PENDAL

Factsheet

Multi-Asset Strategies

December 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. **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	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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-0.47	-0.39	-0.19
3 months	-4.55	-4.35	-3.12
6 months	-3.75	-3.34	-1.55
1 year (pa)	-2.24	-1.41	0.97
2 years (pa)	3.19	4.05	4.04
Since Inception (pa)	3.81	4.69	4.56

Asset Allocation (as at 31 December 2018)

Australian shares	21.7%
International shares	17.1%
Australian fixed interest	20.9%
International fixed interest	12.9%
Australian property securities	3.5%
International property securities	0.9%
Alternative investments	13.4%
Cash	9.6%

Other Information

Fund size (as at 31 Dec 2018)	$168 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

Saved by the largest post-Boxing Day bounce since the GFC, the S&P/ASX 300 Accumulation Index managed to contain its losses to 0.2% in December. Nevertheless, it was a tough year for the domestic equity market, finishing the period 7.1% lower, or 3.1% after accounting for dividends. It is the first negative calendar year since 2011: Resources (+2.3%) continued to benefit from the elevated level of commodity prices, despite the recent plunge of the oil price; whilst Industrials (-4.3%) were the laggard. What started as a year of expected synchronised global growth ended up with US-China trade tensions, a tightening Fed that the market is fearful for its potential missteps, a tightening domestic credit market, as well as geopolitical uncertainties stemming from the Eurozone.

Sector performance was somewhat mixed in December, with five of the eleven GICS sectors finishing the month in the black. These include Materials (+5.1%), Health Care (+2.7%), Real Estate (+1.1%), Consumer Staples (+1.2%) and Utilities (+2.8%).

Global equity markets experienced a broad-based sell-off in December to close the year in negative territory. The negative sentiment was symptomatic of a confluence of issues, ranging from political, economic growth and monetary policy concerns through to commodity prices and heightened valuation multiples within many of the growth oriented stocks. Investors became preoccupied with concerns over an impending global slowdown following an extended period of growth in the US and commenced selling the market. The crude oil price fell victim to such fears, falling to a 15-month low as investors weighed the probability of oversupply if economic growth slows and expansion of US shale output along with OPEC retaining a bias towards not cutting production.

The US share market experienced a significant devaluation as investors raised concerns over the extent to which Fed tightening in 2019 will impact growth. Trump's comments on Chairman Powell's impending actions to suggest they will stifle the economy's growth added to the bearish tone, along with the prospect of a Government shutdown in response to the impasse with Congress on funding of Trump's wall on the Mexican border. The shutdown came to fruition prior to Christmas. The environment saw investors shift towards defensive sectors like utilities, real estate and consumer staples and away from economically sensitive sectors like financials and energy. For the month the S&P500 lost 9.2% while the NASDAQ fell 9.5%.

European share markets experienced similar disdain as investors reacted to both offshore developments and regional concerns. The prevailing uncertainty over the Brexit deal and the prospect of a no deal outcome weighed on market confidence. Considering the implications for the broader economy in such a scenario, the Bank of England kept its official cash rate unchanged at 0.75%. Sector performance across the region was mixed and not reflective of a specific bias towards defensives, while a declining oil price weighed on energy and materials stocks. Social unrest in Paris also contributed to declines on France's stock exchange, leading to a monthly return of -5.5%, while the FTSE 100 lost 3.6% and Germany's DAX fell by 6.2%.

Asian equity markets exhibited a high degree of variance in returns, with some markets supported by an easing in trade tensions, lower oil prices and a lower US dollar. China's Shanghai Composite index ended the month 3.6% lower as investors focused on signs of further weakness in the domestic economy and the implications of weaker global growth. Hong Kong (-2.5%) was also carried in this direction, while the performance of Singapore (-1.6%), Korea (-3.8%), Taiwan (-1.6%) and Japan (-10.5%) highlighted the disparate nature of investor sentiment across the region.

The Australian dollar lost ground against all major currencies, reflecting the risk-off tone on equity markets and the slide in key commodity prices. The local unit rose 3.6% against the US dollar, 4.5% against the euro, 6.9% on the Japanese yen and 3.4% against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 11% to close at US$45.40 per barrel and the Trade-Weighted Index (TWI) declined 4.1%. The Gold price naturally rose to a 5% gain, closing at US$1282.45.

Australian bond yields sank on safe-haven demand as global equities endured a sizeable sell-off. A number of factors eroded investor confidence including ongoing trade war worries, the US government shutdown, weaker Chinese data and an unpopular rate hike from the Federal Reserve. In contrast, domestic monetary policy was again fairly uneventful with the RBA leaving the cash rate at 1.50%. Despite communication suggesting an eventual hike was preferred to a cut, market pricing for the next year shifted to the latter. The cash market was also guided by offshore developments as a widening in the US LIBOR-OIS spread fuelled a similar increase in its domestic BBSW-OIS cousin. Data-wise, a disappointing third quarter GDP figure revealed 0.3% growth over the quarter. Meanwhile 37k jobs were added over the month and the unemployment rate ticked up to 5.1% (due to a rise in participation). Leading indicators were mixed with a fall in business conditions and confidence, but a small rise in retail sales and consumer confidence. Finally, Australian 3 and 10 year yields fell by 22bps and 27bps to 1.84% and 2.33% respectively. At the same time, 90 day BBSW rose 14bps to 2.09%.

Global bond yields sank on safe-haven demand as equities endured a sizeable sell-off. A number of factors eroded investor confidence, including fears of a trade war escalation that were reignited after Huawei's CFO was arrested. Market concerns were later compounded by disagreements between Trump and House Democrats on US border protection funding, which eventuated in a partial US Government shutdown. Further sapping investor sentiment was an ill-received 25bps interest rate increase from the Federal Reserve and another two hikes projected 2019. Data-wise, payrolls revealed a softer-than-expected 155k addition and core PCE rose a marginal 0.1% to take the annual rate to 1.9%. Leading indicators were more encouraging as the ISM Manufacturing survey rose from 57.7 to 59.3 alongside an increase in consumer confidence over the month. Meanwhile, some progress was made on policy issues in Europe, including the Italian budget and UK PM Theresa May survived a leadership challenge. In Asia, weaker Chinese data added to investors' woes as the NBS gauge of manufacturing activity fell 0.6 to 49.4, firmly into contractionary territory. Finally the US 2 year and 10 year rates both fell by 30bps to 2.49% and 2.69% respectively.

Fund performance

The Fund's negative return for the month of December 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. Diversification through exposure to Australian and global fixed income delivered positive contributions to performance as Australian and US bond yields eased. Underperformance was primarily driven by manager contribution within Australian equities and alternatives.

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 BHP Billiton, CSL and Ramsay Health Care, plus holding no exposure to QBE Insurance Group contributed to returns. These contributions were more than offset by overweight positions in ANZ Banking Group, Metcash, Nine Entertainment and Caltex.

Within the global equities portfolio, the Concentrated and Dynamic Market equity strategies significantly outperformed their benchmarks while the core strategy detracted from relative performance.

Our Alternatives core portfolio registered a negative return this month, whereby four of the eight sub-strategies delivered negative returns, while two had a positive impact and the remaining two strategies were neutral in impact. The Alternatives strategy delivered a total return (before fees) of -0.05% versus a cash return of 0.15%.

The Equity Market Neutral, Dedicated Short Bias and Long-Short Equity generated positive returns this month. The Equity Market Neutral strategy benefited from strong performance of Quality and Sentiment themes over the month while the other two benefited from weakness in equity markets. Meanwhile, the Global Macro strategy was negatively impacted by developed currency, developed bond, and global interest rate relative-value sub-strategies.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a negative impact on performance. Gains through short positions in certain equity market futures were offset by losses in others, together with detractions from volatility positioning.

Strategy and outlook

We are in an environment of elevated macro uncertainty which, in combination with the persistent withdrawal of market liquidity as various central banks wind back QE and credit growth slows, is driving sharp swings in share markets. Key risks to growth are centred around two primary issues – the potential for over-tightening of interest rates in the US and the future of trade policy between the US and China. The market has been in a more upbeat mood on both these issues in recent weeks, although uncertainties remain and any disappointing developments here could see the market re-test its December lows. Europe's economy is also continuing to soften and given present uncertainties around the nature of Brexit this presents an additional area of risk.

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, October and December, the actual volatility of returns is not out of step with many other historical observations. Volatility also provides opportunities to acquire undervalued assets and we are focused on identifying areas to add value.

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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