PENDAL

Factsheet

Multi-Asset Strategies

June 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	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	0.52	0.59	1.27
3 months	2.69	2.91	3.32
6 months	1.58	2.00	2.56
1 year (pa)	7.47	8.37	7.42
Since Inception (pa)	6.78	7.68	6.54

Asset Allocation (as at 30 June 2018)

Australian shares	23.7%
International shares	18.8%
Australian fixed interest	17.7%
International fixed interest	10.4%
Australian property securities	3.9%
International property securities	1.0%
Alternative investments	16.6%
Cash	7.9%

Other Information

Fund size (as at 30 Jun 2018)	$140 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.

Market review

The S&P/ASX 200 Accumulation Index rose 3.2% in June to end the financial year with an +8.5% gain for the full year, or +13.2% once dividends are included. Earnings growth has powered these gains, as the Royal Commission and a challenging environment has seen the banks de-rate, keeping the market's aggregate valuation rating steady. This is important, as ultimately we see earnings-driven market growth as more sustainable than valuation-driven returns.

Uncertainties around the potential trade war between the US and China weighed on market sentiment over the month, but haven't fully deterred investors from risky assets. That said, the impending implementation of the 25% tariff on US$50b worth of goods on July 6 is going to be closely watched by the market, as China is expected to retaliate in kind. Any further escalation in trade tensions could see the global equity market react poorly. Nevertheless, market valuations remain supportive in Australia, largely attributable to a weak currency against the green back, as well as patience displayed by the RBA in prolonging its first interest rate hike.

Most of the industry sectors managed to record gains in June, with the exception of Industrials (-0.3%) and Telecommunication Services (-5.5%). The latter was the largest performance detractor for the headline index over the month.

On the positive side, Energy advanced the most in absolute return terms, finishing the month 7.7% higher; followed by Consumer Staples (+5.9%), Information Technology (5.9%) and Utilities (5.0%). Similarly, heavyweight Financials was the largest contributor to headline index performance, with a gain of 4.0%.While the Royal Commission remains an overhang for the banking sector, the 'Big Four' banks all bounced back somewhat from their recent lows, ranging from 2.3% (ANZ) to 5.2% (WBC). Outside Financials, some noteworthy outperformers include energy infrastructure owner/operator, APA Group (APA, +13.4%). It received a non-binding all cash takeover offer from Hong Kong-based consortium, CK Infrastructure. The announced price represented a 33% premium to APA's closing price at the time.

The global equity market experienced another month of heavy geopolitical influences on sentiment, obscuring the more fundamental drivers of performance. At its core were concerns of an intensifying trade war between the US and China, together with the potential implications for other countries, particularly in Europe and emerging markets. During the month, President Trump announced the imposition of a 25% tariff on US$50b worth of imports from China, which accompanied a further threat of tariffs on another US$200b in goods from China should retaliatory measures be announced. The trade war fears, combined with consternation over central bank policy direction acted to limit gains on share markets, although a weaker Australian dollar translated to a gain in the MSCI World (A$) Index.

US stocks advanced during the month, despite the market's preoccupation with trade tensions. However, there was considerable dispersion across industry sectors, with Industrials and Financials faring the worst, evidenced by weakness in heavyweights like Boeing and Caterpillar. Both companies are heavy importers of goods from China. Meanwhile, consumer-oriented sectors were among the strongest performers, buoyed by continuation of strong economic data. The latest figures on the labour market saw the national unemployment rate fall to an 18-year low of 3.8%, while headline inflation crept up to annual rate of 2%. As expected, the US Federal Reserve raised the cash rate by 0.25%, but what was less expected was the signalling of two more rises this year, with previous indications pointing to only one more hike. The market closed June with the S&P500 delivering a total return of 0.6%, while the NASDAQ rallied with a return of 0.9%.

The performance of European equity markets saw considerable dispersion, with the larger markets of Germany and France declining while Spain and Switzerland were the standout performers. Trade rhetoric dominated the concerns, while a softening of policy tones from the central bank kept economic growth projections in check. Economic data also pointed to a mixed outlook. Headline inflation for the region edged up to 2%, driven by higher food and energy prices, although core inflation was subdued at 1%. A rise in the eurozone Purchasing Managers' Index (PMI) from 54.1 to 54.8 was above expectations; however, consumer sentiment and retail sales indicators in some key markets were somewhat disappointing. The performance of Germany's DAX (-2.4%) and France's CAC (-1.4%) was in contrast to the strength of Spain (+2.6%), Switzerland (+2.0%) and Sweden (+0.8%), which helped to neutralise returns at a regional level. The UK's FTSE 100 declined by 0.5%, driven by both domestic and offshore concerns.

Most Asian equity markets ended the month lower, given the expectation that emerging markets are net losers in a trade war between the US and China. Concerns over China's growth more generally, acted to weaken regional markets. During the month, the People's Bank of China announced a reserve ratio cut of 0.50% (the reserve ratio is the portion of depositors' balances that banks must have on hand as cash) to generate liquidity and support growth, which reflected some concerns over the growth trajectory. The region's weakness was reflected in the returns for Thailand (-7.6%), Hong Kong (-5.0%) and Singapore (-4.6%), while Japan (+0.5%) traded into positive territory after assistance from a weaker yen.

The Australian dollar declined in June by 2.2% against the US dollar, 2.1% against the euro, 1.4% against the British pound and 0.4% against the yen.

Australian bond yields experienced a small fall and a flattening of the curve over June. During the month, the Reserve Bank of Australia (RBA) left rates unchanged at 1.50% for the 20th month in a row. In its statement, the Board noted it continues to expect gradual progress on inflation and unemployment. It also highlighted recent global developments like political uncertainty in Italy and US trade policy changes. The latter continued to weigh on broader risk sentiment over June. The local market also endured concerns over another expansion in the BBSW-OIS spread. The spread on the three-month maturity widened 13bp to 61bp and the grind higher appeared independent of its US equivalent.

Global bond curves flattened over June. Escalating trade tensions captured investors' focus during the period as President Trump announced new tariffs and China retaliated with its own levies. Meanwhile, fears over the potential for extreme anti-euro policies in Italy faded. On the monetary policy front, the US Federal Reserve hiked rates by 0.25% as widely expected. The FOMC also raised its rate outlook to include a total of two more hikes by the end of the year and as such, was perceived as more hawkish. US data remained relatively strong, including the monthly jobs report and ISM manufacturing figures. Meanwhile in Europe, the ECB announced it would begin tapering its quantitative easing program in September this year, with purchases to stop by December. However, its guidance for rates to remain at current levels at least until the European summer of 2019 suggested a dovish message overall.

Data in the region was reasonable, with the composite PMI increasing 0.7 to 54.8 and strong IFO business climate figures. Escalating trade tensions continued to make headlines and concerned investors. Finally in terms of market movements, the US 2-year yield rose 10bps to 2.53% while the 10-year yield finished unchanged at 2.86%.

Fund performance

The Fund delivered a positive return in June, 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 June which contributed to performance. Exposure to alternatives detracted from returns this month. At a Fund level, the contribution to performance was primarily driven by manager contribution across a 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 CYBG, Caltex and Santos together with exposure to small caps which outperformed the broader market contributed value. These contributions were mitigated by overweight positions in Metcash, Metcash, Ramsay Health Care and AMP.

Within the global equities portfolio, the Concentrated portfolio outperformed while the Core portfolio fell short of the benchmark but positively contributed to overall returns.

Our Alternatives core portfolio detracted from returns this month, with three of the eight sub-strategies within the core portfolio delivering negative returns, which more than offset the positive impact of five sub-strategies. The Alternatives strategy delivered a total return (before fees) of -2.47% vs. a cash return of 0.15%.

The event driven, global macro and managed futures strategies made positive contributions this month. These were more than offset by detractions from the equity market neutral, dedicated short bias and long-short equity strategies which were hampered by weak equity market trends.

In relation to our tactical positioning within Alternatives, our long position in equity market futures added value, together with positioning in Australian and US bonds. Long positions in gold and copper detracted from returns, as did our short volatility position. At the end of the month we added long positions in German equities and Australian bonds, and moved to a short on US bonds.

Strategy and outlook

Asset market valuations are not a material source of concern, however the degree to which these are being complicated by more esoteric forces like global trade and political brinkmanship give rise to factors which can distort underlying fundamentals. At the same time, uncertainties such as these can lead to temporary bouts of volatility and greater dispersion between the performance of different asset classes, sectors, industries and companies. This is a very fertile ground for investors to take active, research based decisions on where and how to allocate capital.

While some challenges may persist due to imbalances across markets to warrant a degree of caution, 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 being cognisant of structural and cyclical drivers. We have recently taken advantage of such moves which have been supported by our modelling. By managing our relative exposures to growth and defensive assets and maintaining a material allocation to the diversifying properties of Alternatives, we can demonstrate that opportunities do exist when 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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