Pendal Active Moderate Fund

Previously known as 'BT Wholesale Moderate Fund'

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

July 2018

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	0.66	0.74	0.82
3 months	1.73	1.95	2.71
6 months	1.83	2.26	3.37
1 year (pa)	7.88	8.79	8.30
Since Inception (pa)	6.84	7.74	6.69

Asset Allocation (as at 31 July 2018)

Australian shares	24.0%
International shares	18.6%
Australian fixed interest	19.2%
International fixed interest	10.2%
Australian property securities	3.8%
International property securities	1.0%
Alternative investments	15.5%
Cash	7.7%

Other Information

Fund size (as at 31 Jul 2018)	$152 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 S&P/ASX 300 Accumulation Index rose by 1.3% over the month of July, with the majority of the heavy lifting done by Industrials (+1.6%). The performance of Resources (+0.1%) was positive yet a laggard. The ongoing trade tensions between the US and China saw base metals sell off during the month, with the former now flagging the expansion of tariffs to US$200b worth of imports from the latter. The price of crude oil also eased over the period, despite a large drop in US oil inventories. Potential supply increases by OPEC nations as well as Russia weighed on investor sentiment. In addition, President Trump was reportedly considering selling oil from the country's strategic oil reserves to suppress any further price increases.

The majority of GICS sectors delivered positive returns over the period, with the exceptions being Utilities (-1.4%), Information Technology (-1.1%) and Consumer Staples (-0.9%). The Utilities sector's decline could be largely attributed to the release of an ACCC report that aims to rein in soaring electricity prices that have reached a decade high. While the recommendations from the report do not translate into legislation automatically, comments from the Government in regard to the report have been constructive and may see most recommendations being accepted. This weighed on investor sentiment and saw AGL (AGL, -2.2%) decline over the month.

Index heavyweight Materials (-0.3%) also recorded a small loss. BHP (BHP, +2.8%) saw its share price rise as news of the US on-shore shale assets sale came in sooner than expected and was at a reasonable price. In contrast, negative returns from the gold miners were more than offsetting as the gold price declined 2.6% over the month as short positions against the precious metal reached a record high. Against this backdrop, a disappointing quarterly production update on the cost side from Evolution Mining (EVN, -20.5%) made it the largest performance detractor within the sector.

Turning to the positive side of the spectrum, the recently beleaguered Telecommunication Services sector recorded the best monthly sector return (+7.6%); while a rebound in index heavyweight Financials (+2.0%) contributed the most to the headline index performance. 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.

The global equity market delivered positive returns again this month, reflecting a generally optimistic tone on continued growth momentum, particularly in the US. Recent trade tensions appeared to simmer as signs of further engagement between the US and major trading partners emerged. Investors took comfort here and sentiment was further supported by another strong series of corporate earnings results in the US and Europe. The gathering of G20 finance ministers and central bank governors in Buenos Aires in July formed agreement on the global economy being on a firm footing. The group noted in its post-forum communique that "global economic growth remains robust and unemployment is at a decade low. However, growth has been less synchronised recently, and downside risks over the short and medium term have increased". The cautious tone highlighted concerns over growing imbalances and financial vulnerabilities, although these comments were kept in perspective and most markets ended the month higher.

US stocks continued to exhibit strong momentum, although some weakness emerged in the mega technology players following the latest round of earnings releases. Twitter (-27.0%), Netflix (-13.8%) and Facebook (-11.2%) experienced rapid sell-downs following their latest earnings releases. In contrast, Industrials was the best performing sector, supported by positive earnings releases and a sense of optimism towards developments on trade policies.

Most major markets in Europe also delivered substantial gains in July. All sectors rose to varying degrees, supported by some particularly strong corporate earnings results and positive signs of economic recovery taking hold. Performance of the region's markets was led by Switzerland (+6.1%), Germany (+4.2%) and France (+3.5%), while the UK's FTSE 100 somewhat lagged with a gain of 1.4%.

Asian equity markets recorded a mixed set of results in July. Concerns over the impact of the recent imposition of tariffs on China's exports to the US for the broader region weighed on some markets. This was compounded by concerns over China's growth after the authorities shifted fiscal policy settings to an expansionary stance by cutting taxes for companies to offset some of the trade-induced impacts. The Southeast Asian markets of Thailand (+6.7%) and Malaysia (+5.5%) outperformed the weaker North Asia markets of Japan (+1.1%) and Hong Kong (-1.3%).

The Australian dollar experienced a consolidation in value this month and was little changed against the major currencies.

Australian bond yields experienced a marginal increase with further flattening of the curve in July. During the month, the Reserve Bank of Australia left rates unchanged as widely expected and issued a relatively unchanged post-meeting statement. Second quarter inflation data was closely-watched during the period. The central bank's preferred gauge, the trimmed mean, rose 0.5% for the quarter and 1.9% year-on-year. Labour market figures were more constructive, with a stronger-than-expected 50,900 increase in employment, driven by full time positions. Consumer confidence data was also encouraging, with a 3.9% increase to 106 the highest level in more than four years. Retail sales rose a modest 0.4%. Meanwhile, business conditions increased a marginal 1 point to +15 and confidence slipped 1 point to +6. A narrowing of the BBSW-OIS spread from worrying highs was also noteworthy. Finally on market movements, the Australian 3-year and 10-year yields rose a marginal 3bp and 2bp to 2.10% and 2.65%, respectively. In contrast, the 90-day BBSW rate fell 15bp to 1.96%. Despite the increasingly negative Australia-US yield spread, the Australian dollar was relatively well supported against the US dollar and finished 0.2% higher.

Global bond yields increased and curves flattened further in July as investors looked past another month of escalating trade war developments. Instead, investors took cues from strong fundamentals. On the former, the 25% tariff on US$34b of imports from China to the US took effect in July, with a further US$16b still under consideration. At the same time, the US and European Union (EU) worked towards an agreement of no tariffs outside of the auto sector. The European Central Bank (ECB) did not change their forward guidance and in the US there was no scheduled Federal Reserve meeting. On market movements, the US 2-year yield added 14bp to 2.67% and the 10-year yield rose 10bp to 2.96%.

Fund performance

The Fund delivered a positive return in July, albeit slightly below the benchmark return. Positive performance was supported by exposure to Australian and offshore equity and listed property markets. Australian fixed income markets also generated a positive, albeit modest return in July while global fixed income experienced a negative return as bond yields moved higher. Exposure to alternatives delivered a negative return this month, reflective of the strategy's diversifying characteristics. At a Fund level, the asset allocation settings across the traditional asset classes made a positive contribution to performance, although some detractions came from manager contribution from a select number of strategies.

Tactical asset allocation contributions were driven by the Fund's exposure to Australian and global shares, together with an underweight to fixed income.

The key factors influencing our active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Qantas, CYBG and Amcor, together with an underweight to Insurance Australia Group contributed value. These contributions were partially offset by overweight positions in Nine Entertainment and Origin Energy and underweight positions in Brambles and National Australia Bank.

Within the global equities portfolio, the Core and Concentrated portfolios fell marginally short of the benchmark but positively contributed to overall returns.

Our Alternatives core portfolio detracted from returns this month, which is to be expected for strategies incorporating short positions in a rising market. The Alternatives strategy delivered a total return (before fees) of -0.07% versus a cash return of 0.19%.

In relation to our tactical positioning within Alternatives, our long position in equity market futures contributed to returns as markets were strong in July. This was somewhat offset by long positions in Gold, Copper and Crude Oil which detracted from performance. At the end of July we have moved to a short position in gold and closed a short position in US bond yields.

Strategy and outlook

The recent settling of volatility in markets highlights the importance of actively focusing on the underlying fundamental factors to assess the prospects of markets. Through much of this year markets have been driven by themes and geopolitical factors which have historically shown to be temporary adjustments to the otherwise normal functioning of markets. The recent US and European corporate reporting season has evidenced the dichotomy between market themes and fundamentals, where many corporates have been enjoying a profitable operating environment. However, the valuation support that corporations have received by virtue of ultra-low interest rates is now moving to the past tense. Looking forward, it is more likely that market volatility will expand and there will be greater dispersion in the performance across companies and sectors.

This environment is particularly favourable for fundamental research-driven active management. The Fund will continue to maintain exposure to a range of diversifying strategies with the aim of reducing volatility and generating outperformance.

We have recently implemented 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.