

Fund Manager Commentary

Month ended 30 April 2019

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Australian Shares

Pendal Australian Share Fund

Market Review

The strong performance of the Australian market extended in April, with the S&P/ASX 300 Accumulation Index advancing by 2.5% over the month. We saw a general rotation between Materials (-2.1%) and Financials (+4.4%), particularly from miners (-3.9%) to the banks (+4.4%). As a result, Industrials (+3.8%) outperformed, whereas Resources (-2.5%) were the laggard.

In addition to the news that Brazil's major diversified miner, Vale, would restart production, Chinese officials issued some cautionary signals on stimulus, perhaps in response to a surging domestic equity market. This in turn caused the iron ore price to fall below its recent highs. This weighed on mining stocks in the second half of the month, although the iron ore price was still up by 9% over the month. Both BHP (-2.8%) and Rio Tinto (RIO, -2.6%) retraced in that regard; whereas the pull back by base metals, led by Aluminium (-6.7%) weighed on the likes of South32 (S32, -10.5%) and Alumina (AC, -7.4%). Gold miners, such as Newcrest Mining (NCM, -2.0%), Evolution Mining (EVN, -12.8%) and Northern Star Resources (NST, -8.5%) also finished the month lower.

The reasonably large reaction from the miners could be driven by a desire among some investors to bank some profits from the miners and reduce shorts and underweights in the banks. The market has been heavily underweight the banks. However, the prospect of rate cuts has strengthened based on consensus expectations which have firmed following the latest weak print of Australia's inflation data, which could ease funding pressures and bring some margin relief for the banks, depending on the proportion of any official cuts they pass through to borrowers. This may have prompted some investors to reduce their negative stance towards banks. The big four finished the month with gains in the range of +0.3% (NAB) to +6.1% (WBC). Macquarie Group (MQG, +4.1%) also outperformed.

Elsewhere, Consumer Staples (+7.3%) was one of the best-performing sectors over the month. It was led by a rebound of the supermarkets – both Woolworths (WOW, +4.8%) and Coles (COL, +6.4%) registered gains. Coles provided its latest trading updates at month end. Key highlights include a 2.2% rise in third-quarter supermarket like-for-like sales, compared with 1.5% for the previous quarter. The rise was mainly driven by higher fresh food inflation and bigger basket sizes due to the Stikeez collectable. Deflation for packaged grocery remained stable at -1%. A surge in some of the growth market darlings, such as A2 Milk (A2M, +17.2%) and Treasury Wine (TWE, +15.2%) also supported the sector. These names were propelled higher through a broad sense that the 'liquidity tap' has been opened a half-twist, considering subdued inflation in the US and Australia is driving expected interest rates lower.

Information Technology (+7.4%) also recorded a strong month in April, with Afterpay Touch (APT, +22.1%), Xero (XRO, +11.9%) and Computershare (CPU, +4.4%) being the largest contributors. The buy-now-pay-later service provider continues to experience solid growth in transaction volumes as more retailers adopt its system. The market is giving management the benefit of the doubt that they will retain a sustainable margin, despite the likelihood of increased competition. Meanwhile, Wisetech (WTC, -3.2%) gave back some of its March gains and was the largest detractor for the sector.

Portfolio performance

The Pendal Australian Share Fund (formerly the BT Wholesale Core Australian Share Fund) returned 1.73% (post-fee, pre-tax) in April, underperforming its benchmark by 0.73%.

Contributors

Overweight Metcash

Metcash (MTS, +8.3%) is a wholesale distribution and marketing company that specialises in grocery, fresh produce, liquor, and hardware. Its stable of brands includes IGA in supermarkets, Cellarbrations and ALM in liquor, and Mitre 10 and Home Timber & Hardware in hardware. The stock advanced among its supermarket peers, Coles (COL, +6.4%) and Woolworths (WOW, +4.8%), despite the lack of new company-specific news. COL released details of its third-quarter sales at month end, whereas WOW is scheduled to report in early May. There were signs of improvements through food inflation in COL's results, and packaged grocery deflation remained stable at -1%. MTS remains our preferred exposure to the sector. The company is highly leveraged to any improvement in price deflation, while not being under the same pressure from renegotiated new employee benefit agreements that are likely to impact WOW/COL's short-term earnings.

Overweight Santos

Global oil prices edged higher over the month, with Brent Crude finishing April 6.4% higher at US\$72.90/bbl, and West Texas Intermediate trading at US\$63.84/bbl. The US Government announced they are ending waivers on their Iranian oil export sanctions, which previously allowed some countries to continue importing crude oil from Iran. In addition, Santos (STO, +5.3%) announced its first-quarter results, which featured record quarterly production. Although production guidance was unchanged, strong production from the Cooper Basin as well as the new discovery at Corvus-2 in Western Australia supported investor sentiment and therefore the share price.

Not holding GPT Group

Property group GPT (-7.7%) delivered its first quarter update for FY19. Despite management's comments of "a solid start to 2019", and reaffirmation of its FY19 earnings guidance, the expected growth rate of funds from operations (FFO) at 4%, was below market consensus of 4.2%. In addition, Management also noted conditions in retail remain subdued. Approximately half of GPT's portfolio is in Retail, where specialty retail sales were down by 1.1% over the quarter, and the fourth consecutive month where the figures are negative. The market reacted negatively to the announcement, and not owning GPT contributed to relative performance.

Detractors

Overweight Viva Energy

Viva Energy (VEA, -9.8%) released its March Geelong Refining Margin (GRM), which improved from January (US\$3.9/bbl) and February (US\$4.0/bbl) to US\$6.5/bbl. While this is somewhat pleasing, what caught the market off guard was VEA's Retail business update. For the four months of 2019, management now expects a A\$30-35m hit to the division's pre-tax earnings, due to lower retail fuel margins on the back of the rising oil prices, and the lag in passing these on to end customers. While the update was disappointing, it was in line with the March update from Caltex (CTX, +3.8%).

Overweight Qantas

It was another month where the share price of Qantas (QAN, -0.9%) was dragged down by higher oil prices, in the absence of any new company-specific news. Oil prices edged higher in April, with Brent crude finishing the month 6.4% higher at US\$72.90/bbl, and West Texas Intermediate trading at US\$63.84/bbl. The US Government announced they are ending waivers on their Iranian oil export sanctions, which previously allowed some countries to continue importing crude oil from Iran. Some investors remain sceptical at this stage as to whether QAN will be able to cope with the

additional fuel costs. The company is scheduled to provide its third-quarter trading update in early May.

Not holding A2 Milk

Infant formula manufacturer, A2 Milk (A2M, +17.2%) finished April with double-digit gains, and not owning it weighed on relative performance. An improvement in the macro environment helped the stock over the month, whereby stimulatory measures recently announced by the Chinese Government were well received by the market, which in turn helped sentiment for companies like A2M with a big footprint in China. In addition, the company provided a third-quarter update, where trading across all regions appears to be tracking well. The company maintained its FY19 guidance and we continue to find stock valuations hard to justify, and remain cautious over how much of A2M's gains are driven by underlying demand versus an inventory build.

Strategy and outlook

The portfolio made decent gains in April but finished behind the Index.

A stronger oil price weighed on Qantas (QAN), although this effect was offset to an extent by gains from Santos (STO). Growth stocks also continued their recent surge and the underweight in stocks such as A2 Milk (A2M) and Afterpay Touch (APT) hurt relative returns. Again, some of this effect was offset by the portfolio's positions in its preferred growth stocks such as Xero (XRO).

A key feature of the market has been the snap back in performance of the banks versus the resource companies over the last month. The positions in miners such as BHP Billiton (BHP) dragged on returns, as did our underweight in the banks.

This highlights the degree of reversion in market leadership, considering the stark difference in fortunes over the past year. Banks are still largely under water on a 12-month view as the Royal Commission dragged out bundles of dirty laundry at the same time that credit growth has begun to slow. Meanwhile, the mining majors have made high teen returns, while Fortescue Metals has risen by over 50% as the iron ore price has held up far better than the market anticipated.

In this vein, there is a sense that perhaps the market has reached an extreme in terms of negative sentiment and short positions on the banks, suggesting some investors are reducing underweights and covering shorts.

However, we think it is still hard to build a case to rotate the portfolio from resources into banks. The most recent updates from ANZ and National Australia Bank confirmed revenue trends remain weak in their core lending businesses. Cost pressures continue to mount, not least from increased compliance and remediation, with only ANZ taking action to try and attack costs in an absolute sense. On capital, the potential for equity raisings at some of the banks has returned, with proposals that additional capital will need to be held against the system's New Zealand subsidiaries.

All in all it is not an attractive picture - and one that paints the possibility of earnings going backwards in the next few halves. Given this, we do not see any compelling valuation argument for being overweight the banks.

Conversely, we believe the resource sector still offers opportunity. The iron ore price remains above US\$90 a tonne, while consensus expectations continue to imply an US\$80 level. As a result, the sector is one of the few in the Australian market which are likely to see earnings upgrades. Management remain relatively disciplined and a material portion of cash flow is finding its way back to shareholders via dividends and buybacks.

Pendal Smaller Companies Fund

Market review

The S&P/ASX Small Ordinaries Accumulation Index finished April 4.1% higher, outperforming the S&P/ASX 100 by 1.9%. The market's much smaller exposure to iron ore miners accounted for most of the performance differential. Small Resources (-4.2%) retreated nevertheless, whereas Small Industrials (+6.3%) outperformed. The headline index now trades on a 16.8x next-12-Month P/E multiple, a 10% premium to its five-year average.

There is a sense that the liquidity tap has been opened a half-twist as subdued inflation – both in the US and Australia – is driving expected interest rates lower. In this vein, the domestic consumer price index (CPI) did not shift in Q1 2019, which has seen consensus expectations for RBA rate cuts brought forward. Most observers are now expecting a cut soon after the Federal election, followed by another at the end of the year.

Sector performance was somewhat divergent over the month. Industrials (+10.5%) led the gainer's camp, whereas Materials (-3.6%) was the worst performing sector in April, followed by Energy (-1.4%) and Utilities (-1.3%) both of which finished the month in the red. Index heavyweights, Consumer Discretionary (+7.8%) and Information Technology (+8.2%), both outperformed the headline index.

Looking at individual stocks more closely, losses in Materials were mainly attributed to negative performance from lithium miners, such as Pilbara Minerals (PLS, -22.8%) and Galaxy Resources (GXY, -22.3%); and gold miners including Regis Resources (RRL, -9.6%) and Independence Group (IGO, -8.2%). Third-quarter updates from PLS were mixed: while production volume of 42.2kt was strong, sales volume was negatively impacted by cyclone Veronica. The recovery rate was around 60% which continues to be below PLS's stated target of 75%. Management had expected the target to be achieved by the end of CY19, following completion of recent modification and improvement projects. Overall, the market reacted negatively. Similarly, GXY updated the market on its performance. Production over the quarter was in line with guidance, while sales volume was weaker. The miner also announced they were not able to conclude a deal on a strategic partnership for the Sal de Vida project, due to current weakness in the lithium market.

Turning to Consumer Discretionary, while Webjet (WEB, +15.9%) and Breville Group (BRG, +18.2%) were the largest contributors to the sector's outperformance, online electronic retailer Kogan (KGN, +60.0%) was the best performing stock within the sector and the Index over the month. KGN provided the market with its third quarter trading update, where its gross transaction value was up 17.55% and earnings (EBITDA) rose by 96.4% compared to the third quarter last year. The company also announced it had formed a partnership with fleet management company, Eclix (ECX, +58.6%), enabling KGN's customers to acquire and trade in cars. Also providing the market with an update, the management of BRG reaffirmed the company's guidance for FY19 EBIT growth to be slightly higher than 11%, compared to the current consensus of around 13%. The company continues to believe it could improve geographical penetration outside Australia and New Zealand.

Lastly, Information Technology (+8.2%) extended gains throughout April. Buy-now-pay-later service provider, Afterpay Touch (APT, +22.1%), continues to deliver solid growth in transaction volumes as more retailers adopt its system and the market is giving management the benefit of the doubt in terms of their ability to retain a sustainable margin, despite the likelihood of increased competition. Wisetech (WTC, -3.2%) gave back some of its previous gains and was the largest detractor from sector performance. Also weighing on the sector was Praemium (PPS, -24.6%). The stock fell after announcing its key client, ANZ private, had selected another supplier, resulting in an 8% revenue hole.

Portfolio performance

The Pandal Smaller Companies Fund returned 3.35% (post-fee, pre-tax) in April, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.76%.

Contributors

Overweight Austal (ASB)

Austal (ASB, +18.7%) is a shipbuilder specialising in defence and commercial vessels. A modification of its existing contract to provide the design and construction for two fast transport vessels for the US Navy was announced in late April and management updated the market in May. This comes on the back of several recent contract wins to build ships, as well as a service contract for the US Navy.

Overweight Seven Group

Seven Group's (SVW, +11.3%) management upgraded guidance for FY19 from 25% to 40% earnings growth, bringing the estimate into line with the market's consensus expectations. Their update flagged adverse weather and project delays had resulted in some setbacks for its Coates Hire business in Queensland. However, this was more than offset by resilience in its WestTrac and Caterpillar businesses.

Detractors

Underweight Afterpay Touch

Afterpay Touch (APT, +22.2%) rallied again in April, taking its one-year return to +327.2%. While the business has had great success in Australia, we believe the valuation leaves little room for disappointment in delivery of its overseas strategy, where there are signs of increased competition. At the same time, we also observe that APT's model has not been tested through a market cycle, which may bring greater stress on the credit component of its model than is currently implied in the valuation multiple.

Overweight AUB Group

Commercial insurance brokers AUB Group (AUB, -3.4%) declined in April. The company raised A\$142m in capital in November 2018 to position the company to take advantage of M&A opportunities. In the near term, the dilutionary effect of the capital raised has weighed on the stock. Over the medium term we expect the company to continue to allocate capital efficiently into M&A, driving shareholder value. Separately, the benefits of a hardening insurance premium cycle are being slightly offset this year, with soft earnings in the Risk Services division following changes last year within iCare (formerly WorkCover NSW) that lead to a transitory slowdown in referrals to AUB. We expect a recovery in Risk Services in FY20.

Outlook

The small cap end of the market enjoyed a strong April. Several of the Fund's holdings delivered strong gains, including ship-builder Austal (ASB), financials company Navigator Global (NGI), Breville (BRG) in consumer appliances and Seven Group (SVW) in mining services.

The Fund underperformed the Index, in part due to the underweight in some of the high growth technology stocks that have continued their recent surge. There is some exposure to this cohort within the portfolio through positions in companies like Technology One (TNE). However, avoidance of companies such as Afterpay Touch (APT) and Appen (APX) dragged on relative performance.

We continue to find it hard to justify the valuation multiples for many of these technology stocks. Australian high growth stocks (classified as stocks with expected earnings-per-share growth greater than 20%pa over the next three years) are now the most expensive in the world following their strong run in recent months. They also trade at the largest premium to the local index. We continue to look for ways to gain exposure to this theme while retaining our valuation discipline; however, this is a key challenge of investing in the current market.

Elsewhere, our positions in currency broker OFX Group (OFX) and commercial insurance broker AUB Group (AUB) also weighed on performance.

We have been seeing clear signs of an economic deceleration in recent weeks and evidence that companies are holding back on spending. The question is how much of this is due to the usual effect of a Federal election and how much is a function of a more subdued economic backdrop. Trends post-election will be important in this regard, as will any inclination towards stimulus from the incoming government.

In the meantime it has been a tough environment for large parts of the small cap market. There has been a clear divergence between the performance of high growth stocks and a more muted return from other parts of the market. We continue to focus on those parts of the market which enjoy a degree of resilience in a tougher environment or those pockets of growth where valuation remains reasonable.

In recent months we have been adding to fuel retailer Viva Energy (VEA) which has the opportunity to improve returns from its convenience retail business and should also benefit from the increase in oil refining margins from their cyclical lows. We have also been adding to funeral company Invocare (IVC) and financial technology company IRESS (IRE).

International Shares

Pendal Concentrated Global Share Fund

Market review

Global markets ended the month higher, with European and US markets outperforming emerging markets and the S&P 500 once again rose close to its all-time highs. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A\$) Index to close 4.6% higher.

The bulk of the US second quarter reporting season proceeded in April, with 76% of companies reporting earnings ahead of expectations and 68% reporting positive earnings growth, albeit averaging only 1.6% over the prior corresponding period. Despite more tempered outlook commentary from corporates compared to the first quarter, consensus estimates still appear to be forecasting a meaningful re-acceleration of earnings growth in the second half of 2019. Economic data also continued to support sentiment, with first quarter GDP coming in at an annual growth rate of 3.2%. Positive data on consumer sentiment and retail sales, along with an additional 196,000 new jobs added in March also supported market sentiment. At the month's close, the S&P500 registered a 3.9% gain, while the NASDAQ had risen by 4.7%.

European share markets registered another month of strong gains, buoyed by easing concerns over the US-China trade issue and better than expected economic data out of Europe. According to preliminary data, the eurozone economy grew by 0.4% in the first quarter of 2019, somewhat above consensus estimates. Italy – Europe's third-largest economy – emerged out of a technical recession to register a 0.2% expansion for the quarter. Collectively, the data suggests conditions in the region are better than many have feared. Germany's DAX (+7.1%) equity market index topped the region's leaders board, while the UK (+1.9%), France (+4.4%), Spain (+3.6%) and Italy (+2.8%) all contributed to the region's aggregate gain of 4.9%.

Asian equity markets were mixed this month and generally underperformed western markets. China (-0.4%) was particularly weak although its sister market Hong Kong (+2.2%) fared better. Singapore (+5.8%) and Japan (+5.0%) were standout performers and reflected the flow-on prospects to these economies from a settling of US-China trade tensions. However, ASEAN markets generally underperformed, led by Malaysia (-0.1%), India (+0.9%), Thailand (+2.1%) and Indonesia (-0.1%).

The Australian dollar weakened against the majors, down 0.7% against the US dollar, 0.9% against the yen and around 0.6% weaker against the euro and British pound. In commodity markets the oil price continued to strengthen, up 6.3% for the month to close at US\$63.91 per barrel, while iron ore rose 8.8% to a level last reached in August 2014.

Portfolio performance

The Pandal Concentrated Global Share Fund returned 3.37% (post fee, pre-tax) in April, underperforming its benchmark by 1.19%.

Defensive positioning and long term focus impacts on April's performance

The Fund delivered another strong positive return this month, albeit short of the benchmark. Underperformance this month primarily stemmed from our 6.5% cash holding as markets continue to rally. Also contributing to relative underperformance were our investments in stock exchanges, which tend to underperform in periods of low trading volumes and volatility.

Another drag on our performance this month stemmed from our 4% position in Wells Fargo (WFC, +0.2%), which underperformed its financial peers and the broader index. We have held a position in WFC since the Fund's inception and the corporate governance scandals and subsequent regulatory actions which have emerged have naturally been disappointing. However, we believe the eventual appointment of an external CEO, the remedial actions directed at improving the sales culture, coupled with the strengthening of risk controls imposed by the Board and regulators will lead to a stronger business in the longer term. In the interim, the US Federal Reserve-imposed asset cap will likely weigh on the share price. However, we continue to believe Wells Fargo offers compelling long term value, considering its 4% dividend yield (12% including buyback), US\$17b in excess capital position and disciplined expense management. The shares have been trading recently on a price to earnings multiple of ~12x and 1.1x price to book. This compares to its Australian equivalent, the Commonwealth Bank of Australia, trading on valuation ratios of 14x price to earnings, 1.9x price to book and a 5.8% dividend yield.

Alphabet (aka Google, +2%) is another position we have held in the Fund since inception which also underperformed this month. Management announced first quarter results in which operating earnings and free cash flow beat consensus expectations, however revenues disappointed the market. More specifically, website revenue grew 19% year on year, after recording growth of 20% or above for the last 17 consecutive quarters.

As long term investors we are less inclined to focus on a 1% shortfall on revenue expectations in any one quarter. The website business generates annual revenues of around US\$100b and search advertising continues to take market share in online advertising.

While we do not expect 20% growth rates into perpetuity, we do believe there are a number of growth levers in the business driven by mobile search, YouTube and Google Maps, which are currently being underappreciated by the market. Cost growth also appears to be moderating and we are comfortable with the current CFO's active role in driving Google's 'Other Bets' businesses in order to set a path for a commercial outcome.

In our view, valuation for a company that commands the number one market share in online search (ex-China) and continues to grow at double-digit rates remains compelling.

Semis make a solid contribution

Among the outperformers for the Fund this month was analogue semiconductor company, Texas Instruments (TXN, +11%). TXN announced first-quarter results to the market in April and the management team continue to exhibit a consistent approach to driving the company's growth. After 10 consecutive quarters of growth, the current weakness in demand can be attributed to cyclical factors for the semi-conductor industry. Revenue came in 3% ahead of expectations, albeit down 5% year on year.

The company acknowledges demand for their products continues to slow across most markets. Guidance for the second quarter implies revenues will be 10% lower for the year.

However, within the context of a downturn in the semiconductor cycle, the business was able to withstand the full brunt of cyclical weakness by virtue of its diversified product suite, with their communications segment recording revenues up 30% for the year, somewhat offsetting declines in the auto and industrial segments. More impressively, free cash flow over the past 12 months has grown at a 22% annual rate and represents around 38% of revenues.

Strategy and outlook

We believe the Fund is positioned to outperform over the longer term. With markets in almost all major asset classes continuing their upward trajectory and overall volatility subsiding, our current cash position reflects our concern that second-half earnings growth expectations for a number of companies appears optimistic. Our focus remains on owning companies that are equipped with robust business models, have nimble management teams and occupy dominant market shares. We buy these companies when valuations are compelling and when we have the confidence they are able to not only withstand but prosper, regardless of what the economic cycle may have to offer. An example of this resilience lies in our exposure to health and personal care companies, Colgate-Palmolive and Procter & Gamble.

Pendal Core Global Share Fund

(managed by AQR Capital Management)

Market review

Global markets ended the month higher, with European and US markets outperforming emerging markets and the S&P 500 once again rose close to its all-time highs. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A\$) Index to close 4.6% higher.

The bulk of the US second quarter reporting season proceeded in April, with 76% of companies reporting earnings ahead of expectations and 68% reporting positive earnings growth, albeit averaging only 1.6% over the prior corresponding period. Despite more tempered outlook commentary from corporates compared to the first quarter, consensus estimates still appear to be forecasting a meaningful re-acceleration of earnings growth in the second half of 2019. Economic data also continued to support sentiment, with first quarter GDP coming in at an annual growth rate of 3.2%. Positive data on consumer sentiment and retail sales, along with an additional 196,000 new jobs added in March also supported market sentiment. At the month's close, the S&P500 registered a 3.9% gain, while the NASDAQ had risen by 4.7%.

European share markets registered another month of strong gains, buoyed by easing concerns over the US-China trade issue and better than expected economic data out of Europe. According to preliminary data, the eurozone economy grew by 0.4% in the first quarter of 2019, somewhat above consensus estimates. Italy – Europe's third-largest economy – emerged out of a technical recession to register a 0.2% expansion for the quarter. Collectively, the data suggests conditions in the region are better than many have feared. Germany's DAX (+7.1%) equity market index topped

the region's leaders board, while the UK (+1.9%), France (+4.4%), Spain (+3.6%) and Italy (+2.8%) all contributed to the region's aggregate gain of 4.9%.

Asian equity markets were mixed this month and generally underperformed western markets. China (-0.4%) was particularly weak although its sister market Hong Kong (+2.2%) fared better. Singapore (+5.8%) and Japan (+5.0%) were standout performers and reflected the flow-on prospects to these economies from a settling of US-China trade tensions. However, ASEAN markets generally underperformed, led by Malaysia (-0.1%), India (+0.9%), Thailand (+2.1%) and Indonesia (-0.1%).

The Australian dollar weakened against the majors, down 0.7% against the US dollar, 0.9% against the yen and around 0.6% weaker against the euro and British pound. In commodity markets the oil price continued to strengthen, up 6.3% for the month to close at US\$63.91 per barrel, while iron ore rose 8.8% to a level last reached in August 2014.

Portfolio performance

The Pandal Core Global Share Fund returned 2.74% (post-fee, pre-tax) in April, underperforming its benchmark by 1.82%.

Thematically, the primary driver of underperformance across all regions was weakness in Momentum themes, at both industry selection and stock selection levels. In North America, Quality themes were also weak over the month, while Sentiment signals provided a minor positive offset. In Europe, while Momentum was the major driver of underperformance, all of Value, Quality and Sentiment themes were also weak over the month. In developed Asia, Momentum driven underperformance was somewhat offset by positive performance of Value and Sentiment themes.

From a stock and industry attribution perspective, both inter-industry tilts, and intra-industry stock selection detracted from active returns over the month. Stock selection within industries was weakest within the Information Technology and Industrials sectors. At a sector level, the overweight to Health Care and underweight to Financials were the notable detractors, offset somewhat by positive contribution from the overweight to Information Technology.

At a stock level, the largest positive contributors to active returns over the month came from overweight positions in: Microsoft Corporation, an American multinational technology company; Synchrony Financial, a US financial services and online banking company; Adobe Inc., an American multinational computer software company; Alcon AG, a global medical company specializing in eye care products; and Apple Inc., an American multinational consumer electronics and software company. The largest detractors from active returns came from an underweight in JP Morgan Chase & Co., an American multinational investment bank and financial services company; an underweight in The Walt Disney Company, an American multinational media and entertainment conglomerate; an underweight in Bank of America Corp, an American multinational investment bank and financial services company; an underweight in Qualcomm Inc., an American multinational semiconductor and telecommunications equipment company; and an overweight in Novartis International AG, a Swiss multinational pharmaceutical company.

Strategy and outlook

Entering May, the largest sector tilts are overweights in Information Technology and Health Care and underweights in Financial and Industrials.

Australian Fixed Income

Pendal Fixed Interest Fund

Market review

Australian bond yields fell at the front-end leading the curve to steepen during April. This was driven largely by growing expectations of a rate cut from the RBA. The Board's communication during the month was perceived as relatively dovish, including the discussion of a low-inflation and higher unemployment scenario that would require lower rates. Later in the period, a weaker-than-expected first quarter CPI print fanned expectations further and by month-end the market was pricing a roughly 50% chance of such a move. The first quarter inflation data revealed headline CPI was flat at 0.0%, while the RBA's preferred gauge (the trimmed mean) rose a sluggish 0.3% over the same period. Meanwhile, labour market data was mixed. On market movements, the Australian 3 year yield fell by 12 basis points (bp) while the 10 year rose 3 bp to 1.28% and 1.80% respectively. At the very front-end, 3 month BBSW dropped a more substantial 21 bp to 1.56%. The BBSW-OIS spread also narrowed further and funding pressures eased with the continued decline in repo rates.

Portfolio performance

The Pendal Fixed Interest Fund returned 0.02% in April (post-fees, pre-tax), underperforming its benchmark by 0.30%.

The Fund underperformed its benchmark during April, which was driven by the alpha overlay. In the alpha overlay, the Duration strategy was the largest detractor from long duration exposures offshore, which were hurt by an increase in yields. These more than offset gains on a long duration in Australia where yields fell. The Macro strategy was the next largest drag due to a long volatility position on GBPJPY and short credit exposures. Smaller losses were incurred from curve flatteners in Europe. Meanwhile, the FX and Relative Value strategies were roughly flat. In contrast, the credit and government components of the Fund both added value.

Strategy and outlook

In its April statement that accompanied the Reserve Bank's monetary policy decision they stated they will "continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time". While there was no explicit easing bias in their April statement the weaker first quarter inflation data is likely to see them either ease monetary policy at their May meeting or move to an easing bias which sets up a likely rate cut shortly thereafter. While inflation has been below target for an extended period now the first quarter inflation data cannot be ignored: it was weak and trending the wrong way. Their forecasts in the Statement on Monetary Policy released on 10th May will reflect an even more benign inflationary environment against a backdrop of slowing economic growth - if the Reserve Bank does not ease policy in that environment then questions will be asked over how bad things really need to get before they act. Household consumption weakened noticeably in the latter half of 2018, weighed down by low income growth and high household debt levels. The hurdle for further easing was high given the cash rate is at 1.50% but that point has been reached.

The Reserve Bank has been upbeat on the outlook for the labour market with increasing tightness feeding into wage inflation and in turn generating higher underlying inflation. An unemployment rate of 5% does not suggest a surge in wage inflation is likely to occur anytime soon however. Forward indicators are providing mixed signals with job vacancies data indicating ongoing strength and the

ANZ job ads series reflecting slowing labour demand. Inflation from a tightening labour market will not occur quickly enough to see the Reserve Bank on hold for an extended period.

We expect the Reserve Bank to ease monetary policy twice before the end of 2019.

International Fixed Income

Pendal Global Fixed Interest Fund

Market review

Global risk sentiment remained supported in April by the Fed's recent 'pivot' to a more dovish stance. Similarly, traders viewed trade war developments with more optimism than pessimism and quickly looked past negative news flow during the month. This included Trump's threats of new tariffs on EU imports, which arose after the WTO suggested European subsidies may have put American aircraft producers at a disadvantage. Data-wise, US first quarter GDP beat expectations with a healthy 3.2% annualised increase. Jobs data also exceeded forecasts as did first quarter corporate earnings results. In Europe, the ECB offered no changes to their forward guidance at their April monetary policy meeting. In Asia, Chinese credit data revealed a lift over the month and boosted investor sentiment towards the region. Finally on market movements, the US curve steepened over the month with the 2 year flat at 2.27% while the 10 year added 10 bp to 2.50%.

Portfolio performance

The Pendal Global Fixed Interest Fund returned -0.63% in April (post-fees, pre-tax), underperforming its benchmark by 0.39%.

Over the month, all strategies detracted with Duration strategy being the worst performer, giving back the gains made in the last month. Over the month, the portfolio risk level started at 10 risk units and decreased to a low of 3 risk unit in the middle of the month before increasing to 6 risk units towards the end of the month.

The Duration strategy was the largest detractor over the month. Losses were from long duration positions across markets as yields retraced from the fall of March. We were stopped out of long duration positions in China and Swedish front end in the middle of the month. Long duration positions in New Zealand front end and Korea long end were reduced over the month. In the US, losses were from a long duration position in the front end which was stopped out in the month. Gains were made in long duration positions in Australia long end, which benefited from RBA's dovish turn and weak inflation data in the month. Toward the end of the month, we added back small long duration positions in US, New Zealand and China.

The FX strategy slightly detracted from performance over the month. Losses were mainly contributed by short USD against INR. The losses were mitigated by gains from short USD against MXN. Earlier in the month, we went long USD against a basket of Asian currencies with a flat performance. As of the end of the month we kept minimal FX positions.

The Yield Curve strategy detracted from performance over the month. The majority of the losses were from flatteners in the Eurodollar strips. The German Bund and Buxl flattener was closed at flat performance in the beginning of the month.

The Macro strategy detracted from performance over the month. Most of the losses were from a long volatility in GBPJPY straddle position as the Brexit uncertainty came into the foreground. We

were stopped out on outright buy protection positions in CDX HY and CDX EM but gained small profits from the CDX HY flattening position.

The Relative Value strategy retraced from the gains of last month and detracted this month. All losses were from by the received US real yields position.

There were no trades in the Cross-Market strategy for this month.

Strategy and outlook

The bounce in March Chinese data appeared to be the result of seasonal factors as well as the front-loading of local government related borrowing and infrastructure spending. This suggests that the pace of the recovery will be very difficult to maintain, which has since been confirmed by the latest set of disappointing PMI prints at the end of April. Similarly despite the upside surprise in US GDP, the details reveal an ongoing weakness in consumption expenditure, which is worrying for an economy where consumption accounts for more than 70% of overall GDP. In terms of positioning, the rise in yields in some of our core markets was too strong to ignore this month, which led to us paring back long duration positions. However, we still favour the long duration bias as the risks to global growth remain skewed to the downside, as evidenced by the ongoing weakness in the trade and capex cycles. Further, we are favouring a long USD bias as it becomes evident that better Chinese growth is failing to spill over to the rest of the world, and as the extreme easing in US financial conditions since the end of 2018 affords the Fed more time to wait and see.

Credit

Pendal Enhanced Credit Fund

Market review

Australian credit generated another positive return in April, driven by a fall in yields, tightening of credit spreads and healthy accruals. The drop in yields was alongside increased expectations of an RBA rate cut. At the same time investors looked past the noise of trade war headlines and ongoing Brexit rumblings in the global arena.

Despite a reasonable backdrop for risk assets, issuance was again relatively light over the period and the lowest month for the year so far. Following issuance in January and February, none of the Big Four domestic banks issued paper during March or April. The largest deal was from offshore financial, Bank of China with a A\$600m deal. Local regional banks issued similar amounts with Bank of Queensland and Suncorp both conducting A\$500m deals. The largest general corporate issuance was from Woolworths with a A\$400m green bond.

The Australian iTraxx index (Series 31 contract) traded in a 10bp range finishing the month 9.5 bp tighter to +66 bp. Physical credit spreads narrowed 2 bp over the month, with the best performing sectors being utilities and domestic banks tightening 7 and 5 bp respectively. The worst performing sectors were supranationals and offshore banks that were unchanged and 2 bp narrower respectively. Semi-government bonds were basically unchanged to government bonds.

Portfolio performance

The Pendal Enhanced Credit Fund returned 0.50% in April (post-fees, pre-tax), outperforming the benchmark return by 0.03%.

The Fund outperformed its benchmark over the month. A fall in underlying rates, tightening of credit spreads and accruals made a positive contribution. Positions in infrastructure and utilities, where

the fund is overweight, outperformed the credit index. There were no portfolio purchases over the period, while exposure to KFW and Transurban was reduced.

Strategy and outlook

Our overall credit view remains cautiously constructive. We are positive on corporate fundamentals, but are wary that appetite for credit has demonstrated varying sensitivity to geopolitical developments and the ongoing trade war.

From a bottom-up perspective, corporates in the US have demonstrated resilience with upside surprises to earnings growth in the Q1 reporting season. Similarly, domestic fundamentals remain relatively healthy as issuers have not increased balance sheet leverage materially over the past several years. The major Australian banks also have stronger capital ratios than previous years, which should support domestic financial stability. Moreover the weight of the Royal Commission has finally been lifted from their shoulders. That said, recent results from the majors have revealed challenges as a result of the Commission as well as slowing mortgage growth.

From a macro standpoint, the elevated levels of volatility that were evident in 2018 (particularly December) have subsided. Investors have taken a more optimistic perspective towards trade wars and sentiment has been lifted by more dovish central banks. However, we are wary that attitudes towards these developments can shift quickly as the story evolves, particularly with geopolitical flare-ups.

Of further consideration is the softening of domestic economic growth, where there is likely further risk to the downside as weak wage growth and the house price correction threaten to dampen consumption. 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 fell at the front-end leading the curve to steepen during April. This was driven largely by growing expectations of a rate cut from the RBA. The Board's communication during the month was perceived as relatively dovish, including the discussion of a low-inflation and higher unemployment scenario that would require lower rates. Later in the period, a weaker-than-expected first quarter CPI print fanned expectations further and by month-end the market was pricing a roughly 50% chance of such a move.

The first quarter inflation data revealed headline CPI was flat at 0.0%, while the RBA's preferred gauge (the trimmed mean) rose a sluggish 0.3% over the same period. Meanwhile, labour market data was mixed. While the unemployment rate ticked higher by 0.1% to 5.0%, it was driven by an increase in the participation rate as jobs growth was relatively strong at 26K. Similarly there were varied signals from leading indicators. Retail sales was strong at 0.8% month-on-month, however business confidence fell to 0 - a multi-year low.

Looking abroad, risk sentiment remained supported by the Fed's recent "pivot" to a more dovish stance. Similarly, traders viewed trade war developments with more optimism than pessimism and quickly looked past negative news flow. This included Trump's threats of new tariffs on EU imports, which arose after the WTO suggested European subsidies may have put American aircraft

producers at a disadvantage. Data-wise, US first quarter GDP beat expectations with a healthy 3.2% annualised increase. Jobs data also exceeded forecasts as did first quarter corporate earnings results.

In Europe, the ECB offered no changes to their forward guidance at their April monetary policy meeting. President Draghi reaffirmed that rates will stay at current levels at least until the end of the year. Meanwhile, core inflation for the region grew at a soft 0.8% year-on-year and regional governments including Italy and Germany downgraded their economic growth forecasts.

In Asia, Chinese credit data revealed a lift over the month and boosted investor sentiment towards the region. First quarter GDP growth also surprised to the upside at 6.4% year-on-year. Leading indicators also beat expectations including industrial production and retail sales.

Finally on market movements, the Australian 3 year yield fell by 12 bp while the 10 year rose 3 bp to 1.28% and 1.80% respectively. At the very front-end, 3 month BBSW dropped a more substantial 21 bp to 1.56%. The BBSW-OIS spread also narrowed further and funding pressures eased with the continued decline in repo rates. The US curve also steepened over the month with the 2 year flat at 2.27% while the 10 year added 10 bp to 2.50%. This caused the AU-US yield differential to fall by 7 bp deeper into negative territory. In turn, the AUD faced further pressure and fell by 0.68% against its US counterpart.

Turning to credit markets, spreads continued to tighten amid a supportive environment for global risk appetite. This follows in the wake of the Fed's "dovish pivot" earlier in the year and a positive perspective on global trade wars. These global developments have offered the greatest guidance to local spreads and overshadowed a weaker domestic backdrop.

The Australian iTraxx index (Series 31 contract) traded in a 10bp range finishing the month 9.5 bp tighter to +66 bp. Physical credit spreads narrowed 2 bp over the month, with the best performing sectors being utilities and domestic banks tightening 7 and 5 bp respectively. The worst performing sectors were supnationals and offshore banks that were unchanged and 2 bp narrower respectively. Semi-government bonds were basically unchanged to government bonds.

Portfolio performance

Managed Cash

The Pandal Managed Cash Fund returned 0.15% in April (post-fees, pre-tax), underperforming the benchmark by 0.01%.

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 60 days (maximum limit of 70 days). The weighted average maturity has consistently been longer than benchmark due to the higher yields available further out the curve with minimal risk of any monetary policy tightening from the Reserve Bank. The market is now pricing monetary policy easing as all but assured and has flattened the bank bill curve significantly. Consequently longer dated yields do not look as attractive unless monetary policy easing does occur.

The fund is well positioned to outperform its benchmark.

Enhanced Cash

The Pandal Enhanced Cash Fund returned 0.24% in April (post-fees, pre-tax) outperforming the benchmark by 0.08%.

Positive performance came primarily from financials and industrials sectors.

Activity included issuer switches in the industrial sector, while also reducing financials exposure ahead of expected new issuance supply post bank reporting.

As at the end of the month, the portfolio had a credit spread of 55 bp over bank bills, interest rate duration of 0.11 years and credit spread duration of 0.95 years.

Strategy and outlook

In its April statement that accompanied the Reserve Bank's monetary policy decision they stated they will 'continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time'. Whilst there was no explicit easing bias in their April statement the weaker first quarter inflation data is likely to see them either ease monetary policy at their May meeting or move to an easing bias which sets up a likely rate cut shortly thereafter. Whilst inflation has been below target for an extended period now the first quarter inflation data cannot be ignored: it was weak and trending the wrong way. Their forecasts in the Statement on Monetary Policy released on 10th May will reflect an even more benign inflationary environment against a backdrop of slowing economic growth - if the Reserve Bank does not ease policy in that environment then questions will be asked over how bad things really need to get before they act. Household consumption weakened noticeably in the latter half of 2018, weighed down by low income growth and high household debt levels. The hurdle for further easing was high given the cash rate is at 1.50% but that point has been reached.

The Reserve Bank has been upbeat on the outlook for the labour market with increasing tightness feeding into wage inflation and in turn generating higher underlying inflation. An unemployment rate of 5% does not suggest a surge in wage inflation is likely to occur anytime soon however. Forward indicators are providing mixed signals with job vacancies data indicating ongoing strength and the ANZ job ads series reflecting slowing labour demand. Inflation from a tightening labour market will not occur quickly enough to see the Reserve Bank on hold for an extended period.

We expect the Reserve Bank to ease monetary policy twice before the end of 2019.

Australian Property

Pendal Property Securities Fund

Market review

The ASX 300 AREIT index was down 2.6% in April, underperforming the broader market by 490bp, with REITs the worst performing sector on the ASX. On a rolling 12 months AREITS are +17.7%, outperforming the broader market by 7.3%. Globally REITs were down 1.3% for the month, with the weakness led by Asia/Pac (-2.6%) with the best region the US (-0.4%). On a year rolling basis the US REIT sector was the best performing market (+19%) with the worst performing market being the UK (-8.5%).

April saw the release of a number of AREIT quarterlies which continued to reinforce the divergence of performance in the Office/Industrial stocks with those in the Retail/Residential sectors. Retail sales growth decelerated over the quarter with GPT's sales growth falling from 2.4% to 1.3%, Stockland's falling from 1.4% to 1.2% and Scentre Group's specialty sales growth falling from 1.7% to 1.5%. In addition Stockland noted that its residential lot sales were down 28% over the quarter, its weakest quarter of sales since 2011. In contrast leasing spreads were positive for Mirvac's office portfolio (+14%). Charter Hall Retail REIT also announced the acquisition of the \$142m Rockdale Plaza (on a 6.25% cap rate), funded by a \$150m equity raising.

Global markets rallied in April with developed markets +3.4% driven by Financials (+7.2%) and IT sectors (+6.4%) while the defensive sectors Health Care (-2.5%) and REITs (-0.7%)

underperformed. In the US the ISM (manufacturing) improved +0.9 to 55.3, however German PMI manufacturing fell 2.5 to 44. On a positive note Brexit was postponed to October data out of China bounced with PMI manufacturing +1.3 to 50.5 and Chinese GDP +6.4% (Y/Y). Australian and US 10 year bond yields were flat over the month closing at 1.78% and 2.50% respectively.

April saw the announcement of the Federal Government election and an early budget with the Coalition announcing an expected return to surplus in 2019/20. Core CPI came in lower than expectations (+1.4%). The unemployment rate ticked slightly higher, +0.1% to 5% and business confidence slipped into negative territory over the period. On a positive note retail sales were strong +0.8%, the largest gain in a year and building approvals were +19% on the back of large project high density confirmations.

Portfolio performance

The Pandal Property Securities Fund returned -1.95% in April (post-fee, pre-tax), underperforming its benchmark by 0.34%.

Positive attribution came from overweight positions in Arena REIT, Japara Healthcare, Mirvac Group, Charter Hall Education Trust and an underweight position in Scentre Group. Underweight positions in Unibail-Rodamco Westfield, Cromwell Property Group and Abacus Property Group and overweight positions in GPT Group and Charter Hall Group detracted from performance.

Over the month we increased our underweight position in Scentre Group and reduced our overweight positions in GPT Group and Mirvac Group. We increased our overweight position in Charter Hall Group and GDI Group and also participated in the Charter Hall Retail REIT Trust capital raising.

Strategy and outlook

The AREIT sector is now priced on an FY19 dividend yield of 4.8%, a PE ratio of 18.9 times and a 40% premium to NTA, well 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 27%.

International Property

Pandal 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 declined in April, posting a total return of -1.1%. Asia Pacific (down 3.0%) posted the largest decline followed by Europe (down 1.1%) and North America (down 0.5%). Within the Asia Pacific region, results were mixed. Japan (down 4.2%) was the weakest performer, followed by Hong Kong (down 2.4%), while Singapore (up 0.4%) and New Zealand (up 1.4%) were positive performers. In Europe, results were similarly mixed across the region.

Germany (down 4.9%) posted the largest decline, followed by Sweden (down 4.1%) and Switzerland (down 3.5%). Conversely, Ireland (up 7.5%), Spain (up 5.6%), and Italy (up 4.6%)

were positive performers during the month. In North America, the U.S. and Canada returned -0.3% and -3.7%, respectively.

Portfolio performance

The Pandal Global Property Securities Fund returned -0.74% in April (post-fee, pre-tax), outperforming the benchmark by 0.26%.

North America

The North America portfolio returned -0.07% in April before fees and withholding taxes, exceeding the FTSE EPRA Nareit North America Index by 39 basis points. Outperformance relative to the benchmark was driven by both positive stock selection and positive sector allocation results. In terms of stock selection, results were strongest in the health care, office, and shopping center sectors and were weakest in the apartment, storage, and hotel sectors. Regarding sector allocation, positive results were driven by the portfolio's overweight to the outperforming industrial and other residential sectors, as well as an underweight to the underperforming health care sector. Among the portfolio's holdings, top individual contributors to relative performance included overweight positions in outperforming Rexford Industrial Realty (REXR) and Americold Realty Trust (COLD), and a lack of exposure to underperforming Realty Income (O). Detractors most notably included an underweight position in outperforming Prologis (PLD) and overweight positions in underperforming HCP, Inc. (HCP) and Simon Property Group (SPG).

Europe

The European portfolio returned -0.90% in April before fees and withholding taxes, outperforming the regional EPRA benchmark by 16 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 Sweden, the United Kingdom, and Ireland and were weakest in Germany, Netherlands, and France. Regarding country allocation, the portfolio's lack of exposure to the underperforming Switzerland was a positive contributor but was offset by an overweight to the underperforming Germany and Norway, both of which were detractors. Among the portfolio's holdings, top contributors to relative performance included overweight positions in outperforming Unite Group PLC (United Kingdom) and Green REIT PLC (Ireland), and a lack of exposure to underperforming Castellum (Sweden). Detractors most notably included overweight positions in underperforming Deutsche Wohnen SE (Germany) and Vonovia SE (Germany), and an underweight position in outperforming Unibail-Rodamco-Westfield (Netherlands).

Asia

Pandal's Asia portfolio returned -2.62% in April before fees and withholding taxes, beating the regional EPRA benchmark by 34 basis points. Outperformance relative to the benchmark was driven by positive stock selection results in Japan, Hong Kong and Singapore, while country allocation results were largely neutral. Among the portfolio's holdings, top contributors to relative performance included overweight positions in outperforming UOL Group (Singapore) and LaSalle Logiport REIT (Japan), and a lack of exposure to underperforming Sino Land (Hong Kong). Detractors most notably included overweight positions in underperforming CK Asset Holdings (Hong Kong) and Mitsui Fudosan (Japan), and a lack of exposure to outperforming Ascendas REIT (Singapore).

Active Balanced

Pendal Active Balanced Fund

Markets review

The strong performance of the Australian market extended in April, with the S&P/ASX 300 Accumulation Index advancing by 2.5% over the month. We saw a general rotation between Materials (-2.1%) and Financials (+4.4%), particularly from miners (-3.9%) to the banks (+4.4%). As a result, Industrials (+3.8%) outperformed, whereas Resources (-2.5%) were the laggard. The big four banks finished the month with gains in the range of +0.3% (NAB) to +6.1% (WBC). Macquarie Group (MQG, +4.1%) also outperformed.

Elsewhere, Consumer Staples (+7.3%) was one of the best-performing sectors over the month. Information Technology (+7.4%) also recorded a strong month in April, with Afterpay Touch (APT, +22.1%), Xero (XRO, +11.9%) and Computershare (CPU, +4.4%) being the largest contributors.

Global markets ended the month higher, with European and US markets outperforming emerging markets and the S&P 500 once again rose close to its all-time highs. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A\$) Index to close 4.6% higher.

The bulk of the US second quarter reporting season proceeded in April, with 76% of companies reporting earnings ahead of expectations and 68% reporting positive earnings growth, albeit averaging only 1.6% over the prior corresponding period. Despite more tempered outlook commentary from corporates compared to the first quarter, consensus estimates still appear to be forecasting a meaningful re-acceleration of earnings growth in the second half of 2019. Economic data also continued to support sentiment, with first quarter GDP coming in at an annual growth rate of 3.2%. Positive data on consumer sentiment and retail sales, along with an additional 196,000 new jobs added in March also supported market sentiment. At the month's close, the S&P500 registered a 3.9% gain, while the NASDAQ had risen by 4.7%.

European share markets registered another month of strong gains, buoyed by easing concerns over the US-China trade issue and better than expected economic data out of Europe. According to preliminary data, the eurozone economy grew by 0.4% in the first quarter of 2019, somewhat above consensus estimates. Italy – Europe's third-largest economy – emerged out of a technical recession to register a 0.2% expansion for the quarter. Collectively, the data suggests conditions in the region are better than many have feared. Germany's DAX (+7.1%) equity market index topped the region's leaders board, while the UK (+1.9%), France (+4.4%), Spain (+3.6%) and Italy (+2.8%) all contributed to the region's aggregate gain of 4.9%.

Asian equity markets were mixed this month and generally underperformed western markets. China (-0.4%) was particularly weak although its sister market Hong Kong (+2.2%) fared better. Singapore (+5.8%) and Japan (+5.0%) were standout performers and reflected the flow-on prospects to these economies from a settling of US-China trade tensions. However, ASEAN markets generally underperformed, led by Malaysia (-0.1%), India (+0.9%), Thailand (+2.1%) and Indonesia (-0.1%).

The Australian dollar weakened against the majors, down 0.7% against the US dollar, 0.9% against the yen and around 0.6% weaker against the euro and British pound. In commodity markets the oil price continued to strengthen, up 6.3% for the month to close at US\$63.91 per barrel, while iron ore rose 8.8% to a level last reached in August 2014.

Australian bond yields fell at the front-end leading the curve to steepen during April. This was driven largely by growing expectations of a rate cut from the RBA. The Board's communication during the month was perceived as relatively dovish, including the discussion of a low-inflation and higher unemployment scenario that would require lower rates. Later in the period, a weaker-than-

expected first quarter CPI print fanned expectations further and by month-end the market was pricing a roughly 50% chance of such a move. The first quarter inflation data revealed headline CPI was flat at 0.0%, while the RBA's preferred gauge (the trimmed mean) rose a sluggish 0.3% over the same period. Meanwhile, labour market data was mixed. On market movements, the Australian 3-year yield fell by 12 bp while the 10-year rose 3 bp to 1.28% and 1.80% respectively. At the very front-end, 3 month BBSW dropped a more substantial 21 bp to 1.56%. The BBSW-OIS spread also narrowed further and funding pressures eased with the continued decline in repo rates.

Global risk sentiment remained supported in April by the Fed's recent 'pivot' to a more dovish stance. Similarly, traders viewed trade war developments with more optimism than pessimism and quickly looked past negative news flow during the month. This included Trump's threats of new tariffs on EU imports, which arose after the WTO suggested European subsidies may have put American aircraft producers at a disadvantage. Data-wise, US first quarter GDP beat expectations with a healthy 3.2% annualised increase. Jobs data also exceeded forecasts as did first quarter corporate earnings results. In Europe, the ECB offered no changes to their forward guidance at their April monetary policy meeting. In Asia, Chinese credit data revealed a lift over the month and boosted investor sentiment towards the region. Finally on market movements, the US curve steepened over the month with the 2 year flat at 2.27% while the 10 year added 10 bp to 2.50%.

Portfolio performance

The Pandal Active Balanced Fund returned 1.13% (post-fee, pre-tax) for the month of April, underperforming its benchmark by 0.77%.

The Fund's return for April was largely driven by its exposure to Australian and offshore equity markets. Listed property gave back some of the prior month's gains although the overall impact on performance was minimal. Exposure to Australian fixed income made a small contribution, however, exposure to international fixed income detracted from returns this month.

Performance relative to the benchmark was impacted largely by performance of the underlying investment strategies.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian and international equities. Within the Australian equity strategy, overweight positions in Metcash and Santos, together with holding no exposure to GPT Group contributed to performance, although this was more than offset by overweight position in Viva Energy and Qantas, in addition to holding no exposure to A2 Milk.

Within the global equities portfolio, the Concentrated, Core, Emerging Markets and European Value strategies underperformed their respective benchmarks (pre fees), largely due to stock-specific outcomes. These active strategies are long term in nature and can be expected vary in performance during shorter term periods.

The Alternatives strategy delivered a total return (before fees) of -0.80% versus a cash return of 0.16%. This outcome is generally consistent with positively trending equity markets. Within our Alternatives core portfolio the Equity Market Neutral, Dedicated Short Bias and Long/Short equity strategies detracted from returns, while most of the offsetting gains came from the Global Macro and Managed Futures strategies. From a tactical perspective, the Alternatives strategy continues to operate at slightly less than its long term risk target.

In relation to our tactical positioning within the Alternatives component of the Fund, the main contribution came from our positioning in equity markets, with gains from long positions in Australia and the US, while long positions in Australian, German and US bond markets registered marginal detractions. A long volatility position also contributed to gains, while positioning in commodity markets was generally unfavourable this month.

Strategy and outlook

Positive trends in equity markets are naturally welcomed by investors, particularly those with a bias towards growth assets. With geopolitical developments playing an ever-increasing role in determining the fortunes of equity investors, it is often easy to lose sight of the underlying fundamentals of the asset classes. Market participants have become generally accustomed to the seismic shifts of market expectations in recent years, where investors momentarily move from risk-on to risk-off modes, from positions of global recession to global upturn or from Fed tightening to Fed enlightening. Brexit has quickly faded into market memory and the proverbial can has been kicked down the road to October when the deadline looms.

In reality, issues like trade talks are almost never binary in outcomes and there is arguably further to be played out between the US and China. The short term shifts in sentiment we have seen in May bear testament to the fractious nature of these macro influences. However, it is clear earnings are peaking in some quarters of the Australian and US market and we expect markets to remain volatile for the next few months.

The Fund's performance through this year and beyond has highlighted the importance of remaining invested in a long term strategy. The Fund's performance also exhibits the benefit of having a well-diversified and disciplined investment strategy that can smooth returns from underlying assets which tend to be more volatile in isolation and through shorter term periods. We also structure the Fund to adequately diversify on many levels to capture opportunities for generating long term gains within a tightly controlled risk management framework to grow our investors' retirement savings beyond what could otherwise be achieved through relying solely on market returns.

Regardless of short term market gyrations, we are always focused on continual improvement through a rigorous, research-based approach and are focused on ensuring our funds are well positioned to achieve their long term objectives.

Performance as at 30 April 2019

(%)	1 Month	3 Months	6 Months	FYTD	1 year	2 Years	3 Years	5 Years	Since
					(pa)	(pa)	(pa)	(pa)	Incp. (pa)
Australian Shares - All Cap									
Pendal Australian Share Fund									
Total Return (post-fee, pre-tax)	173	9.31	8.63	2.76	5.74	8.33	10.91	7.66	9.87
Total Return (pre-fee, pre-tax)	181	9.54	9.07	3.45	6.59	9.20	11.79	8.52	10.87
Benchmark	2.46	9.41	10.92	5.66	10.32	7.99	11.07	7.55	9.92
Pendal Imputation Fund									
Total Return (post-fee, pre-tax)	159	9.06	8.97	3.61	8.33	7.45	10.53	6.67	9.43
Total Return (pre-fee, pre-tax)	167	9.29	9.46	4.39	9.30	8.42	11.52	7.63	10.44
Benchmark	2.46	9.41	10.92	5.66	10.32	7.99	11.07	7.55	8.74
Pendal Focus Australian Share Fund									
Total Return (post-fee, pre-tax)	2.25	10.23	9.18	2.83	5.60	9.41	12.64	9.31	9.18
Total Return (pre-fee, pre-tax)	2.31	10.43	9.59	3.48	6.03	10.74	13.87	10.42	10.29
Benchmark	2.46	9.41	10.92	5.66	10.32	7.99	11.07	7.55	7.63
Pendal Ethical Share Fund									
Total Return (post-fee, pre-tax)	161	9.64	8.66	3.04	5.29	7.91	10.66	7.86	8.47
Total Return (pre-fee, pre-tax)	169	9.89	9.18	3.86	6.29	8.94	11.71	8.89	9.53
Benchmark	2.46	9.41	10.92	5.66	10.32	7.99	11.07	7.55	8.14
Australian Shares - Mid Cap									
Pendal MidCap Fund									
Total Return (post-fee, pre-tax)	2.11	7.60	4.03	-3.55	-2.08	10.69	12.52	11.66	9.90
Total Return (pre-fee, pre-tax)	2.18	7.83	4.49	-2.83	-1.58	12.11	13.82	13.02	12.04
Benchmark	3.19	8.84	7.61	2.26	5.20	10.72	12.66	11.77	5.97
Australian Shares - Small Cap									
Pendal Smaller Companies Fund									
Total Return (post-fee, pre-tax)	3.35	9.57	7.21	-2.03	1.02	12.18	10.39	9.23	12.90
Total Return (pre-fee, pre-tax)	3.47	9.91	7.87	-1.01	2.28	13.59	11.76	10.60	14.20
Benchmark	4.11	11.04	11.91	2.28	7.18	12.67	11.79	9.11	7.82
Australian Shares - Micro Cap									
Pendal Micro Cap Opportunities Fund									
Total Return (post-fee, pre-tax)	2.37	11.94	10.82	6.75	11.77	15.11	15.45	16.44	17.86
Total Return (pre-fee, pre-tax)	1.89	12.27	11.27	7.78	13.07	16.97	17.68	19.60	22.78
Benchmark	4.11	11.04	11.91	2.28	7.18	12.67	11.79	9.11	3.55
International Shares									
Pendal Core Global Share Fund									
Total Return (post-fee, pre-tax)	2.74	8.74	4.87	3.78	5.25	8.67	11.34	11.28	5.88
Total Return (pre-fee, pre-tax)	2.83	9.00	5.38	4.62	6.25	9.72	12.41	12.34	7.03
Benchmark	4.56	12.02	9.57	11.27	14.28	13.34	14.52	13.56	7.60
Pendal Global Emerging Markets Opportunities Fund - WS									
Total Return (post-fee, pre-tax)	0.89	7.79	12.12	5.20	3.11	10.12	14.88	10.81	10.67
Total Return (pre-fee, pre-tax)	1.01	8.15	12.88	6.43	4.56	11.67	16.48	12.41	12.80
Benchmark	3.05	6.90	14.55	7.82	1.84	10.82	14.29	9.92	10.43
Pendal Concentrated Global Share Fund									
Total Return (post-fee, pre-tax)	3.37	8.99	8.70	9.57	12.58	13.98	N/A	N/A	15.09
Total Return (pre-fee, pre-tax)	3.46	9.29	9.28	10.48	13.69	15.22	N/A	N/A	16.39
Benchmark	4.56	12.02	9.57	11.27	14.28	13.34	N/A	N/A	14.32
Property									
Pendal Property Securities Fund									
Total Return (post-fee, pre-tax)	-1.95	6.89	15.67	14.56	20.31	10.30	9.20	13.35	7.95
Total Return (pre-fee, pre-tax)	-1.91	7.05	16.04	15.18	21.09	11.02	9.91	14.08	8.77
Benchmark	-2.29	5.48	13.39	12.03	17.99	9.49	8.35	13.12	7.74
Pendal Global Property Securities Fund									
Total Return (post-fee, pre-tax)	-0.74	3.12	10.36	7.31	11.91	7.98	6.82	8.19	9.23
Total Return (pre-fee, pre-tax)	-0.66	3.36	10.89	8.14	12.93	8.98	7.81	9.19	10.23
Benchmark	-1.00	2.90	10.09	6.76	11.31	7.21	6.74	8.29	8.92
Fixed Interest									
Pendal Fixed Interest Fund									
Total Return (post-fee, pre-tax)	-0.02	2.56	3.89	4.23	6.18	3.93	3.35	4.29	6.37
Total Return (pre-fee, pre-tax)	0.02	2.68	4.15	4.66	6.72	4.45	3.86	4.81	6.92
Benchmark	0.28	3.07	5.54	6.63	7.87	4.98	4.18	4.94	6.65
Pendal Global Fixed Interest Fund									
Total Return (post-fee, pre-tax)	-0.63	1.15	3.62	2.00	3.24	1.99	1.77	3.82	5.80
Total Return (pre-fee, pre-tax)	-0.58	1.28	3.90	2.45	3.79	2.53	2.31	4.37	6.38
Benchmark	-0.24	1.49	4.81	4.07	4.72	3.23	2.70	4.68	6.76
Pendal Enhanced Credit Fund									
Total Return (post-fee, pre-tax)	0.50	2.69	4.18	5.35	6.16	4.52	4.25	4.65	5.74
Total Return (pre-fee, pre-tax)	0.53	2.80	4.41	5.74	6.64	4.99	4.72	5.12	6.27
Benchmark	0.47	2.63	4.21	5.48	6.36	4.62	4.27	4.70	5.86
Cash & Income									
Pendal Enhanced Cash Fund									
Total Return (post-fee, pre-tax)	0.24	0.77	1.24	2.04	2.39	2.65	2.76	2.71	4.84
Total Return (pre-fee, pre-tax)	0.26	0.83	1.37	2.25	2.65	2.90	3.01	2.97	5.17
Benchmark	0.16	0.50	0.99	1.69	2.02	1.88	1.88	2.12	4.77
Pendal Managed Cash Fund									
Total Return (post-fee, pre-tax)	0.15	0.47	0.95	1.60	1.91	1.84	1.88	2.08	6.30
Total Return (pre-fee, pre-tax)	0.17	0.52	1.06	1.78	2.13	2.07	2.10	2.31	6.60
Benchmark	0.16	0.50	0.99	1.69	2.02	1.88	1.88	2.12	6.38
Pendal Monthly Income Plus Fund									
Total Return (post-fee, pre-tax)	0.73	3.10	3.83	3.84	4.77	4.57	4.47	4.52	5.42
Total Return (pre-fee, pre-tax)	0.78	3.27	4.17	4.40	5.45	5.25	5.15	5.20	6.09
Benchmark	0.12	0.37	0.75	1.26	1.51	1.51	1.53	1.82	2.78
Diversified									
Pendal Active Balanced Fund									
Total Return (post-fee, pre-tax)	113	5.90	5.45	2.24	3.50	5.83	7.60	7.06	7.56
Total Return (pre-fee, pre-tax)	122	6.15	5.95	3.06	4.49	6.85	8.62	8.08	8.63
Benchmark	1.90	6.71	8.02	6.50	9.00	7.58	8.86	7.81	7.54

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