PENDAL

Factsheet

Multi-Asset Strategies

January 2019

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

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	3.11	3.20	3.83
3 months	-0.52	-0.28	0.93
6 months	-5.49	-5.02	-2.74
1 year (pa)	-1.71	-0.74	2.25
2 years (pa)	6.40	7.45	7.79
Since Inception (pa)	7.28	8.32	8.59

Asset Allocation (as at 31 January 2019)

Australian shares	43.2%
International shares	36.2%
Australian fixed interest	2.0%
International fixed interest	1.9%
Australian property securities	4.2%
International property securities	1.0%
Alternative investments	6.7%
Cash	4.8%

Other Information

Fund size (as at 31 Jan 2019)	$21 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

Australian equities were strong in January, exhibiting a rebound from the last few days of 2018 that extended well into the new year and ultimately led to a 3.9% monthly gain in the S&P/ASX 300 Accumulation Index. Gains were underpinned by a shift in sentiment on two of the key issues which weighed on markets through the last quarter – US Federal Reserve (Fed) policy and China's economic growth.

A collapsing oil price also weighed on markets in late 2018 and here, too, we have seen a recovery, with the oil price up 17% as OPEC production cuts begin to take effect and fears of a major global slowdown recede. Oil companies form a significant part of global corporate credit markets and an improvement in the oil price has relieved some pressure here and seen corporate credit spreads narrow, signalling more confidence.

Energy was the market's strongest sector in January, up 11.5%, closely followed by Information Technology (+8.8%). Strong performance from small cap tech stocks such as Afterpay Touch (APT, +28.3%) and Wisetech (WTC, +20.4%), along with growth stocks like A2 Milk (A2M, +17.1%) shows that appetite for smaller growth stocks remains undiminished, with investors ready to resurface at any signs of improving market sentiment. We remain wary of valuations here.

Communication Services (+7.7%) was also strong, as TPG Telecom's (TPM, +8.5%) announcement that they would no longer build a 5G telecom network—regardless of whether the ACCC approves their tie-up with Vodafone—also saw a bounce in their competitor Telstra (TLS, +9.1%).

Financials (-0.25%) was the only sector to lose ground, as the market remained cautious on exposure to the banks and wealth management companies ahead of the final recommendations of the Royal Commission. Coincidentally, both Challenger (CGF, -23.7%) and AMP (AMP, -7.8%) made pre-reporting season confessions as new CEOs sought to temper market expectations.

Consumer Staples (+2.7%) made gains but underperformed. China-related agriculture plays such as Bellamy's (BAL, +19.0%) and A2 Milk (A2M, +17.1%) did well, but couldn't offset softer performance from the heavyweights such as Woolworths (WOW, -0.2%). Industrials (+3.4%) finished just behind the benchmark. Qantas (QAN, -6.0%) was among the weakest, driven partly by a stronger oil price but also from concerns arising through extrapolation of an earnings downgrade announced by Air New Zealand.

Global equity markets experienced a significant recovery in January following the broad-based sell-off in the prior month. Investor sentiment was supported by comments from the US Fed indicating it may put further interest rate increases on hold, along with a sense of optimism that US-China trade talks will avoid an all-out trade war. The US corporate earnings season commenced with a number of positive results that supported valuations, while in Europe after much consternation the British House of Commons reached agreement to support the UK's Brexit agreement, thereby improving the prospects for a viable deal with the European Union. For January, the benchmark MSCI World ex Australia Index closed 4.1% higher.

US shares undoubtedly led the world's equity markets higher as investor confidence returned. The market was buoyed by a solid start to the quarterly earnings season, albeit with less earnings surprises than the market has become accustomed to in recent years. Sector rotation was prevalent in January, with the Industrials and Energy sectors leading the gains. Energy stocks were supported by a solid bounce in crude oil prices, with the West Texas Intermediate crude price recording a solid 18.5% gain. Boeing was the standout for the Industrials sector after reaching a significant milestone of US$102b in sales—the highest in its 102-year history. Despite a degree of intra-month volatility, the S&P500 closed the month with a 7.9% gain, while the NASDAQ rose an even more impressive 9.7%.

European share markets generally recovered their losses incurred in December as investors renewed confidence in the market's prospects for the New Year. While buoyed by similar sentiments in the US, European investors seemed to form a consensus on expectations for the EU's monetary tightening bias moving towards being on hold. Economic growth data for the eurozone came in a 0.2% for the December quarter, with the annual rate being a modest 1.2% to fall below the 2017 level. Italy's economy appears to be faring worse after it slipped into a technical recession in the fourth quarter when the economy contracted by 0.2%, following a 0.1% contraction for the prior quarter. Sector performance across the region was generally positive and countries registering the strongest gains were Italy (+7.7%), Switzerland (+6.4%) and Spain (+6.1%), followed closely by France (+5.5%), Germany (+5.8%) and the UK (+3.6%).

Most Asian equity markets were spurred on by the New Year rally in the developed world. Investors established confidence in a further simmering of the Sino-US trade tensions and took comfort in signals of a pause in US monetary tightening. This saw an improvement in some of the export-oriented currencies against the US dollar. Hong Kong (+8.1%) and Korea (+9.6%) led the region's gains reflecting this dynamic, while south-east Asian markets also performed very well (the exception being Malaysia with a -0.4% return). Japan (+3.8%) was also a relative laggard in the region as some key economic indicators failed to impress.

The Australian dollar strengthened against its major trading partners while the Trade Weighted Index expanded 1.5%. The local unit rose 3.2% against the US dollar, 3.4% against the euro and 2.4% on the Japanese yen. In commodity markets the oil price's strong rebound followed the 11% decline in December to close at US$3.79 per barrel, while the Gold price surprisingly rose to a 3% gain, closing at US$1321.21.

Australian bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. The swings were driven predominantly by a combination of offshore developments including a more dovish US Federal Reserve (Fed). Meanwhile domestic monetary policy news was limited with no Reserve Bank of Australia (RBA) Board meeting during January. This left the market continuing to price a greater chance of a cut over the next year rather than a hike by the Board.

Local data was mixed through the month. The top-tier release was inflation data which revealed a 0.4% quarter-on-quarter increase in the RBA's preferred measure of inflation, the trimmed mean. In turn, the year-on-year rate remained at 1.8%, well below the midpoint of its target 2-3% band. Employment data indicated 22,000 jobs were added and the unemployment rate fell by 0.1% to 5.0%. Leading indicators were mostly weaker as business conditions fell 9 points to +2 and consumer confidence dropped from 104.4 to 99.6. Finally, turning to market movements, Australian 3- and 10-year yields both fell by 8 basis points (bp) to 1.76% and 2.25%, respectively. At the very front-end, the 3-month BBSW declined by a marginal 2bp to 2.07%, however its spread to OIS remained relatively elevated.

Global bond yields traded in a relatively wide range over the first month of the year and ended moderately lower. This occurred as investor concerns of further Fed tightening were soothed by comments from FOMC members through the month. This messaging was later reinforced by the Fed's January meeting statement that signaled "patience" on additional rate increases and flexibility on balance sheet normalisation. US data echoed the need for a cautious approach by the Fed; both manufacturing activity and consumer confidence fell sharply during the month. Also in the US, attention was on fourth-quarter earnings where constructive results helped buoy market confidence. However, several names such as Caterpillar and Nvidia flagged a drag on revenues from weaker Chinese growth as the effects of the trade war are felt. The International Monetary Fund (IMF) also cited the impact of tariffs as a rationale for downgrading its 2019 growth forecast. On the trade front, tensions wavered as encouraging comments from trade officials were offset by intellectual property theft accusations towards Huawei. At the same time, concerns on the government shutdown shifted with exchanges between House Democrats and Trump, until a temporary solution was finally reached towards month-end. Turning to market movements, US 2-year and 10-year rates declined by 3bp and 6bp to 2.46% and 2.63%, respectively.

Fund performance

The Fund's return for January was largely driven by its exposure to Australian and offshore equity markets which experienced a strong rebound from the December sell-off. Exposure to the best performing asset classes contributed to returns, although this was limited by underweight positions in Australian equities and international equities.

Underperformance of the benchmark was primarily driven by manager contribution within Australian and international equities. Our tactical asset allocation decisions saw the Fund's underweight exposure to global weigh on relative returns.

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 Santos and Rio Tinto together with an underweight position in National Australia Bank contributed to relative performance but were somewhat offset by overweight positions in Qantas, ResMed and Costa Group.

Within the global equities portfolio, the Concentrated and Core strategies outperformed their benchmarks (pre fees), but the positively trending markets impacted the Dynamic Market and Emerging Market equity strategies which underperformed their benchmarks.

Our Alternatives core portfolio registered a modest positive return this month, whereby five of the eight sub-strategies delivered positive returns, while three had a negative impact. The Alternatives strategy delivered a total return (before fees) of +0.31% versus a cash return of 0.18%.

The Managed Futures, Equity Market Neutral and Long-Short Equity strategies detracted from returns this month, in line with expectations for performance during a positively trending market. Meanwhile, the Global Macro, Event Driven and Convertible Arbitrage strategies added value.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a negative impact on performance. Gains through positioning in bond markets and a long position in US equities was outweighed by a short position in crude oil and short positions in certain equity market futures.

Strategy and outlook

Performance of the Fund in recent months has highlighted the importance of having a well-diversified and disciplined investment strategy that is founded on long-standing principles. Underlying asset markets have been particularly volatile and history tells us to expect periods of positive and negative performance through time. More broadly, the general increase in volatility seen across asset markets over the past year, while representing a marked shift from levels investors have become somewhat accustomed to over the previous five years, should essentially be seen as a return to the more normalised operation of investment markets that has been well observed over the longer term.

This environment is actually favourable for research-driven active investment strategies as it can accommodate greater price discovery and opportunities to tactically shift portfolios between undervalued and overvalued assets. The Fund is actively managed in line with this philosophy and remains well placed with a diversified exposure to different asset markets, which is augmented with both tactical and dynamic investment processes to capture investment opportunities and manage risks. By way of example, at the end of January our modelling supported a decision to increase our exposure to US equities following a short period of reduced exposure in the Fund, while in fixed income we have maintained a long exposure to Australian and German long term bonds and established a new position in US Treasuries. We also maintain active positioning in alternative assets including commodities exposure and market directional strategies. We believe such an active and comprehensive investment approach will outperform a more passive 'set and forget' approach to long term wealth creation.

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

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