Pendal Diversified Funds – Market Insights and Fund Update

April 16, 2020

The key benefit of diversified funds is the mixing together of assets that behave differently in different market environments. While no one could have predicted the events of the last four-to-six 6 weeks, portfolio construction for the Pendal strategies has always focused on seeking the most appropriate mix of assets classes and strategies to deliver the best risk/return outcomes within the recommended investment timeframes.

While the strategies have large exposure to equities as long-term drivers of growth, we also balance these assets with other strategies including government bonds and alternatives.

The funds have had a reasonable exposure to government bonds and alternative assets. In the past 12 months this dragged on returns as riskier assets such as high yield credit, property and equities had very strong returns.

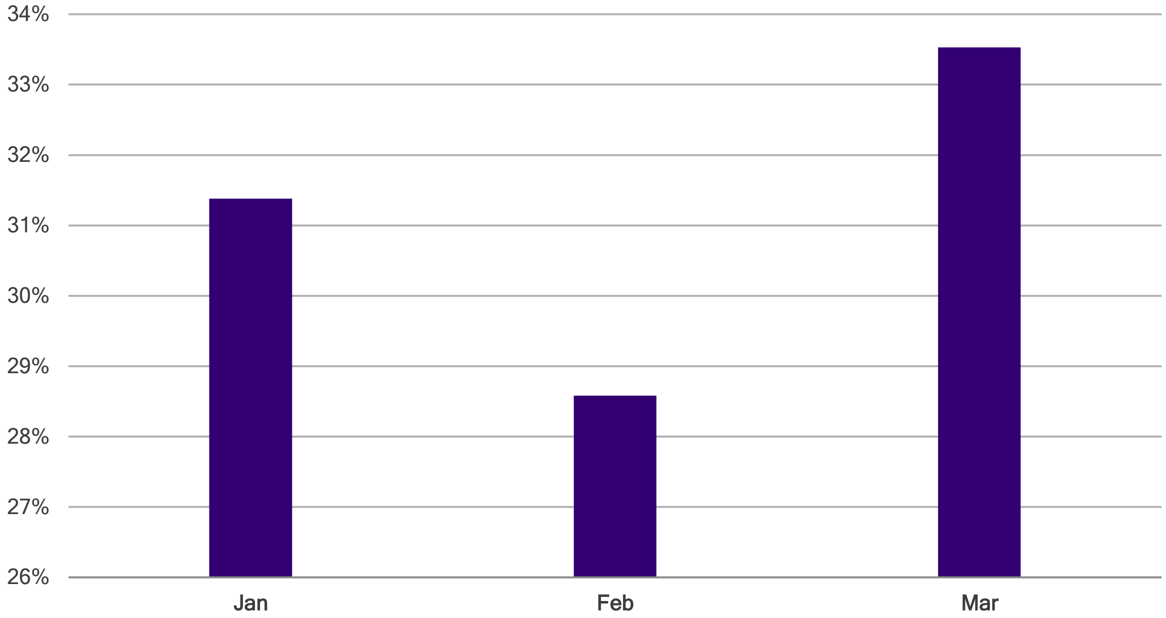
However in the recent market downturn these asset classes did not fall as much as the riskier asset classes. This helped reduce drawdown in our portfolios. This can be seen in returns for March – and since the equity markets started to fall – where the strategies had smaller drawdowns relative to equities. In March our alternatives strategies delivered a return of -4.8% while our government bond strategies returned small positive returns of 0.2%-0.4%. This was not enough to offset the larger equity markets falls, but it acted to reduce the impact.

Another strategy we use to help deal with market volatility is our active asset allocation approach, which looks at short-term market movements and medium-term market valuations. By slightly tilting the portfolio around our long-term strategic asset allocation we aim for a smoother ride for our investors, while taking advantage of short-term noise in markets.

Over the past four-to-six weeks the portfolio has shifted from a February tilting towards taking short-term protection against rising volatility, taking extra exposure to bonds, increasing gold exposures, and selectively shorting more expensive US equity markets. In March we added additional equity exposures into areas that now appear to be better value when considered over a medium time frame of three-to-five years.

In March the active asset allocation contributed about 0.2% to portfolio returns. While not large, the risk taken to generate these returns was commensurate. Over the longer term these small incremental returns especially in down markets can contribute meaningfully. The movements can be seen in the chart below where we show our global equity exposures at month-end over the past three months:

Pendal Wholesale Plus Active Balanced Fund exposures (Month End)



Source: Pendal

The other element of Pendal's diversified funds has been the active management within each asset class. While the initial sell-off in equity markets was more indiscriminate, the last few weeks has been more about selling down assets likely to be impacted by the economic growth slow-down and buying quality companies likely to benefit.

Our active approach across different asset classes has resulted in broadly positive returns from our active strategies. Our key Australian share exposure (30% of Portfolio) delivered an active outperformance of 1.1% vs the index. Our global share strategies had more mixed results, slightly underperforming the benchmark since our value/quality approaches have not performed as well. Our property and fixed income exposures have all outperformed well, showing defensive characteristics. Our property exposures focused on lowly geared/high cash flow property stocks and our bonds exposure increased their government bond holdings and reduced credit exposures as a flight-to-safety approach.

The key to diversification is ensuring you constantly rebalance portfolios to your strategic asset allocation – a process we have been following consistently in recent months as markets fell. This form of dollar cost averaging adds incremental returns over the long run. We have also been actively looking for opportunities to invest into undervalued assets that give us a better probability of achieving our long-term return objectives. While it's always difficult to invest in markets that are so volatile, having a disciplined, methodological approach takes some of the emotion out of the investment equation. Our approach to rebalancing during recent large falls sees us buying equity markets as they get cheaper.

While it is difficult to make a call on whether markets have bottomed or not, we know cheap markets generally generate above-average returns over the medium term – and therefore provide investors with a margin of safety when they do buy an asset. Hence, we have been selectively adding to global equities in March as certain regions and sectors became very attractive from a medium-term perspective.

Returns as at 31 March 2020

Returns (After fees %)	1M	3M	6M	1Y	2Y	3Y	Since inception (Jul 16)
Pendal Wholesale Plus Active Conservative Fund	-5.54	-5.14	-5.12	-1.34	1.19	2.11	2.26
Pendal Wholesale Plus Active Conservative Benchmark	-4.13	-3.33	-3.27	1.15	3.72	3.63	3.47
Pendal Wholesale Plus Active Moderate Fund	-8.93	-9.46	-8.73	-4.12	0.14	1.97	2.99
Pendal Wholesale Plus Active Moderate Benchmark	-7.32	-7.33	-6.69	-0.97	3.41	3.78	4.29
Pendal Wholesale Plus Active Balanced Fund	-11.55	-13.28	-11.83	-6.92	-1.09	1.60	3.50
Pendal Wholesale Plus Active Balanced Benchmark	-10.16	-11.11	-9.81	-3.40	2.73	3.62	4.22
Pendal Wholesale Plus Active Growth Fund	-12.82	-14.93	-13.19	-8.19	-1.70	1.41	3.71
Pendal Wholesale Plus Active Growth Benchmark	-11.69	-13.05	-11.46	-4.62	2.36	3.50	5.30
Pendal Wholesale Plus Active High Growth Fund	-13.92	-16.54	-14.66	-9.38	-1.77	1.59	4.25
Pendal Wholesale Plus Active High Growth Benchmark	-13.50	-15.26	-13.31	-5.89	2.14	3.61	5.86

Source: Pendal after fees

For more information contact your key account manager or visit **pendalgroup.com**

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