PENDAL

# Factsheet

Multi-Asset Strategies

October 2018

# Pendal Active High Growth Fund

Previously known as 'BT Wholesale High Growth Fund'

ARSN: 610 997 674

## About the Fund

The Pendal Active High Growth 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 significant weighting 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-High-Growth-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 | 46 | 25 | 80 |
| International shares | 37 | 20 | 75 |
| Australian fixed interest | 2 | 0 | 15 |
| International fixed interest | 2 | 0 | 15 |
| Australian property securities | 3 | 0 | 15 |
| International property securities | 1 | 0 | 15 |
| Alternative investments | 7 | 0 | 25 |
| Cash | 2 | 0 | 10 |

### Investment Team

The Fund is managed by Stuart Eliot who has 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 | -5.71 | -5.63 | -5.05 |
| 3 months | -4.99 | -4.76 | -3.64 |
| 6 months | -1.92 | -1.43 | 0.73 |
| 1 year (pa) | 1.98 | 2.98 | 4.55 |
| 2 years (pa) | 9.58 | 10.66 | 10.06 |
| Since Inception (pa) | 8.33 | 9.38 | 9.11 |

### Asset Allocation (as at 31 October 2018)

| | |
|---|---|
| Australian shares | 43.7% |
| International shares | 37.0% |
| Australian fixed interest | 2.1% |
| International fixed interest | 2.0% |
| Australian property securities | 4.1% |
| International property securities | 1.0% |
| Alternative investments | 7.2% |
| Cash | 2.9% |

### Other Information

| | |
|---|---|
| Fund size (as at 31 Oct 2018) | $19 million |
| Date of inception | June 2016 |
| Minimum investment | $25,000 |
| Buy-sell spread[1] | 0.34% (0.17%/0.17%) |
| Distribution frequency | Quarterly |
| APIR code | BTA0488AU |

[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] | 0.98% pa |
| Estimated indirect costs[5] | 0.02% pa |

[3] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[4] 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.

[5] 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 Australian equity market pulled back by 6.2% in October, registering the worst monthly performance since August 2015. The Index was down by 10.3% from its August high at one point, before paring some of the losses. Both Resources (-6.5%) and Industrials (-6.1%) finished the month in the red. The swift spike in volatility came on the back of several factors, including fears of overly-aggressive tightening from the US Federal Reserve (Fed), fear of deteriorating US-China trade and signs of higher input costs, particularly in the US.

In regard to sector performance, traditional growth stock-related sectors bore the brunt of the pullback as market sentiment returned to a risk-off mode during the month. Information Technology (-11.4%), Consumer Discretionary (-8.3%) and Health Care (-7.3%) all reside within that group. In contrast, defensive sectors such as Real Estate (-3.8%) and Consumer Staples (-4.9%) outperformed the headline index, despite posting overall losses. Index heavyweight Financials (-6.0%) fared slightly better than the benchmark. The big four banks saw some divergence in performance during October, with Commonwealth Bank (CBA, -3.1%) and Westpac (WBC, -3.9%) contributing to the sector's outperformance, whereas ANZ (ANZ, -8.0%) and National Australia Bank (NAB, -9.3%) detracted.

Outside of Financials, miners (-5.0%) also generally declined over the month, but were able to outperform the broad market index. Base metals such as Copper (-5.2%) retreated amid concerns around global growth, while the same jitters propelled the price of gold (+1.6%) as investors rotated into the same-haven asset.

Global equity markets experienced a long anticipated reversal of fortunes in October as the sustained positive sentiment holding markets afloat this year gave way to a number of causes for concern. US online mega-retailer, Amazon, spooked investors after issuing a caution on expectations for its festive season trading volumes. Alphabet added to the concerns after reporting its advertising revenue was lower than expected. These came amid some disappointing earnings results from the technology sector. Adding the concerns of continued US monetary tightening and the Sino-US trade tensions was enough to send markets into a correction mode.

The broader US stock market was tempered somewhat by a favourable earnings season, with more than 80% of companies exceeding market earnings expectations. The Energy, Consumer Discretionary and Industrials were the weakest sectors over the month, while investors shifted support towards the less economically sensitive sectors like Consumer Staples, which was the only sector with a positive return for the month. Data on the economy continued to indicate solid expansion. US economic growth expanded at an annual rate of 3.5% in the third quarter, lower than the 4.2% rate of the prior quarter, albeit still robust. Expansion was supported by strength in consumer spending, which accounts for around two-thirds of economic growth. For the month of October, the S&P500 declined by 6.9% while the NASDAQ lost 9.2% of value.

European markets were almost uniformly lower, in concert with developments in the US although regional factors dominated sentiment. Italy was again in the spotlight after the European Union rejected its latest budget proposal. Subsequent reports emerged that Italy would target lower budget deficits for 2019 and 2020, although ratings agency Moody's proceeded to announce a downgrade to Italy's sovereign debt rating to Baa3 – one notch above junk bond status. Elsewhere, markets were impacted by lower oil prices and growing uncertainty over the shape and form of Brexit as the target date draws near. Italy (-8.0%) led the region lower for October, followed by France (-7.3%) and Germany (-6.5%) and Spain (-5.3%), while losses were limited for Switzerland (-0.7%). The UK (-5.1%) was also decidedly lower.

Asian equity markets were not immune to the weakness across the developed world, with prospects for regional trade under the microscope thanks to the newly installed tariff regime. China's economic growth also eased to 6.5%, signalling a slowing of expansion, while weakness in technology stocks offshore transpired to weakness among Asia's technology sector. China's Shanghai Composite index ended the month 7.8% lower, while Korea (-11.6%), Taiwan (-10.9%), Hong Kong (-10.1%), Japan (-9.1%) and Singapore (-7.1%) all succumbed to weakness.

The Australian dollar resumed its weakening trend to end the month 2.1% lower against the US dollar. It was however 0.5% stronger against the euro and relatively unchanged against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 10.8% to close at US$65 per barrel, while Gold rose by 1.9% to just over US$1200.

Australian bond yields fell during October as a risk-off turn mid-month drove investors to safe-havens. There was no specific driver behind the deterioration in sentiment, although the combination of several factors likely played a part. These included continued trade war tensions, ongoing monetary policy normalisation, political uncertainty in Europe and stretched market valuations. Meanwhile, there was little action on the domestic monetary policy front with the Reserve Bank of Australia (RBA) leaving rates on hold once again. The accompanying statement also suggested no changes in the near-term; however, more constructive comments on the labour market and GDP growth were two small alterations to the communication. This was echoed in the monthly employment figures that revealed a drop in the unemployment rate from 5.3% to 5.0%, a six year low. Third quarter inflation data was softer-than-anticipated, with a 0.4% rise in the trimmed mean measure over the period. On market movements, the Australian 3- and 10-year yields both fell 4 basis points (bp) to 2.04% and 2.64% respectively. At the very front-end, the 90-day BBSW dropped 3bp to 1.91%.

Global bonds experienced a relatively volatile month. After yields rose in the first half of the month they retraced most of their move in the second half as risk appetite soured and investors flocked to safe-havens. Looking at data for the world's largest economy; US third quarter real GDP grew a healthy 3.5% annual rate, the monthly Non-Farm Payrolls print was weak at only 134,000, however, the 6-month average remained above 200,000. The unemployment rate also dropped from 3.9% to 3.7%, the lowest level since 1969. Regarding monetary policy abroad, the Fed did not meet during the month; however, comments from Chairman Powell were perceived as hawkish. Similarly, the post-meeting press conference with European Central Bank (ECB) President, Mario Draghi, was interpreted as more positive. On market movements, the US the 2- and 10-year yields retraced most of their earlier increase to respectively finish only 5bp and 8bp higher at 2.87% and 3.14%.

**Fund performance**

The Fund's negative return for October was largely a function of its exposure to Australian and offshore equity and listed property markets which declined in value through the month. Exposure to alternatives also detracted from returns this month. Global fixed income was also negative for the month, largely related to rising US bond yields. Australian fixed income market generated a positive return, albeit with limited impact to overall performance. At a Fund level, the underperformance was primarily driven by manager contribution which was most prevalent in Australian equities, the core global equity strategy, and alternatives.

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 Ramsay Health Care and Amcor, plus holding no exposure to Woodside Petroleum and an underweight to National Australia Bank contributed to returns. These contributions were more than offset by overweight positions in CYBG, AMP and Nine Entertainment, and holding no exposure to Woolworths.

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

Our Alternatives core portfolio registered a negative return this month. Through the month, six of the eight sub-strategies delivered negative returns, while the other two had a neutral impact. The Alternatives strategy delivered a total return (before fees) of -1.47% versus a cash return of 0.17%.

The Managed Futures, Equity Market Neutral, Global Macro and Equity Market Neutral strategies generated negative returns this month after being impacted by long positions in equity and commodity markets. Momentum and quality themes were the main detractors this month. These were offset by some contributions from value themes.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a negative impact on performance. Gains through our short position copper were offset by losses from a long position in crude oil. Both positions were neutralised at the end of the month. Small contributions from positioning in Australian and German bonds were offset by detractions from long equity market positions. At the end of October we held long equity positions in the US and Australia, and short positions in German and US bonds, and gold.

**Strategy and outlook**

The increased volatility of equity markets we have witnessed in recent weeks have naturally made investors feel uncomfortable. However, what we are actually seeing is a return to more normal market conditions. Even with the turmoil experienced in the S&P-500 in February, April and now October, the realised volatility of daily market movements is still nearly 2% below the average since the 1970s and exactly in line with the median. Hence, this can be viewed as fairly typical of market behaviour.

There are many possible causes for the increased volatility, but a key factor relates to central bank suppression of properly functioning markets, which now appears to be coming to an end (at least in the US). Given the strong market returns in the nearly 10 years since the GFC, it's easy to forget that investing to earn a risk premium is associated with exposure to risk (in this case an equity market decline). There is nothing of which we are aware that challenges our belief that equities will not deliver a positive excess return over meaningful investment horizons and as such, equities retain a central part of the Fund with the role of generating long-term absolute and cash/CPI-plus returns. Further, it appears a lot of the recent volatility reflects recent geopolitical issues (in particular around global trade) and a change in sentiment around the potential for inflation. While it is very difficult to predict the outcome of the recent trade skirmish, consensus is moving towards an increase in inflationary pressure. Further, global economic conditions remain reasonable, and the current US earnings season is playing out to be above expectations.

Our aggregate tactical positions are relatively market-neutral at present, reflecting that different regions are at different stages in their economic cycles: long positions in the US and Australia are offset by short positions in German equities and positioning to take advantage of further equity market volatility. The outlook for our tactical positioning depends upon future market movements. Should the recent declines in the S&P500 and ASX indices prove to be the start of a larger decline, rather than corrective, our tactical models are likely to point to reducing exposure to those markets over the course of the next few months. That is, in a material market decline, the tactical positions would likely generate positive returns from being short. We will continue to apply a multi-faceted approach to generating additional returns on 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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