

The Australian iTraxx Index (Series 30 contract) traded in a very wide 24p range finishing the month 18bp tighter to +77bp. On average, physical credit spreads closed the month slightly narrower, with the best-performing sectors being communications and resources both tightening 2bp. The worst-performing sector was domestic banks, which widened 2bp. Semi-government bonds slightly underperformed, widening 1bp to government bonds over the month.

Portfolio performance

The Pendal Enhanced Credit Fund (formerly the BT Wholesale Enhanced Credit Fund) returned 0.45% in January (post-fees, pre-tax), underperforming the benchmark return by 0.06%.

Performance of the Fund was influenced by a fall in underlying rates, tightening of credit spreads and accruals which made a positive contribution. Positions in infrastructure and utilities, where the Fund is overweight, outperformed versus other sectors.

Portfolio purchases over the period included issues from Commonwealth Bank, Westpac and ANZ Bank.

Strategy and outlook

Our overall credit view is cautiously constructive. We have been constructive on corporate fundamentals, but are also wary that sentiment towards credit has been weaker in recent months. This has been driven by broader macro concerns as well as fears that troubles for specific US corporates such as GE could reflect broader systemic issues. However, we believe on balance that corporate fundamentals are healthy for the bulk of investment grade issuers. Balance sheets are generally strong and earnings are improving, as evidenced by solid corporate earnings seasons in 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, which should support domestic financial stability.

From a macro standpoint, we acknowledge that risks have risen due to increasing volatility across markets. This has been driven in part by flare-ups of geopolitical risks, such as the ongoing trade war ructions, where troubles have been exacerbated by less forgiving markets. That said, the impact of developments such as trade wars and attitudes towards monetary policy normalisation have shown a tendency to shift quickly as the story evolves. For example, the headwind to risk assets from the Fed's hike in December was quickly replaced by a tailwind as greater policy flexibility was subsequently emphasised.

Meanwhile, from a domestic perspective we expect the Australian economy to exhibit improving growth which has become more balanced in recent years. However, soft wage growth and a house price correction threaten to dampen consumption. As such, we continue to recommend a defensive approach, with any overweights targeted towards operationally resilient sectors such as Utilities and Infrastructure which provide higher yields than that of the index.

Cash

Pendal Managed Cash Fund and Pendal Enhanced Cash Fund

Market review

Australian bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. The swings were driven predominantly by a combination of offshore developments including a more dovish US Federal Reserve (Fed). Meanwhile domestic monetary policy news was limited with no Reserve Bank of Australia (RBA) Board meeting during January. This left the market continuing to price a greater chance of a cut over the next year rather than a hike by the Board.

Local data was mixed through the month. The top-tier release was inflation data which revealed a 0.4% quarter-on-quarter increase in the RBA's preferred measure of inflation, the trimmed mean. In turn, the year-on-year rate remained at 1.8%, well below the midpoint of its target 2-3% band. Employment data indicated 22,000 jobs were added and the unemployment rate fell by 0.1% to 5.0%. Leading indicators were mostly weaker as business conditions fell 9 points to +2 and consumer confidence dropped from 104.4 to 99.6. Finally, turning to market movements, Australian 3- and 10-year yields both fell by 8 basis points (bp) to 1.76% and 2.25%, respectively. At the very front-end, the 3-month BBSW declined by a marginal 2bp to 2.07%, however its spread to OIS remained relatively elevated.

Domestic credit generated another positive return for the month. This was driven by the combination of a fall in underlying yields, tightening of credit spreads and strong accruals. A strong recovery in risk appetite led the narrowing for spreads as the Fed signaled a more patient and flexible path for policy normalisation. Sentiment was also bolstered by a constructive US fourth-quarter earnings season and a temporary resolution to the US Government shutdown.

Although the risk backdrop improved, issuance remained relatively light, which was likely owing to seasonally low liquidity. The domestic banks accounted for the majority of issuance, with Commonwealth Bank, Westpac and ANZ Bank all tapping the market for debt capital. Meanwhile, there were no deals from general corporates.

The Australian iTraxx Index (Series 30 contract) traded in a very wide 24p range finishing the month 18bp tighter to +77bp. On average, physical credit spreads closed the month slightly narrower, with the best-performing sectors being communications and resources both tightening 2bp. The worst-performing sector was domestic banks, which widened 2bp. Semi-government bonds slightly underperformed, widening 1bp to government bonds over the month.

Portfolio performance

Managed Cash

The Pendal Managed Cash Fund (formerly the BT Wholesale Managed Cash Fund) returned 0.16% in January (post-fees, pre-tax), underperforming the benchmark by 0.02%.

With a higher running yield than the Index the Fund remains well positioned to outperform. The themes and credit exposure within the Fund 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 55 days (maximum limit of 70 days). The RBA is unlikely to tighten monetary policy in the near term and

yields further along the curve continue to offer better relative value. The weighted average maturity has consistently been longer than benchmark for this reason. The widening Libor-OIS spread in the US spilled over to the Australian short end, with BBSW rates moving higher in late 2018 and remained elevated during January.

Enhanced Cash

The Pendal Enhanced Cash Fund (formerly the BT Wholesale Enhanced Cash Fund) returned 0.21% in January (post-fees, pre-tax) outperforming the benchmark by 0.03%.

The Fund's performance in January was sourced primarily from the Financials and Industrials sectors. Activity during the month included selling shorter dated Negotiable Certificate of Deposits into longer dated issues, taking advantage of the higher yields on offer.

At the end of the month, the Fund had a credit spread of 57bp over bank bills, interest rate duration of 0.14 years and credit spread duration of 0.91 years.

Strategy and outlook

The RBA left the cash rate unchanged at its meeting in early February, although the list of downside risks seems to be increasing. Global economic growth forecasts continue to be revised down, weighed down by trade tensions between the United States and China. The secondary effect of these is also clearly weighing on Europe, with Italy now in technical recession and the German economy also stalling. Brexit is unlikely to be resolved any time soon.

Domestically, household spending showed signs of deteriorating in the latter part of 2018 despite the improving labour market. The RBA sees the unemployment rate falling further and leading to a rise in wage inflation. The housing market—particularly in Sydney and Melbourne—continues to fall, however this needs to be kept in context with the significant appreciation in house prices witnessed since the GFC. The RBA did not tighten monetary policy despite a rampant property market and similarly, we do not expect the Board to ease monetary policy in response to a weakening housing market. However, if inflation disappoints it may be a different story. Inflation pressures are contained and a long way from the mid-point of the RBA's 2 to 3% target band—something that is highly unlikely to change over the rest of 2019. The RBA is reluctant to ease policy further given the already accommodative stance, however a further deterioration in the inflation landscape may force their hand.

Australian Property

Pendal Property Securities Fund

Market review

The S&P/ASX 300 A-REIT Index rallied with a 6.2% gain for January, outperforming the S&P/ASX 300 Index (+3.9%) by 230bp. On a roll one-year basis, A-REITs have returned 13%, which is 11.6 ahead of the broader market. The major driving force of A-REIT returns was a falling 10-year bond yield, which declined 12bp to finish at 2.20% in January. Globally, REITs returned 10.9% in January (in US dollar terms) with Hong Kong (+13.1%) outperforming and Japan lagging, albeit with a satisfactory 6.7% return. On a 12-month basis A-REITs have been the best performing REIT market (+13%), well ahead of the global REIT sector (+1.4%) return.

During the month, Vicinity Centres announced its asset valuations which showed an overall decline of $37m (-0.2%) with cap rates softening across regionals (cap rate +5bp to 5.77%), sub-regional centres (cap rate +4bp to 6.26%) and neighbourhood centres (cap rate +15bp to 6.34%). GPT also

announced that it would sell its 50% interest in the MLC Centre (estimated book value of A$800m) with the proceeds used to fund its development pipeline. Also during the month, three Charter Hall Funds acquired 10 and 12 Shelley St, Sydney for $804m (cap rate 4.5%) from Brookfield. Scentre Group CFO Mark Bloom also announced his retirement and he is to be replaced by Elliott Rusanow, the former CFO of Westfield Group.

The FOMC kept the Fed funds rate flat at 2.25-2.5%, and took a very dovish stance with respect to future rate hikes, describing current policy as "roughly balanced". This saw a substantial relief rally, with the S&P500 returning almost 8% and the MSCI World Index +7.8%. The US yield curve flattened 3bp with the 10 year rate down 5bp to 2.63%. Iron ore prices rose 16% and Brent (oil) was 12.6% higher, while the Australian dollar appreciated 3% against the US dollar.

In Australia, headline and core inflation (CPI) was reported with a +0.5% rise for the fourth quarter of 2018 and a 1.8% rise for the 12-month period—well below the RBA's target band. The NAB Business survey was weak, with the Conditions component down 9 points to +2. Employment growth data was solid (+22,000 jobs) and the unemployment rate fell from 5.1% to 5.0% (the participation rate declined slightly by -0.1% to 65.6%). Residential building approvals were down 9.1% over the prior period, driven by weakness in high density dwelling approvals which were down 18%. Private sector credit was also weak at +0.2%, taking the annual growth rate to 4.7%, one of the lowest readings since the series started.

Portfolio performance

The Pendal Property Securities Fund (formerly the BT Wholesale Property Securities Fund) returned 6.21% in January (post-fee, pre-tax), outperforming its benchmark by 0.25%.

The portfolio outperformed over the month, with positive contributions from underweight positions in Vicinity Centres and Shopping Centres Australia, together with overweight positions in Charter Hall Group, Arena REIT and GPT Group. Overweight positions in GDI Property Group, National Storage REIT, Charter Hall Long WALE and Lifestyle Communities and an underweight position in Unibail-Rodmaco Westfield detracted from performance.

Over the month we moved from an overweight position in Scentre Group to an underweight position. We also reduced our overweight position in Charter Hall Long WALE and increased our underweight in Stockland Group. We used the proceeds to increase our overweight in Mirvac Group.

Strategy and outlook

The A-REIT sector is now priced on an FY19 dividend yield of 5.1%, a P/E ratio of 17.6 times and a 26% premium to NTA, slightly above its long-term average of 16%. Cap rates are unlikely to compress any further from current levels and asset valuation improvements will be dependent on income growth and tenancy retention. Non-dominant discretionary malls with high specialty occupancy costs are actually expected to fall in value in the short to medium term. Balance sheets are stable, with sector gearing at 28%.

International Property

Pendal Global Property Securities Fund
(managed by AEW)

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, rebounded in January to post a total return of 11.0%. North America (+11.7%) had the largest increase, followed by Europe (+10.8%) and Asia Pacific (+9.4%). Results were positive across the Asia Pacific region. Hong Kong (+13.1%) was the strongest performer, followed by Singapore (+9.8%), New Zealand (+7.6%) and Japan (+6.7%). In Europe, results were similarly positive across the region. Italy (+15.3%) posted the largest increase, followed by the Netherlands (+14.9%) and Austria (+13.6%). In North America, the US and Canada returned 11.9% and 11.7%, respectively.

Portfolio performance

The Pendal Global Property Securities Fund (formerly the BT Wholesale Global Property Securities Fund) returned 9.86% in January (post-fee, pre-tax), underperforming the benchmark by 0.33%.

North America

The North America portfolio returned 11.08% for January (before fees and withholding taxes), trailing the FTSE EPRA Nareit North America Index by 60 basis points. Outperformance relative to the benchmark was attributable to negative stock selection results and, to a lesser extent, negative sector allocation results. In terms of stock selection, results were weakest in the diversified, hotel, and health care sectors and were strongest in the regional mall, apartment, and shopping center sectors. Regarding sector allocation, negative results were driven by the portfolio's overweight to the underperforming regional mall and data center sectors. Moreover, the portfolio's small cash position was a detractor from relative performance, given the regional benchmark's strong positive performance for the month. Conversely, the portfolio's overweight to the outperforming industrial sector was a notable contributor to relative performance. Among the portfolio's holdings, top individual contributors to relative performance included overweight positions in the outperforming Boston Properties (BXP), Pennsylvania REIT (PEI), and Retail Properties of America Class A (RPAI). Detractors most notably included an underweight position in the outperforming Prologis (PLD) and overweight positions in the underperforming American Assets Trust (AAT) and CubeSmart (CUBE).

Europe

The European portfolio returned 11.89% for January (before fees and withholding taxes), outperforming the regional EPRA benchmark by 111 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 the United Kingdom, Sweden, and France and were weakest in the Netherlands, Spain, and Ireland. Regarding country allocation, positive results were mostly attributable to the portfolio's underweight to the underperforming Switzerland and lack of exposure to the underperforming Belgium. The portfolio's small cash position was a detractor to relative performance, given the regional benchmark's strong positive performance for the month. Among the portfolio's holdings, top contributors to relative performance included overweight positions in the outperforming Workspace Group PLC (United Kingdom) and Unite Group PLC (United Kingdom), and an underweight position in the underperforming Castellum AB (Sweden). Detractors most notably included an underweight

position in the outperforming Unibail-Rodamco-Westfield (Netherlands) and overweight positions in the underperforming NSI NV (Netherlands) and Fabege AB (Sweden).

Asia

The Asia portfolio returned 9.41% in January (before fees and withholding taxes), slightly outperforming the regional EPRA benchmark by four basis points. Modest outperformance relative to the benchmark was driven by positive stock selection results in Japan and Hong Kong, while country allocation results were mostly neutral. The portfolio's small cash position was a detractor to relative performance, given the regional benchmark's strong positive performance for the month. Among the portfolio's holdings, top contributors to relative performance included a lack of exposure to the underperforming Japan Retail Fund Investment (Japan) and United Urban Investment (Japan), and an overweight position in the outperforming New World Development (Hong Kong). Detractors most notably included an overweight position in the underperforming LaSalle Logiport REIT (Japan), an underweight position in the outperforming Henderson Land Development (Hong Kong), and a lack of exposure to the outperforming Hang Lung Properties (Hong Kong).

Active Balanced

Pendal Active Balanced Fund

Markets review

Australian equities were strong in January, exhibiting a rebound from the last few days of 2018 that extended well into the new year and ultimately led to a 3.9% monthly gain in the S&P/ASX 300 Accumulation Index. Gains were underpinned by a shift in sentiment on two of the key issues which weighed on markets through the last quarter – US Federal Reserve (Fed) policy and China's economic growth.

A collapsing oil price also weighed on markets in late 2018 and here, too, we have seen a recovery, with the oil price up 17% as OPEC production cuts begin to take effect and fears of a major global slowdown recede. Oil companies form a significant part of global corporate credit markets and an improvement in the oil price has relieved some pressure here and seen corporate credit spreads narrow, signalling more confidence.

Energy was the market's strongest sector in January, up 11.5%, closely followed by Information Technology (+8.8%). Strong performance from small cap tech stocks such as Afterpay Touch (APT, +28.3%) and Wisetech (WTC, +20.4%), along with growth stocks like A2 Milk (A2M, +17.1%) shows that appetite for smaller growth stocks remains undiminished, with investors ready to resurface at any signs of improving market sentiment. We remain wary of valuations here.

Communication Services (+7.7%) was also strong, as TPG Telecom's (TPM, +8.5%) announcement that they would no longer build a 5G telecom network—regardless of whether the ACCC approves their tie-up with Vodafone—also saw a bounce in their competitor Telstra (TLS, +9.1%).

Financials (-0.25%) was the only sector to lose ground, as the market remained cautious on exposure to the banks and wealth management companies ahead of the final recommendations of the Royal Commission. Coincidentally, both Challenger (CGF, -23.7%) and AMP (AMP, -7.8%) made pre-reporting season confessions as new CEOs sought to temper market expectations.

Consumer Staples (+2.7%) made gains but underperformed. China-related agriculture plays such as Bellamy's (BAL, +19.0%) and A2 Milk (A2M, +17.1%) did well, but couldn't offset softer performance from the heavyweights such as Woolworths (WOW, -0.2%). Industrials (+3.4%) finished just behind the benchmark. Qantas (QAN, -6.0%) was among the weakest, driven partly by

a stronger oil price but also from concerns arising through extrapolation of an earnings downgrade announced by Air New Zealand.

Global equity markets experienced a significant recovery in January following the broad-based sell-off in the prior month. Investor sentiment was supported by comments from the US Fed indicating it may put further interest rate increases on hold, along with a sense of optimism that US-China trade talks will avoid an all-out trade war. The US corporate earnings season commenced with a number of positive results that supported valuations, while in Europe after much consternation the British House of Commons reached agreement to support the UK's Brexit agreement, thereby improving the prospects for a viable deal with the European Union. For January, the benchmark MSCI World ex Australia Index closed 4.1% higher.

US shares undoubtedly led the world's equity markets higher as investor confidence returned. The market was buoyed by a solid start to the quarterly earnings season, albeit with less earnings surprises than the market has become accustomed to in recent years. Sector rotation was prevalent in January, with the Industrials and Energy sectors leading the gains. Energy stocks were supported by a solid bounce in crude oil prices, with the West Texas Intermediate crude price recording a solid 18.5% gain. Boeing was the standout for the Industrials sector after reaching a significant milestone of US$102b in sales—the highest in its 102-year history. Despite a degree of intra-month volatility, the S&P500 closed the month with a 7.9% gain, while the NASDAQ rose an even more impressive 9.7%.

European share markets generally recovered their losses incurred in December as investors renewed confidence in the market's prospects for the New Year. While buoyed by similar sentiments in the US, European investors seemed to form a consensus on expectations for the EU's monetary tightening bias moving towards being on hold. Economic growth data for the eurozone came in a 0.2% for the December quarter, with the annual rate being a modest 1.2% to fall below the 2017 level. Italy's economy appears to be faring worse after it slipped into a technical recession in the fourth quarter when the economy contracted by 0.2%, following a 0.1% contraction for the prior quarter. Sector performance across the region was generally positive and countries registering the strongest gains were Italy (+7.7%), Switzerland (+6.4%) and Spain (+6.1%), followed closely by France (+5.5%), Germany (+5.8%) and the UK (+3.6%).

Most Asian equity markets were spurred on by the New Year rally in the developed world. Investors established confidence in a further simmering of the Sino-US trade tensions and took comfort in signals of a pause in US monetary tightening. This saw an improvement in some of the export-oriented currencies against the US dollar. Hong Kong (+8.1%) and Korea (+9.6%) led the region's gains reflecting this dynamic, while south-east Asian markets also performed very well (the exception being Malaysia with a -0.4% return). Japan (+3.8%) was also a relative laggard in the region as some key economic indicators failed to impress.

The Australian dollar strengthened against its major trading partners while the Trade Weighted Index expanded 1.5%. The local unit rose 3.2% against the US dollar, 3.4% against the euro and 2.4% on the Japanese yen. In commodity markets the oil price's strong rebound followed the 11% decline in December to close at US$3.79 per barrel, while the Gold price surprisingly rose to a 3% gain, closing at US$1321.21.

Australian bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. The swings were driven predominantly by a combination of offshore developments including a more dovish US Federal Reserve (Fed). Meanwhile domestic monetary policy news was limited with no Reserve Bank of Australia (RBA) Board meeting during January. This left the market continuing to price a greater chance of a cut over the next year rather than a hike by the Board.

Local data was mixed through the month. The top-tier release was inflation data which revealed a 0.4% quarter-on-quarter increase in the RBA's preferred measure of inflation, the trimmed mean. In turn, the year-on-year rate remained at 1.8%, well below the midpoint of its target 2-3% band. Employment data indicated 22,000 jobs were added and the unemployment rate fell by 0.1% to

5.0%. Leading indicators were mostly weaker as business conditions fell 9 points to +2 and consumer confidence dropped from 104.4 to 99.6. Finally, turning to market movements, Australian 3- and 10-year yields both fell by 8 basis points (bp) to 1.76% and 2.25%, respectively. At the very front-end, the 3-month BBSW declined by a marginal 2bp to 2.07%, however its spread to OIS remained relatively elevated.

Global bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. This occurred as investor concerns of further Fed tightening were soothed by comments from FOMC members through the month. This messaging was later reinforced by the Fed's January meeting statement that signaled "patience" on additional rate increases and flexibility on balance sheet normalisation. US data echoed the need for a cautious approach by the Fed; both manufacturing activity and consumer confidence fell sharply during the month. Also in the US, attention was on fourth-quarter earnings where constructive results helped buoy market confidence. However, several names such as Caterpillar and Nvidia flagged a drag on revenues from weaker Chinese growth as the effects of the trade war are felt. The International Monetary Fund (IMF) also cited the impact of tariffs as a rationale for downgrading its 2019 growth forecast. On the trade front, tensions wavered as encouraging comments from trade officials were offset by intellectual property theft accusations towards Huawei. At the same time, concerns on the government shutdown shifted with exchanges between House Democrats and Trump, until a temporary solution was finally reached towards month-end. Turning to market movements, US 2-year and 10-year rates declined by 3bp and 6bp to 2.46% and 2.63%, respectively.

Portfolio performance

The Pendal Active Balanced Fund (formerly the BT Wholesale Active Balanced Fund) returned 2.29% (post-fee, pre-tax) for the month of January, underperforming its benchmark by 0.66%.

The Fund's return for January was largely driven by its exposure to Australian and offshore equity markets which experienced a strong rebound from the December sell-off. Exposure to the best performing asset classes contributed to returns, although this was limited by a neutral position in Australian equities and underweight in international equities. The Australian and international fixed income and Alternatives segments made a small contribution to returns

Underperformance of the benchmark was primarily driven by manager contribution within Australian and international equities. Our tactical asset allocation decisions saw the Fund's underweight exposure to global weigh on relative returns. Similarly, overweight positions in Australian and international fixed income limited gains.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Santos and Rio Tinto together with an underweight position in National Australia Bank contributed to relative performance but were somewhat offset by overweight positions in Qantas, ResMed and Costa Group.

Within the global equities portfolio, the Concentrated and Core strategies outperformed their benchmarks (pre fees), but the positively trending markets impacted the Dynamic Market and Emerging Market equity strategies which underperformed their benchmarks.

Our Alternatives core portfolio registered a modest positive return this month, whereby five of the eight sub-strategies delivered positive returns, while three had a negative impact. The Alternatives strategy delivered a total return (before fees) of +0.31% versus a cash return of 0.18%.

The Managed Futures, Equity Market Neutral and Long-Short Equity strategies detracted from returns this month, in line with expectations for performance during a positively trending market. Meanwhile, the Global Macro, Event Driven and Convertible Arbitrage strategies added value.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a negative impact on performance. Gains through positioning in bond markets and

a long position in US equities was outweighed by a short position in crude oil and short positions in certain equity market futures.

Strategy and outlook

Performance of the Fund in recent months has highlighted the importance of having a well-diversified and disciplined investment strategy that is founded on long-standing principles. Underlying asset markets have been particularly volatile and history tells us to expect periods of positive and negative performance through time. More broadly, the general increase in volatility seen across asset markets over the past year, while representing a marked shift from levels investors have become somewhat accustomed to over the previous five years, should essentially be seen as a return to the more normalised operation of investment markets that has been well observed over the longer term.

This environment is actually favourable for research-driven active investment strategies as it can accommodate greater price discovery and opportunities to tactically shift portfolios between undervalued and overvalued assets. The Fund is actively managed in line with this philosophy and remains well placed with a diversified exposure to different asset markets, which is augmented with both tactical and dynamic investment processes to capture investment opportunities and manage risks. By way of example, at the end of January our modelling supported a decision to increase our exposure to US equities following a short period of reduced exposure in the Fund, while in fixed income we have maintained a long exposure to Australian and German long term bonds and established a new position in US Treasuries. We also maintain active positioning in alternative assets including commodities exposure and market directional strategies. We believe such an active and comprehensive investment approach will outperform a more passive ‘set and forget’ approach to long term wealth creation.

Performance as at 31 January 2019

(%)	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)	3.29	-0.62	-7.63	-6.00	-1.75	6.61	8.46	6.92	9.60
Total Return (pre-fee, pre-tax)	3.36	-0.43	-7.26	-5.56	-0.97	7.46	9.32	7.77	10.59
Benchmark	3.87	1.38	-4.68	-3.44	1.08	6.58	10.04	7.05	9.65
Pendal Imputation Fund									APIR - RFA0103AU
Total Return (post-fee, pre-tax)	2.21	-0.08	-6.61	-5.00	0.12	6.38	8.10	6.04	9.07
Total Return (pre-fee, pre-tax)	2.29	0.15	-6.19	-4.49	1.02	7.34	9.08	7.00	10.08
Benchmark	3.87	1.38	-4.68	-3.44	1.08	6.58	10.04	7.05	8.35
Pendal Focus Australian Share Fund									APIR - RFA0059AU
Total Return (post-fee, pre-tax)	3.33	-0.95	-8.46	-6.71	-2.02	7.28	9.39	8.50	8.59
Total Return (pre-fee, pre-tax)	3.39	-0.76	-8.18	-6.29	-1.28	8.50	10.34	9.60	9.69
Benchmark	3.87	1.38	-4.68	-3.44	1.08	6.58	10.04	7.05	7.07
Pendal Ethical Share Fund									APIR - RFA0025AU
Total Return (post-fee, pre-tax)	3.52	-0.89	-7.69	-6.02	-2.70	6.11	8.07	7.19	8.03
Total Return (pre-fee, pre-tax)	3.61	-0.65	-7.25	-5.49	-1.78	7.13	9.10	8.21	9.09
Benchmark	3.87	1.38	-4.68	-3.44	1.08	6.58	10.04	7.05	7.71
Australian Shares - Mid Cap									
Pendal MidCap Fund									APIR - BTA0313AU
Total Return (post-fee, pre-tax)	2.54	-3.32	-10.76	-10.37	-5.49	9.39	11.13	11.84	9.39
Total Return (pre-fee, pre-tax)	2.62	-3.10	-10.36	-9.89	-4.40	10.80	12.25	13.23	11.55
Benchmark	4.98	-1.14	-7.12	-6.04	-2.09	9.49	12.95	11.61	5.27
Australian Shares - Small Cap									
Pendal Smaller Companies Fund									APIR - RFA0819AU
Total Return (post-fee, pre-tax)	4.13	-2.16	-9.65	-10.59	-2.74	7.73	7.46	8.42	12.64
Total Return (pre-fee, pre-tax)	4.24	-1.85	-9.08	-9.93	-1.52	9.07	8.80	9.77	13.93
Benchmark	5.56	0.78	-6.95	-7.89	-3.06	8.91	11.34	7.37	7.47
Australian Shares - Micro Cap									
Pendal MicroCap Opportunities Fund									APIR - RFA0061AU
Total Return (post-fee, pre-tax)	4.12	-1.00	-5.30	-4.64	-4.25	8.68	12.12	14.98	17.21
Total Return (pre-fee, pre-tax)	4.04	-0.89	-4.76	-4.00	-3.40	10.00	13.72	18.21	22.17
Benchmark	5.56	0.78	-6.95	-7.89	-3.06	8.91	11.34	7.37	2.78
International Shares									
Pendal Core Global Share Fund									APIR - RFA0821AU
Total Return (post-fee, pre-tax)	4.63	-3.56	-6.70	-4.56	-2.09	7.94	7.53	9.36	5.60
Total Return (pre-fee, pre-tax)	4.72	-3.32	-6.25	-4.02	-1.15	8.98	8.56	10.41	6.75
Benchmark	4.08	-2.19	-3.10	-0.67	3.84	10.77	10.13	10.96	7.21
Pendal Global Emerging Markets Opportunities Fund - WS									APIR - BTA0419AU
Total Return (post-fee, pre-tax)	2.68	4.01	-2.84	-2.41	-3.08	11.37	12.10	8.67	9.79
Total Return (pre-fee, pre-tax)	2.79	4.38	-2.15	-1.59	-1.71	12.93	13.67	10.26	11.95
Benchmark	5.02	7.15	-0.70	0.86	-4.76	12.21	13.74	8.60	9.71
Pendal Concentrated Global Share Fund									APIR - BTA0503AU
Total Return (post-fee, pre-tax)	4.05	-0.27	-1.57	0.52	5.09	12.63	N/A	N/A	12.76
Total Return (pre-fee, pre-tax)	4.15	-0.01	-1.09	1.09	6.09	13.87	N/A	N/A	14.04
Benchmark	4.08	-2.19	-3.10	-0.67	3.84	10.77	N/A	N/A	10.71
Property									
Pendal Property Securities Fund									APIR - BTA0061AU
Total Return (post-fee, pre-tax)	6.21	8.22	5.98	7.18	13.51	10.92	9.37	13.55	7.71
Total Return (pre-fee, pre-tax)	6.27	8.40	6.33	7.59	14.25	11.65	10.08	14.29	8.52
Benchmark	5.96	7.50	5.21	6.22	13.10	10.56	9.30	13.74	7.57
Pendal Global Property Securities Fund									APIR - RFA0051AU
Total Return (post-fee, pre-tax)	9.86	7.02	3.17	4.05	7.23	7.53	8.03	9.18	9.17
Total Return (pre-fee, pre-tax)	9.95	7.28	3.65	4.62	8.21	8.52	9.02	10.18	10.16
Benchmark	10.19	6.98	2.79	3.74	6.63	7.01	7.89	9.45	8.87
Fixed Interest									
Pendal Fixed Interest Fund									APIR - RFA0813AU
Total Return (post-fee, pre-tax)	0.29	1.30	1.75	1.63	4.11	3.29	2.31	3.97	6.33
Total Return (pre-fee, pre-tax)	0.33	1.43	2.01	1.93	4.63	3.81	2.82	4.49	6.88
Benchmark	0.64	2.40	3.29	3.46	5.49	4.11	3.50	4.58	6.60
Pendal Global Fixed Interest Fund									APIR - RFA0032AU
Total Return (post-fee, pre-tax)	0.37	2.45	1.51	0.84	2.35	2.16	1.50	3.81	5.82
Total Return (pre-fee, pre-tax)	0.41	2.58	1.78	1.16	2.90	2.70	2.04	4.36	6.40
Benchmark	0.76	3.28	2.83	2.54	3.97	3.31	2.86	4.73	6.77
Pendal Enhanced Credit Fund									APIR - RFA0100AU
Total Return (post-fee, pre-tax)	0.45	1.45	2.40	2.59	4.00	3.90	3.57	4.40	5.68
Total Return (pre-fee, pre-tax)	0.49	1.56	2.63	2.86	4.47	4.37	4.04	4.87	6.20
Benchmark	0.51	1.54	2.54	2.78	4.35	4.00	3.69	4.45	5.79
Cash & Income									
Pendal Enhanced Cash Fund									APIR - WFS0377AU
Total Return (post-fee, pre-tax)	0.21	0.47	1.04	1.26	2.07	2.64	2.68	2.74	4.85
Total Return (pre-fee, pre-tax)	0.23	0.53	1.17	1.41	2.32	2.90	2.93	2.99	5.19
Benchmark	0.18	0.49	0.98	1.18	1.95	1.85	1.91	2.14	4.79
Pendal Managed Cash Fund									APIR - WFS0245AU
Total Return (post-fee, pre-tax)	0.16	0.48	0.97	1.13	1.87	1.83	1.91	2.11	6.34
Total Return (pre-fee, pre-tax)	0.18	0.54	1.08	1.26	2.10	2.05	2.14	2.34	6.64
Benchmark	0.18	0.49	0.98	1.18	1.95	1.85	1.91	2.14	6.41
Pendal Monthly Income Plus Fund									APIR - BTA0318AU
Total Return (post-fee, pre-tax)	0.56	0.71	0.29	0.71	1.77	3.87	3.64	4.32	5.23
Total Return (pre-fee, pre-tax)	0.61	0.87	0.62	1.10	2.44	4.54	4.32	5.01	5.89
Benchmark	0.13	0.38	0.76	0.89	1.51	1.51	1.58	1.87	2.81
Diversified									
Pendal Active Balanced Fund									APIR - RFA0815AU
Total Return (post-fee, pre-tax)	2.29	-0.42	-4.50	-3.46	-2.09	5.30	5.71	6.44	7.41
Total Return (pre-fee, pre-tax)	2.37	-0.18	-4.04	-2.91	-1.16	6.30	6.72	7.46	8.49
Benchmark	2.95	1.22	-1.36	-0.20	2.75	6.54	7.75	7.15	7.37

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