PENDAL

Factsheet

Multi-Asset Strategies

May 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	Ranges Max
Australian shares	24	10	30
International shares	17	0	20
Australian fixed interest	20	10	45
International fixed interest	12	5	40
Australian property securities	3	0	15
International property securities	1	0	15
Alternative investments	15	0	20
Cash	8	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 (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.54	0.61	0.60
3 months	1.34	1.56	1.41
6 months	1.59	2.01	1.50
1 year (pa)	6.59	7.48	5.35
Since Inception (pa)	6.80	7.70	6.14

Asset Allocation (as at 31 May 2018)

Australian shares	23.7%
International shares	17.3%
Australian fixed interest	18.3%
International fixed interest	11.9%
Australian property securities	4.1%
International property securities	1.0%
Alternative investments	15.4%
Cash	8.3%

Other Information

Fund size (as at 31 May 2018)	$141 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, extended gains from the previous month, closing May 1.2% higher. News from offshore dominated investor attention, not the least of which was the formation of a populist coalition government in Italy between the Lega Nord and the Five Star parties which prompted a bout of market volatility towards the month's end. The market focused ultimately on the risk that Italy might look to leave the Euro. Italian bond yields spiked, as did speculation over the potential for a parallel currency, presidential impeachment and a potential showdown between Italy and Germany over debt and fiscal discipline. However, for all the concerns and uncertainty the episode proved short-lived, with most assets reverting towards their commencement value over the period.

Domestically, Resources (+2.6%) remained elevated despite a volatile oil price during the month, amid concerns around Iran's near future supply cut following the US' withdrawal from the nuclear deal. As the Royal Commission continues to scare some investors out of Financials (-0.1%), there is a sense that this has been benefiting the Resource sector due to a lack of alternatives within the local market. Performance from the big four banks was mixed, ranging from -4.1% (NAB) to +4.3% (ANZ). The other sector that also finished May with a negative return is Telecommunication Services (-10.1%), which was the largest detractor from index performance. Telstra (TLS, -11.9%) saw its share price fall after delivering an underwhelming market update. The company now expects its FY18 earnings (EBITDA) to be at the bottom end of guidance, while free cash flow is now set to finish at, if not above, the top end of guidance. The market remained wary of the increasingly competitive landscape of the industry and responded negatively to the trading update.

Elsewhere, the Consumer Staples (0.0%) sector was unchanged, although stock performance within the sector was divergent. Healthcare (+5.5%) led the market, both in terms of absolute returns and return contributions. It was largely attributed to the outperformance of sector heavyweight, CSL (+9.1%).

Performance across the major offshore equity markets was mixed in May, reflecting a range of economic and political influences. A fair degree of attention remained on the cross-border trade dynamic, as further episodes of brinkmanship were witnessed between the US and its trading partners – Canada and China. Adding to this was the tenuous situation between the US and North Korea and the on-again-off-again peace summit. Investors kept these talks in perspective and focused on the domestic issues facing companies. The Brent crude oil price continued to advance above US$80 a barrel amid signs of further tensions with Iran and the economic crisis facing Venezuela which stoked supply concerns.

Despite the trade rhetoric, US stocks advanced during the month, buoyed by continuation of its economic expansion. Labour market and gross domestic product data remained strong, with the nation's unemployment rate falling to 3.9%   the lowest level since 2000. Gross domestic product was revised down to a still strong 2.3% for March quarter. At a sector level, the bond sensitive sectors – Consumer Staples, Real Estate and Utilities – shifted into negative territory on the back of expectations for higher interest rates, while Health Care and Energy sectors advanced. The market closed May with the S&P500 delivering a total return of 2.4%, while the NASDAQ rallied with a return of 5.3%.

The performance of European equity markets was divergent, reflecting localised issues with potential ramifications for the broader region. Late in the month, political developments in Italy came to the fore when the government formation process was halted after the president vetoed the anti-euro candidate nominated for the Finance ministry. The uncertainty created led to a spike in volatility and a blow-out in Italian bond spreads. Meanwhile in Spain, a no confidence motion was put forward by the socialist opposition party and both events stoked fears of a new euro crisis, which saw the regional currency fall in value. Italy's equity markets fell 8.5% in May and Spain's dropped by 6.1%. In stark contrast, the UK's FTSE 100 rose by 2.3% and France was little changed from the prior month.

Most Asian equity markets ended the month lower, with China the region's best performing markets, while Malaysia and Singapore lost value. Uncertainties over trade renegotiations, political developments in Italy, US dollar strength and a higher oil price weighed on sentiment across the region.

The Australian dollar rose by a marginal 0.2% against the US dollar in May, but was 3.8% stronger against the euro and British pound while being 0.5% weaker against the Japanese yen.

Australian bond yields rose early in May but ended the month lower as escalating geopolitical uncertainties sapped risk sentiment. This was predominantly centred on Italy and worries a new government could promote anti-euro policies. Meanwhile, developments on the Australian monetary policy front were relatively uneventful as the Reserve Bank left the cash rate on hold for the 19th consecutive month. The Board noted some progress on unemployment but reiterated further improvements were expected to be gradual. Economic data painted a mixed picture over the period. Wage growth was weak with a 0.5% increase for the first quarter and consumer confidence, retail sales and building approvals were also soft. The monthly labour market report revealed 23,000 jobs were added during the month; however an increase in the participation rate drove the unemployment rate higher to 5.6%. In contrast, business conditions strengthened to 21 – the previous high for the series. Finally, the Australian 10 year yield finish the month lower by 10bp to 2.67%, the 3-year yield dropped a more modest 7bp to 2.11% and 90 day BBSW fell 6bp to 1.98%. The BBSW-OIS spread narrowed over the period, but still ended relatively elevated.

Global bond yields rose early in May but ended the month lower as escalating geopolitical uncertainties sapped risk sentiment. This was driven by Italy and worries that a new government could promote anti-euro policies. Investors fled Italian government bonds and 2 year yields spiked from -0.33% to 2.67% in the final week of May. By the last day of the month, these fears were alleviated to a degree by the announcement of a finance minister who is less sceptical to remaining in the Eurozone. Elsewhere, the deteriorating situation in pockets of emerging markets as well as fears over the impact of a rising US dollar added to investor concerns. In terms of economic developments, the Fed left its target rate unchanged and suggested inflation was nearing its 2% objective. Finally, the US yield curve flattened over the month with the 10 year yield falling 10bp to 2.86% and the 2 year yield declining 6bp to 2.43%.

Fund performance

The Fund delivered a positive return in May, supported by exposure to Australian and offshore equity and listed property markets. Global and Australian fixed income markets also generated positive, albeit modest returns in May which contributed to performance. Partially offsetting the contribution within global equities was the Fund's exposure to emerging markets, as this segment experienced weakness during the month. At a Fund level, the contribution to performance was significantly higher from asset allocation, while manager contribution was negative for a select number of strategies.

The key factors influencing our active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Qantas, BHP and Aristocrat together with exposure to small caps which outperformed the broader market contributed value. These contributions were mitigated by overweight positions in Metcash, JB Hifi, Telstra and CYBG.

Within the global equities portfolio, the Core portfolio outperformed while the Concentrated portfolio fell marginally short of the benchmark but positively contributed to overall returns. The European Value strategy was a notable detractor this month after the region underperformed.

Our Alternatives core portfolio detracted from returns this month, with four of the eight sub-strategies within the core portfolio delivering negative returns, which more than offset the positive impact of three sub-strategies. The Alternatives strategy delivered a total return (before fees) of -0.50% vs. a cash return of 0.17%.

The equity long-short, fixed income relative value and event driven strategies made positive contributions this month, with good performance from developed markets and completion of 13 deals within the event driven component. These were more than offset by detractions from the equity market neutral, dedicated short bias and managed futures strategies. Investor Sentiment themes were the primary source of losses within the dedicated short bias, while trends were weak within the managed futures strategy.

In relation to our tactical positioning within Alternatives, our long position in crude oil and volatility strategies contributed to returns, as we were able to profit from both the rise in oil prices and a decrease in volatility as market conditions settled. At the end of May we have maintained a long position in oil, copper and gold. We closed a spread position between Australian and US bond yields and have a long position in managed futures.

Strategy and outlook

Recent developments on the political arena highlight the risks of spill-over effects into asset markets. The degree of speculation typically associated within the realms of political brinkmanship, sensitivities to regulatory imposts and other localised factors warrant a degree of caution. Although there is considerably more clarity on the fundamental drivers of equity and bond markets, news on the macro front is likely to perpetuate bouts of heightened volatility. As active managers, we are conscious of this dichotomy and use a range of strategies at our disposal to take advantage of the opportunities that market dislocations can offer in the shorter term, while retaining the positioning within our asset allocation strategy which is guided by medium to longer term considerations.

The US economy is continuing to show signs of sustained recovery which bodes well for US equities. The Fed is also proceeding along its normalisation path and we expect this to continue but not indefinitely. Its growth drivers remain in force and labour markets are particularly strong, which suggests inflation will normalise over time. The Australian economy presents quite a contrast, with some challenges due to imbalances across industries and states, which suggests a degree of caution is warranted.

Pendal is continuing to apply its multi-faceted approach to generating additional returns on these investments and managing risks, with both short term and medium term considerations, and cognisant of structural and cyclical drivers. 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.

Investors can expect to see some refinements in asset allocation as we actively position the Fund to meet its longer term targeted outcomes, while retaining the ability to take advantage of active allocation opportunities as they arise.

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

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