Factsheet

Multi-Asset Strategies

September 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	-0.65	-0.59	-0.40
3 months	0.84	1.05	1.62
6 months	3.55	3.99	5.00
1 year (pa)	6.54	7.44	8.07
2 years (pa)	6.14	7.02	6.20
Since Inception (pa)	6.40	7.30	6.55

Asset Allocation (as at 30 September 2018)

Australian shares	22.8%
International shares	17.4%
Australian fixed interest	20.9%
International fixed interest	11.4%
Australian property securities	3.4%
International property securities	0.9%
Alternative investments	13.7%
Cash	9.5%

Other Information

Fund size (as at 30 Sep 2018)	$161 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]	0.07% 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 300 price index declined by 1.7% in September, as momentum from reporting season lapsed. Adding back dividends, the Accumulation Index was 1.2% lower. Performance of the Resources (+5.2%) sector was strong nevertheless. The bounce in miners over the month seemed to indicate a degree of relief at the scale of tariffs on China announced by the Trump administration in September. The relative lack of inflammatory rhetoric from President Trump and the measured response from China have some observers thinking that a more rational approach to recent trade tensions could be emerging.

The positive performance of Resources was more than offset by weakness in Industrials (-2.7%). Metals & Mining (+5.7%) took a respite over the month, making Materials (+4.1%) the best performing sector in September. BHP (+7.2%), South 32 (S32, +15.3%) and Rio Tinto (RIO, +8.3%) all recorded meaningful gains. Energy (+4.3%) also benefitted from rising commodity prices, with the WTI benchmark closing the month 4.9% higher at US$73.3 per barrel.

The interim report released by the Royal Commission dampened investor sentiment for index heavyweight Banks (-1.9%); whilst rising bond yields, alongside a proposed Royal Commission into the Aged Care sector flagged by the Prime Minister made Health Care (-7.3%) the worst performing sector over the month. Consumer Staples (-2.7%), Consumer Discretionary (-3.8%) and Industrials (-2.1%) were also lower. These declines were driven more by macro factors than company-specific issues.

Global equities posted another gain for September, supported by continued strength in the US and further gains in Japan. The benchmark index posted a return of 0.6% for the month. Positive sentiment stemmed from another healthy US corporate reporting season and positive economic data which tempered ongoing concerns over US trade policy developments with China. During the month China called off the next round of proposed trade talks after the US Government followed through with the latest round of tariffs.

The US stock market delivered another month of gains as investors continued to derive confidence in the market in spite of risks associated with a US-China trade war. The latest data on economic growth and jobs provided reasons for optimism. The US economy grew by 4.2% in the second quarter to register the fastest rate of expansion since late 2014. Labour market conditions also remain buoyant, with the national unemployment rate falling to a near 49-year low of 3.7%. The US Federal Reserve proceeded as expected with a further 0.25% hike in interest rates which was also accepted by the market as a sign of strength for the economy. For the month of September, the S&P500 rose by 0.4% while the Dow Jones Industrial Average rose by 1.9%. Technology stocks generally retreated, sending the NASDAQ 0.8% lower.

European markets commenced the month with relatively muted sentiment although this picked up during the month only to end the month relatively unchanged. The Eurostoxx 50 Index registered a 0.2% gain for September. Italy (+1.9%) was the best performing market in the region after experiencing a rebound following political uncertainty and consternation of budgetary measures. France (+1.6% and Switzerland (+1.0%) also advanced while Germany (-1.6%) declined. Markets took some confidence out of the latest economic data which showed headline inflation for the region advanced 2.1% for September although core inflation remains low at 0.9%. ECB President Mario Draghi noted the "relatively vigorous" pickup in inflation, indicating firmer expectations particularly in light of strengthening labour markets. A similar direction for inflation was noted for the UK market, which ended the month 1% higher aided by a boost from higher oil prices.

Asian equity markets posted a mixed set of returns. Another increase in US interest rates and imposition of tariffs by the US on US$200 billion worth of imports from China failed to dampen sentiment. China's Shanghai Composite index rose 3.5%, ahead of returns from Singapore (+1.4%), Thailand (+2.0%) and Korea (0.0%). Japan (+5.5%) was the standout performer in September. Higher US bond yields kept a lid on the yen, while Shinzo Abe's successful election for a third consecutive term as Liberal Democratic Party leader provided a boost to markets.

The Australian dollar halted its decline to be little changed against the US dollar. It was also relatively unchanged against the euro and British pound but advanced 2.9% against the yen. Commodity markets also advanced, led by a 4.9% rise in the crude oil price to close at US$73 per barrel.

The Australian bond market saw an increase in Australian bond yields and a steepening of the curve over the month. There was little action regarding domestic monetary policy with the RBA leaving rates unchanged for the month. The RBA issued another statement similar to prior months that included upbeat comments on local and global economic conditions. Overall, the Board's communication over September suggested rates will remain on hold over the near-term. In terms of domestic data, top-tier releases proved strong and surprised to the upside. This included solid GDP growth of 0.9% for the second quarter and a healthy 44,000 jobs added for the month. This supported the Australian 3- and 10-year yields, which rose 8bp and 15bp to 2.08% and 2.68%, respectively. At the very front-end, the 90-day BBSW fell a marginal 0.5bp to 1.94%. Despite an increasingly negative AU-US yield spread, the AUD/USD was roughly flat over the month.

Investors looked past an escalating trade war and lingering emerging markets risks to a supportive macroeconomic backdrop during September. This drove an increase in global bond yields and a steepening of curves over the month. On the geopolitical front, US policymakers implemented tariffs on a further US$200b of Chinese imports. China responded in-kind with tariffs between 5% and 10% on its own list of US$60b of imports. Meanwhile, concerns in emerging markets receded following several events, including a 625bp market-appeasing rate hike by Turkey's central bank. The FOMC delivered a 25bp rate hike as widely expected. The Committee's target rate dot plot was closely scrutinised with their projections suggesting another rate hike in December and three increases in 2019. Meanwhile in Europe, the ECB left policy unchanged at its September meeting. However, comments from President Draghi post the meeting suggested a more hawkish view on inflation. The US 2- and 10-year yields increased a sizeable 19bp and 20bp to 2.82% and 3.06%, respectively.

Fund performance

The Fund's negative return for September was largely a function of its exposure to Australian and offshore equity and listed property markets which declined in value through the month. The Australian fixed income market also generated a negative, albeit modest decline which limited the drawdown. Global fixed income was also negative for the month, largely related to rising US bond yields. Exposure to alternatives detracted from returns this month. At a Fund level, the underperformance was primarily driven by manager contribution which lagged across a select number of strategies.

The key factors influencing the alpha generated through active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Metcash, BHP and Santos plus holding no exposure to Treasury Wine Estates contributed to returns. These contributions were somewhat offset by overweight positions in Qantas, CSL and Aristocrat, and holding no exposure to Woodside Petroleum.

Within the global equities portfolio, the Concentrated portfolio outperformed the benchmark but the core and emerging market portfolios detracted from relative performance.

Our Alternatives core portfolio registered a negative return through most of the month before rebounding in the last week. Through the month, three of the eight sub-strategies delivered positive returns, while one strategy had a negative impact. The Alternatives strategy delivered a total return (before fees) of -0.76% versus a cash return of 0.16%.

The Global Macro and Dedicated Short Bias strategies generated positive returns this month in line with expectations in a negative market. While target risk increased slightly over September, the Fund continues to operate at slightly less than its long term risk target. The overall increase was due to a slight reduction in the underweight to Convertible Arbitrage and a slight increase in the overweight to Long/Short Equity. Convertible Arbitrage and Fixed Income Relative Value remain the notable underweight strategies, Long/Short Equity the sole overweight, and the other sub-strategies operating at or near their long-term strategic risk targets.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a neutral impact on performance. Our long position in crude oil was offset by a short position in copper, while a contribution from a short on US bonds was offset by a long position in German Bunds. At the end of September we moved to a short position in German equities.

Strategy and outlook

We are continuing to see growing dispersion in the performance of different capital markets, reflective of both fundamental and technical underlying forces. Consider the strength of US corporate earnings and the rise in the S&P500 Index which has increased by over 150% in the past seven years, together with US bond yields continuing on an upward path as the Fed normalises interest rates. This is considerably contrasted against the benign interest rate environment in Australia and Europe. We think that bond yields may continue to rise here, but ultimately they are unlikely to rise too far. The forthcoming RBA’s Statement on Monetary Policy will provide a clearer picture into the likely path for monetary policy. But there is little to suggest that there is likely to be a change anytime soon.

In Europe, the central bank authorities are somewhat optimistic based on commentary on emerging inflation and employment data, but appear some way behind the curve of US monetary settings. These challenges in reflating and sustaining economies may persist due to imbalances across markets, which warrant a degree of caution. Growing dispersion is often accompanied by higher market volatility, which increases risk but also opportunities through mis-pricing. The recent spike in volatility has demonstrated that opportunities can arise when employing a dynamic approach to allocating capital. Pendal continues to apply its multi-faceted approach to generating additional returns on these investments and managing risks, most notably with a balanced allocation across traditional markets and the diversifying properties of alternatives.

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

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