Pendal Active Moderate Fund

Previously known as 'BT Wholesale Moderate Fund'

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

August 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	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	0.83	0.90	1.19
3 months	2.03	2.24	3.32
6 months	3.39	3.83	4.78
1 year (pa)	7.88	8.78	8.94
2 years (pa)	6.55	7.44	6.30
Since Inception (pa)	6.98	7.88	7.01

Asset Allocation (as at 31 August 2018)

Australian shares	23.6%
International shares	18.7%
Australian fixed interest	19.7%
International fixed interest	12.2%
Australian property securities	3.7%
International property securities	1.0%
Alternative investments	13.5%
Cash	7.6%

Other Information

Fund size (as at 31 Aug 2018)	$157 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 Price Index rose by 0.6% in August despite the political turmoil in Canberra. Adding dividends to the price return, the Accumulation Index was 1.4% higher. Industrials (+2.9%) led the gains of the headline index, whereas Resources (-4.5%) weighed on returns. Commodity prices fell across the board over the month, due to the confluence of President Donald Trump flagging a potential tariff increase in imports from China to 25% from 10%, along with new tariffs put in place on imports of steel and aluminium from Turkey. Somewhat offsetting this impact on the Resources sector was the rise in the crude oil price after export volume expectations from both Iran and Venezuela continued to remain low.

Reporting season results drove stock performance over the month, as we saw some unusually high price reaction on both the positive and negative sides. Biotechnology company CSL (CSL, +15.6%) reported both strong headline growth as well as margin expansion which was received favourably by the market. Resmed (RMD, +10.2%) also performed well. Its mask sales grew 15% as the F20 full-face masks and the N20 nasal mask continued to perform. Sales for devices were also strong over the period, as RMD continued to gain market share in the US. As a result, Health Care recorded a 10.4% return over the month.

The recently beleaguered Telecommunication Services (+13.0%) sector also fared well in August and recorded the highest total return of the sector groups. Investor sentiment was bolstered by the announcement of TPG (TPM, +50.0%) to merge with key competitor Vodafone Hutchinson Australia (VHA). Also recording a double-digit gain was Information Technology (+12.2%), which rose on the back of an already lofty valuation. The sector now trades on a 30x one-year forward price-earnings multiple, compared to the market's long term average of 16x.

On the other end of the spectrum, index heavyweight Materials (-4.9%) was the largest detractor from index performance. Share prices of the major miner duo BHP (BHP, -4.7%) and Rio Tinto (RIO, -8.4%) pulled back from their recent highs despite reporting satisfactory results. The ongoing strength of the US dollar also saw the gold price decline (-2.2%), which weighed on the fortunes of gold miner, Newcrest Mining (NCM, -9.7%). NCM reported FY18 results in August, with underlying profit 16% higher than the prior period.

Global equities kept investors placated with another positive return this month. Although the benchmark index posted a return of 1.3%, there was considerable dispersion in performance across regions. European markets were generally weaker, whereby the UK fell on concerns of continuing trade tensions and the potential flow-on effects on commodity prices, while European markets were dented by the prospect of contagion from the deteriorating economic conditions in Turkey and Italy. The latest trade sanctions from the US announced on steel and aluminium imports from Turkey had a ripple effect across the region. Turkey responded with a hefty tariff on US cars, alcohol and other products, sparking contemplation of a broadening of trade sanctions for the region. Budget woes for Italy's Government and concern over its ability to meet fiscal pledges to the European Union left market sentiment weaker. The region's markets were led lower by Italy (-8.8%), followed by Germany (-3.5%) and France (-0.5%), while the UK (-1.9%) was also weaker. Weakness in European markets was more than offset by another strong performance by US stocks to lead the global index higher.

The US stock market reached twin milestones in August by marking the longest ever bull run in the its history and reaching another all-time high. Supporting the market was another strong quarterly reporting season, led by cyclical sectors. Concerns over trade tensions simmered from the US perspective and the market distanced itself from the political arena to support businesses delivering strong earnings. The FAANG stocks (Facebook, Amazon, Apple, Netflix and Google's parent company Alphabet) again dominated market performance, with Apple reaching US$1 trillion in market capitalisation and Amazon touched the same level early in September. Indications from the US consumer provided further reasons for optimism, with the latest reading on consumer sentiment reaching an 18-year high. The market closed August with the S&P500 delivering a total return of 3.0%, while the NASDAQ rallied with a return of 5.7%.

Asian equity markets were also weaker, principally reflecting concerns over US-China trade tensions. The US followed up this month with a tariff increase from 10% to 25% on an additional US$200b worth of imports from China. Weaker economic data from China added to the concerns over its future growth trajectory, while Japan's market also weakened on similar trade concerns before recovering on strong corporate earnings results and news that the economy grew 0.5% over the quarter. Japan (+1.4%) and the Southeast Asian markets of Thailand (+1.2%) and Malaysia (+2.0%) performed well, while Hong Kong (-2.4%) and Singapore (-1.0%) declined.

The Australian dollar continued its recent trend of weakening against the majors this month, principally related to the prospects for China and the associated flow through to commodity prices. The local unit declined against the US dollar (-1.9%), Japanese yen (-2.1%), the euro (-1.7%) and British pound (-2.7%).

Australian bond yields fell with another flattening of the curve in August. During the month, the Reserve Bank left rates on hold once again, with little changes in their communication. This reaffirmed an outlook for no policy changes in the near-term and the market-implied probability of a hike in late 2019 decreased. This was reinforced by second quarter wage growth figures that revealed a 0.6% increase over the period, taking the year-on-year rate to a still subdued 2.1%. Employment figures were also discouraging with 3.9K jobs lost for the month and although the unemployment rate dropped to 5.3%, it was driven by a fall in the participation rate. Other economic data was mixed with better-than-expected retail sales growth of 0.4%, but falls in business conditions and consumer confidence. Turning to market movements, the Australian 3 year and 10 year yields dropped 10bp and 13bp to 2.00% and 2.53% respectively. At the very short end, the 3 month bank bill rate fell marginally by 2bp to 1.95%. While this contributed to a small tightening in the BBSW-OIS spread, it remains elevated compared to historical levels.

Global bond yields fell and curves flattened further in August, driven in part by concerns over trade wars and emerging markets contagion. The US proceeded with tariffs on an additional US$16b of Chinese imports, while raising the proposed tariff on a flagged US$200b from 10% to 25%. Policymakers in China responded in kind with a 25% tariff on US$16b of imports from the US. In contrast, positive progress was made on trade negotiations between the US and Mexico, while there no constructive steps on a deal with Canada. Meanwhile, concerns in emerging markets and of broader contagion were stoked as the US doubled its tariffs on Turkey. This fuelled a further sell-off in the Lira which lost roughly half its value versus the US dollar over the month.

Broad US dollar strength was supported by firmer expectations for at least one additional rate increase by the Federal Reserve before year-end. This was reaffirmed by Jerome Powell's Jackson Hole address where the chairman offered a positive outlook for the US economy. Separately, his counterparts at the Bank of England appeared optimistic on the UK labour market and local inflation with a 25bp hike in August. Meanwhile, the ECB and BOJ did not meet during the month. Finally in terms of Treasury movements, the 2 year yield fell 4bp to 2.63% and the 10 year declined 10bp to 2.86%.

Fund performance

The Fund delivered a positive return in August, albeit slightly below the benchmark return. Positive performance was supported by exposure to growth assets, with good returns from Australian and offshore equity and listed property markets. Australian fixed income markets also generated a positive return in August while global fixed income were more muted 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 detraction came from manager contribution within Australian equities.

The key factors influencing our active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in CSL, Santos and JB Hifi, together with an underweight to Woolworths contributed value. These contributions were more than offset by overweight positions in the manager's high conviction positions in Qantas and Caltex, together with overweights in Origin Energy and BHP.

Within the global equities portfolio, stock selection outcomes within the Core and Concentrated portfolios detracted from relative performance, although both segments 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 -0.72% versus a cash return of 0.17%.

The Equity Market Neutral, Dedicated Short Bias and Global Macro strategies accounted for most of the declines this month. Within Equity Market Neutral, losses were largely attributable to Value themes for intra-industry stock selection in major developed markets. The directionally short component of the Dedicated Short Bias strategy also produced losses, given the equity market rally over August. Partially offsetting these were gains from Managed Futures and Long-Short strategies, with strong results from short commodities positions and long positions in select equity and currency markets.

In relation to our tactical asset allocation positioning, our long position in Australian and US equity market futures contributed to returns as markets were strong in August, although a long position in Germany reduced some of the gains. A long position in gold and crude oil benefitted, although this was more than offset by a detraction from a long position in copper. At the end of the month the copper position switched from long to short and we established a new short in US bonds.

Strategy and outlook

Equity markets continue to be materially influenced by macro and geopolitical dynamics. The latest corporate reporting seasons in the US, Europe and Australia highlight this dichotomy, with many market segments performing well. However, there is a growing degree of dispersion across industries and stocks, and a concentration of risks in areas of the growth/cyclical stock universe that warrant closer scrutiny. As this environment evolves, it is reasonable to expect more variation in the performance of asset segments and therefore, some bouts of volatility. The tried and tested antidote to volatility is diversification   a key foundation of the Fund's investment strategy. We will continue to maintain our active approach and exposure to a range of diversifying strategies with the aim of reducing volatility and generating outperformance.

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

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