PENDAL

Factsheet

Multi-Asset Strategies

February 2019

Pendal Active 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	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	2.60	2.66	2.51
3 months	3.93	4.14	4.63
6 months	-0.99	-0.58	1.15
1 year (pa)	2.37	3.24	5.98
2 years (pa)	4.98	5.87	6.16
Since Inception (pa)	5.25	6.14	6.12

Asset Allocation (as at 28 February 2019)

Australian shares	22.7%
International shares	16.6%
Australian fixed interest	20.2%
International fixed interest	13.7%
Australian property securities	3.4%
International property securities	1.0%
Alternative investments	13.8%
Cash	8.6%

Other Information

Fund size (as at 28 Feb 2019)	$185 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

Australian equities extended gains through February, despite the latest reporting season seeing more earnings downgrades than the historical average – the market environment is tougher, however investors were braced for poor news. The S&P/ASX 300 Accumulation Index was up 6.0% for the month.

There was a marked rotation away from defensives over the month, towards cyclicals and the unloved as some of the macro fears receded. Financials outperformed, up +9.1% (S&P/ASX 300 Financials), with the banks outperforming despite lacklustre updates as the overhang from the Royal Commission disappeared. Resources (S&P/ASX 300 Resources) were up +6.9% as cyclicals shifted back in to favour. The S&P/ASX 300 AREIT sector underperformed, up +1.9% given the combination of its more defensive characteristics and the pressure on both the retail and residential housing sub-sectors.

Global share markets appeared to celebrate in February, pushing valuations higher largely in reaction to better prospects on the macro horizon. The US Federal Reserve (Fed) is now in a 'no rush' stance to raise interest rates, while sentiment was also supported by what appears to be a clearer path to resolving the US and China trade dispute. China's stock market certainly reflected this prospect and experienced one of the largest relief rallies, up 13.8%. Such prospects also supported most other markets to deliver strong gains and downplay other nascent risk factors. For February, the benchmark MSCI World ex Australia (A$) Index closed 5.6% higher.

Gains in the US share market were broadly based, although Information Technology registered the largest gains. Industrials and Materials stocks also moved higher as prospects for better trade relations with China supported investor sentiment. The US quarterly reporting season came to an end in February, with around 75% of companies reporting earnings growth on average of 12%, with the Industrials sector posting the best earning growth, averaging 17%. Guidance for the second quarter was generally muted; however, corporates—particularly in the technology sector—were optimistic for a strong rebound in second-half revenues. At the month's close, the S&P500 registered a 3.2% gain, while the NASDAQ had risen by 3.4%.

European share markets continued to build on January's gains to be led by cyclically oriented sectors, while the more defensive Real Estate and Utilities sectors lagged. Investors saw the decision by Trump to extend the March 1 tariff hike deadline as a sign that normalisation of trade may prevail, thereby having a positive flow-on effect for European companies. Hopes of the UK reaching a workable deal on Brexit prior to the 29 March deadline also supported sentiment. However, the uncertainty to date has likely taken a toll on economic growth for the UK, with the Bank of England cutting its GDP growth expectations to 1.2% from 1.7% for the year. UK inflation also fell below 2%, while the UK Purchasing Manager's Index fell to a 30-month low, signalling the extent of weakness in confidence for the economy. The UK's stock market etched out a 1.5% gain for February, lagging European markets like France (+5%), Germany (+3.1%) and Switzerland (+4.7%).

Most Asian equity markets also reflected optimism regarding the US-China trade issue, although performance was highly dispersed. China outpaced the region with a 13.8% gain following the Lunar New Year holiday period. Taiwan followed with a 4.6% return while South Korea bucked the trend, declining by 0.8% after talks between North Korea and the US were halted. Corporate earnings and inflation were both weaker for South Korea. Japan gained 2.9% while south-east Asian markets—Malaysia, Thailand and Singapore—registered smaller advances.

The Australian dollar lost ground against its major trading partners as sentiment shifted against the currency. The local unit fell by 2.5% against the US dollar, 1.8% against the euro and 3.6% on the British pound. In commodity markets the oil price continued its rebound to close at US$57.25 per barrel.

Australian bond yields fell during the month as the Reserve Bank of Australia (RBA) shifted its communication to suggest the outlook for rate changes was "more evenly balanced". The central bank also downgraded its projection for economic growth and lowered its inflation forecast in its quarterly Statement on Monetary Policy. In turn, markets are now pricing at least one cut from the Board over the next 12 months. Meanwhile, local economic data was mixed over the month. Labour data was stronger-than-expected with 39,000 jobs added, which was attributed to a strong increase in full-time positions. A small rebound in consumer confidence and business conditions was also encouraging. In contrast, retail sales slipped 0.4% and building approvals fell a sizeable 8.4% month-on-month. Wage data revealed a 0.5% increase over the quarter, which brought the year-on-year rate to 2.3%. Finally, the Australian 3- and 10-year yields fell 13bp and 15bp to 1.63% and 2.10%, respectively. At the very front-end, the 3-month BBSW dropped a more sizeable -20bp to 1.87%.

The US Federal Reserve's tilt to a more neutral stance in January continued to buoy risk appetite and lift global equities during the month. This was alongside optimism towards a positive outcome to US-China trade negotiations that took place in Washington late in February. Although there was no formal agreement between both sides, some perceived progress and the indefinite delay of a proposed US tariff increase was well-received by markets. Economic data was less supportive for risk assets. US GDP figures revealed a softer 2.6% annualised growth rate for the fourth quarter and Eurozone GDP growth printed at a preliminary 0.2% quarterly growth rate. German GDP figures revealed the region's largest member had narrowly avoided a technical recession, while its Italian counterpart was not as fortunate. In terms of market movements, the US 2- and 10-year yields increased by 6 basis points (bp) and 9bp to 2.52% and 2.72%, respectively.

Fund performance

The Fund outperformed its benchmark over the month of February. The Fund's return for February was largely driven by its exposure to Australian and offshore equity markets which experienced a strong rally. Overweight exposures to the best performing asset classes and investing in alternatives contributed to returns. The Australian fixed income segment also made a positive, albeit modest contribution, while international fixed interest made a small detraction from returns.

Outperformance of the benchmark was primarily driven by manager contribution within Australian equities. Our tactical asset allocation decisions saw the Fund's underweight exposure to global equities limit relative returns, as did the overweight position in international fixed interest.

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 Viva Energy, an underweight position in Woolworths and not holding Coles contributed to relative performance. Detractions from returns came from an overweight position in CSL and not holding QBE or Woodside Petroleum.

Within the global equities portfolio, the Concentrated strategy outperformed its benchmark (pre fees), but the positively trending developed markets impacted the Dynamic Market and Emerging Market equity strategies which underperformed their benchmarks, albeit generating positive returns.

The Alternatives strategy delivered a total return (before fees) of +1.32% versus a cash return of 0.17%. Our Alternatives core portfolio registered a negative return this month, whereby four of the eight sub-strategies delivered positive returns, while three had a negative impact. The 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. The Fund held a value adding position in Australian bonds but also held short positions in US equities, German equities and crude oil which detracted from performance in the rising market. The equities positions were neutralised by the end of the month and we will look to re-enter shorts on renewed weakness.

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. Despite the short term decline we saw 2018, markets have demonstrated a strong rebound this year, which highlights the importance of remaining invested through volatile periods.

We remain confident that our tried and tested investment philosophy and asset allocation processes employed by seasoned investment professionals will continue to deliver favourable investment outcomes over the long term. We take an active approach to modelling scenarios and assessing market technical factors to identify opportunities and limit risks for our investors.

Several of our key strategies have begun to show signs of recovery in 2019 and we continue to have confidence in the team's ability to successfully navigate the market's ups and downs to deliver strong investment outcomes for our investors.

Regardless of short term market gyrations, we are always focused on continual improvement through a rigorous, research-based approach and are focused on ensuring the funds are well positioned to achieve their long term objectives.

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

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