# Pendal Active Moderate Fund

Previously known as 'BT Wholesale Moderate Fund'

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

November 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. **Active 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 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 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: Equity and Bond, Income & Defensive.

### Performance

| (%) | Total Returns (post-fee) | Total Returns (pre-fee) | Benchmark Return |
|---|---|---|---|
| 1 month | -1.05 | -0.98 | -0.49 |
| 3 months | -4.73 | -4.53 | -3.32 |
| 6 months | -2.80 | -2.39 | -0.11 |
| 1 year (pa) | -1.26 | -0.42 | 1.39 |
| 2 years (pa) | 4.29 | 5.16 | 5.14 |
| Since Inception (pa) | 4.14 | 5.02 | 4.80 |

### Asset Allocation (as at 30 November 2018)

| | |
|---|---|
| Australian shares | 21.0% |
| International shares | 17.0% |
| Australian fixed interest | 18.8% |
| International fixed interest | 11.9% |
| Australian property securities | 3.5% |
| International property securities | 1.0% |
| Alternative investments | 13.8% |
| Cash | 13.0% |

### Other Information

| | |
|---|---|
| Fund size (as at 30 Nov 2018) | $165 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.

**Markets review**

It was another volatile month for the domestic equity market, where the S&P/ASX 200 Accumulation Index advanced by 2.3% in the first half of the month, before giving it all back and finishing November 2.8% lower. US Federal Reserve (Fed) Chair Powell's about-turn on rates   noting the rate which was "a long way from neutral" a few weeks ago is now "just below" neutral   provided some relief for those worried about policy over-tightening towards the month end. It was nevertheless overshadowed by the ongoing uncertainty over a soft patch in the Chinese economy and the outlook for trade with the US continuing to weigh on cyclicals and on the miners (-4.9%) in particular. In conjunction with weak performance from Energy (-10.7%) on the back of a continuous slump in the oil price over the month, we saw large cap Resources (-6.6%) perform worse than large cap Industrials (-1.1%).

Financials (+1.4%) and Information Technology (+1.0%) were the only groups to end in positive territory. For the first time in a long time, Banks (+2.5%) contributed strongly to the Financials sector after experiencing a relief rally which reflected the lack of any new controversy from the latest round of Royal Commission hearings. Outside Financials and IT, performance was bleak across the other sectors. In addition to the drag caused by the miners on Materials (-4.7%), poor performance from the likes of Bluescope Steel (BSL, -21.9%), James Hardie (JHX, -14.9%) and Boral (BLD, -9.1%) also weighed on the sector.

Global equity markets sustained a degree of positive momentum in November, attributed largely to an easing of concerns over trade policy escalation. Presidents Trump and Jinping reached agreement at the G20 summit in Argentina for a halt to the imposition of further tariffs which gave investors in both developed and emerging markets reason to reduce the level of caution. During the month, US Federal Reserve Chair Jerome Powell placated market concerns over a potential over-tightening of monetary policy and further economic pressure on emerging markets by a change in tone, stating US interest rates were "just below" neutral. Both developments exhibited their power on sentiment, pushing the global equity market index to a gain in November.

The US share market generated gains on the back of positive sentiment on trade policy and interest rates. Comments from Chairman Powell noted above also weakened the US dollar which was helpful for US-based exporters. The tech sector was an outlier, largely due to statements from Apple on its intention to cease reporting unit sales of its devices. The company also disappointed the market with its outlook for the critical holiday trading period. Shares in Facebook, Twitter and Snap also declined. Consumer Discretionary also disappointed investors as concerns intensified over the impact of Amazon following a range of earnings reports. This came in spite of a strong reading for October's consumer spending which exceeded consensus forecasts. Elsewhere, corporate activity kept investors' interest alive. Entertainment giant, Walt Disney Inc. announced the US$71b purchase of Rupert Murdoch's entertainment assets was approved by China's regulators, removing a material hurdle for the transaction. For the month of November, the S&P500 added 1.8% while the NASDAQ rose by a modest 0.3%.

European markets were mixed, with negative sentiment directed towards the UK and the Western European majors. A mix of influences including a breakdown in Brexit negotiations, further pressure on Italy's budget and lower oil prices weighed on these markets. Economic data also disappointed, with overall GDP growth for Europe of 0.2% masking a wider spread of fortunes at a country level. Spain retained a healthy growth rate of 0.6%, Italy grinded towards flat growth and Germany's economy contracted, largely due to disruptions within the car production industry. However, unemployment for the region remained steady at 8.1% and headline inflation was 2.0% although the core measure that removes volatile components eased to 1%. The UK (-2.1%), France (-1.8%), Italy (-1.7%) and Germany (-1.7%) declined in November, while Switzerland (+0.2%) remained stable and Spain advanced 2.1%.

Asian equity markets also registered mixed returns, with some markets seeing the reprieve in trade tensions and a lower US dollar as reasons to buy back into stocks at more attractive prices. China's Shanghai Composite index ended the month 0.7% lower as investors focused attention on the trajectory of its weakening growth while discounting the short term influence of the trade tensions with the US. Hong Kong (+0.2%) was marginally positive, while Korea (+2.3%), Taiwan (+0.9%), Japan (+2.0%) and Singapore (+3.3%) posted sizeable recoveries from weakness in the prior month.

The Australian dollar strengthened as a reaction to weakness in the US dollar as investors reset expectations on future US interest rate rises. The local unit rose 3.3% against the US dollar and was 3.9% stronger against the Japanese yen, 3.3% against the euro and 3.4% against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 22% to close at US$50 per barrel, while Gold rose by 0.6% to just over US$1222.50.

After rising in the first half of the month, Australian 10-year yields retraced and ended the month lower. The swings appeared to follow global risk sentiment that was driven by a combination of factors. This included speculation over trade tariffs, FOMC rate posturing and a collapse in crude oil prices. In Australia, the Reserve Bank of Australia (RBA) left rates on hold once more with few changes in its monthly communication. The more in-depth quarterly Statement on Monetary Policy revealed a revision lower for its forecast unemployment rate and upgrades to GDP and inflation. Data-wise, labour force figures were strong with 33,000 jobs added, led by full-time positions. In combination with a rise in the participation rate to 65.6% the unemployment rate held steady at 5.0%. Third quarter wage growth was also constructive at 2.3% year-on-year, which was driven by a 3.5% increase in the minimum wage. In contrast, leading indicators were more mixed; consumer confidence rose, while business confidence and conditions fell and retail sales slipped from 0.3% to 0.2% month-on-month. Finally, the Australian 3-year yield rose 3 basis points (bp) to 2.07%, while the 10 year fell 4bp to 2.60% and caused a flattening of the curve. In money markets, 90 day BBSW increased by 4bp to 1.95%.

After rising in the first half of the month, global bond yields retraced and ended the month lower. The swings appeared to follow global risk sentiment that was driven by a combination of factors. These included trade-related comments from the White House that alternated between suggesting a deal and no deal ahead of the G20 summit. Meanwhile, the FOMC kept rates unchanged as widely-expected while acknowledging strength in jobs growth and household spending. However, subsequent dovish comments from Committee members pushed yields lower over the remainder of the month. Data for the world's largest economy was mixed overall. Non-Farm Payrolls were stronger than expected, with 250,000 jobs added and average hourly earnings increased to 3.1% year-on-year. In contrast, the PCE core inflation measure slipped from 2.0% to 1.8% year-on-year with a sluggish 0.1% read over the month. The Institute of Supply Management (ISM) Manufacturing Index fell from 59.8 to 57.7 and Durable Goods orders were weaker than expected at -4.4%. In Europe, disagreements between the European Union (EU) and Italy on the latter's proposed budget created some concern for investors. Further north, worries over whether Brexit terms would be accepted by UK policymakers weighed on sentiment. By month end, the US curve flattened as the 2-year yield dropped 8bp to 2.79% and the 10-year yield slid by a more substantial 16bp to 2.99%.

**Fund performance**

The Fund's negative return for November was largely a function of its exposure to Australian and offshore equity markets which declined in value through the month. Exposure to alternatives also detracted from returns this month. Australian and global fixed income generated modest positive returns for the month as US bond yields eased, albeit with limited impact to overall performance.

Underperformance was primarily driven by manager contribution which was most prevalent in Australian equities, the core global equity strategy, and alternatives. Our tactical asset allocation decisions saw the Fund's overweight exposure to Australian and global equities reduced to underweight and marginally underweight, respectively.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Qantas, ANZ Banking Group 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 Santos, Origin Energy and CYBG together with an underweight to National Australia Bank.

Within the global equities portfolio, the Concentrated, Emerging Markets and European Select portfolios outperformed their benchmarks but the core detracted from relative performance.

Our Alternatives core portfolio registered a negative return this month. Through the month, four of the eight sub-strategies delivered negative returns, while two had a positive impact and the remaining two were neutral in impact. The Alternatives strategy delivered a total return (before fees) of -0.85% versus a cash return of 0.15%.

The Managed Futures, Equity Market Neutral, Long-Short Equity and Dedicated Short Bias strategies generated negative returns this month after being impacted by long positions in commodity markets, notably energy contracts. Weakness in Momentum was somewhat offset by contributions from quality and value themes. Some directionally short positions contributed to returns amid weakness in markets. However, the Global Macro and Event Driven strategies delivered positive returns.

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 positioning in equity market futures were offset by losses from volatility positioning, which itself was volatile and lead to several signal changes. This is consistent with our historical testing and did not require any change to strategy. We did however move to long positions in Australian equity futures and bonds together with a small long position in copper.

**Strategy and outlook**

In November we introduced a new active investment process to the Fund   Dynamic Asset Allocation (DAA), applying the relevant models used in our recently launched Multi-Asset total return strategy. The current positioning in DAA is driven by Value signals, which complement the trend signals driving much of the returns from tactical asset allocation. Through employing DAA we have an introduced an overweight to Korea and underweight to US equities on model valuation signals.

Volatility in equity markets witnessed in recent weeks have naturally made investors feel uncomfortable. However, as we have discussed recently, this can be seen as a return to more normal market conditions. Even with the turmoil experienced in the S&P500 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 fundamental 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: positions of long US equities and copper and short US equity implied volatility (VIX) are offset by short German and Australian equities. Long German bonds are offset by short Australian and US bonds, and gold.

The outlook for tactical positioning depends upon market movements from here. As flagged last month, our model turned short Australian equities at the end of November and is likely to turn short US equities in the near future, which would represent the most negative tactical outlook since early 2016. Should the tactical model turn short US equities, it will be an interesting situation: an expensive market with negative momentum. A material market decline would likely generate positive returns from being short through these positions.

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**