PENDAL

Factsheet

Multi-Asset Strategies

April 2018

Pendal Active Moderate Fund

Previously known as 'BT Wholesale Moderate Fund'

ARSN: 610 997 709

About the Fund

The Pendal Active Moderate Fund (**Fund**) is an actively managed diversified portfolio that invests in Australian and international shares, Australian and international listed property securities, Australian and international fixed interest, cash and alternative investments. The Fund has a similar weighting towards defensive assets as it does towards growth assets.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Fund's benchmark over the medium to long term. The suggested investment timeframe is five years or more.

Benchmark

The benchmark for the Fund is created from a range of published indices. The benchmark is based on the asset allocation neutral position and the index returns for each asset class. Details of the particular market indices used for the Fund's benchmark can be found at www.pendalgroup.com/Pendal-Active-Moderate-Fund

Investment Process

At Pendal, we actively manage our portfolios to meet their investment objectives by diversifying investments across both asset classes *and* strategies. We employ three main approaches to do this:

1. **Strategic asset allocation** – weighted asset class exposures designed to meet the investment objectives over the long term investment horizon
2. **Active management** – exploitation of market inefficiencies within asset classes
3. **Tactical asset allocation** – exploitation of market directionality across asset classes

The underlying investments in the Fund are managed by Pendal together with a number of external partners. Pendal manages investments in the asset classes of Australian shares, Australian fixed interest and cash, global fixed interest, Australian property securities and alternative investments. These investments are augmented by our arrangements with leading global investment managers who have a competitive advantage in the management of global asset classes.

The Pendal Multi-Asset team also manages an active tactical asset allocation process designed to increase portfolio returns within a defined risk budget.

Investment Guidelines

Asset allocation ranges (%)	Neutral Position	Ranges	
		Min	Max
Australian shares	24	10	30
International shares	17	0	20
Australian fixed interest	20	10	45
International fixed interest	15	5	40
Australian property securities	4	0	15
International property securities	1	0	15
Alternative investments	14	0	20
Cash	5	3	30

Investment Team

The Fund is managed by Stuart Eliot who has more than 30 year's industry experience. The team has a diverse skill set; combining a range of global and domestic market experience and drawing on the resources of Pendal's other specialist teams: Income & Fixed Interest and Equity.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	1.62	1.69	1.42
3 months	0.10	0.30	0.64
6 months	2.18	2.61	2.26
1 year (pa)	6.18	7.07	4.81
Since Inception (pa)	6.80	7.71	6.08

Asset Allocation (as at 30 April 2018)

Australian shares	21.5%
International shares	16.9%
Australian fixed interest	18.6%
International fixed interest	13.7%
Australian property securities	4.6%
International property securities	1.0%
Alternative investments	15.4%
Cash	8.3%

Other Information

Fund size (as at 30 Apr 2018)	$132 million
Date of inception	June 2016
Minimum investment	$25,000
Buy-sell spread[1]	0.24% (0.12%/0.12%)
Distribution frequency	Quarterly
APIR code	BTA0487AU

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

Management Costs[2]

Issuer fee[3]	0.85% pa
Estimated indirect costs[4]	0.06% pa

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

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

[4] This is an estimate of the last financial year's indirect costs. These are reflected in the unit price of the Fund and are not charged to you as a fee or retained by us.

Risks

An investment in the Fund involves risk, including:

- **Market risk -** The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Credit risk -** The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk -** The risk that an asset may not be converted to cash in a timely manner.
- **Counterparty risk -** The risk of another party to a transaction failing to meet its obligations.

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

Markets review

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

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

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

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

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

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

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

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

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

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

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

Fund performance

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

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

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

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

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

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

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

Strategy and outlook

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

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

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

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

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