Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

March 2019

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	1.14	1.22	1.28
3 months	5.61	5.83	6.17
6 months	0.80	1.23	2.86
1 year (pa)	4.38	5.27	8.00
2 years (pa)	4.97	5.85	6.24
Since Inception (pa)	5.52	6.41	6.42

Asset Allocation (as at 31 March 2019)

Australian shares	23.0%
International shares	17.5%
Australian fixed interest	19.4%
International fixed interest	12.8%
Australian property securities	3.6%
International property securities	1.0%
Alternative investments	14.0%
Cash	8.7%

Other Information

Fund size (as at 31 Mar 2019)	$193 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

The strong rebound Australian equity investors had enjoyed since the beginning of 2019 stalled somewhat through March, with the S&P/ASX 300 Accumulation Index finishing the month 0.7% higher. Beneath the muted headline return, performance diverged across sectors: Resources (+1.9%) was aided by the elevated iron ore price, whereas Industrials (+0.4%) was the laggard, dragged down by the poor performance of heavyweight Financials (-2.6%).

Turning to the specifics of sector performance, Metals & Mining (+4.3%) outperformed and helped Materials (+3.4%) to become the largest contributor to the headline index performance. Elsewhere, Real Estate (+5.4%) managed to post the strongest sector return over the month. The housing REITs are showing some signs of life, as auction data has actually come in better than expected, even as listings remain depressed and new dwelling stats also continue to fall. A falling 10-year bond yield also contributed to the sector's solid performance: Australia's 10-year bond yield dropped to 1.77%, a level that was below the lows last seen in mid-2016.

Outside of Real Estate, some key retail stocks also performed well, while Energy (-4.1%) finished the month in the red as the oil and gas stocks were among the period's worst performers.

Global share markets retained their positive trajectory of this year, with investors seemingly taking comfort on progress being made in US-China trade negotiations. Sentiment was further supported by a forecast by the US Federal Reserve indicating it would not raise rates this year. Markets were pushed higher despite signs of weakness in economic growth, particularly in Europe. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A$) Index to close 1.5% higher.

Positive tones on the macroeconomic front supported gains in the US share market, with a number of growth-oriented stocks continuing to ascend after the significant sell off late in 2018. However, lingering concerns on growth prospects for the US considering the duration of its economic expansion and a downward revision to the earlier estimate of US economic growth led investors to steer towards defensive sectors, which saw Real Estate and Utilities deliver good gains. At the month's close, the S&P500 registered a 1.8% gain, while the NASDAQ had risen by 2.6%.

Most European share markets registered gains for the month, although their progression moved towards a risk-off mode. One of the catalysts for this was commentary from the European Central Bank (ECB), whereby the Board cut growth forecasts and revised their guidance to leave interest rates unchanged "at least to the end of 2019". Pushing out expectations of monetary tightening impacted the interest rate sensitive Financials and growth oriented sectors, leaving defensive sectors like Consumer Staples, Health Care and Utilities to support the overall market. Germany came into closer focus after its 10-year government bond yield fell below 0% to send bond valuations higher. The Manufacturing component of its Flash PMI measure of industrial output fell to its lowest level since 2012. Germany's DAX equity market index ended the month largely unchanged, while the UK (+2.9%), France (+2.1%) and Italy (+3.0%) led the region to an aggregate 1.6% gain.

Asian equity markets registered mixed fortunes this month. China (+5.1%) set pace for the region to continue a rally that began with the Lunar New Year as expectations of a resolution on the trade issue supported sentiment. Hong Kong (+1.5%) and Taiwan (+2.4%) were also higher. India (+7.8%) was the best performing market after exhibiting a pre-election rally with opinion polls indicating a return to Government for the Modi administration and a continuation of its pro-growth reformist agenda. At the other end of the spectrum, Japan (-0.8%) and Korea (-2.6%) languished on economic growth concerns and downward revisions to corporate earnings expectations as well as weak readings on their respective manufacturing surveys. These are particularly important indicators for export oriented economies.

The Australian dollar as relatively unchanged against the US dollar but stronger against the euro and British pound. In commodity markets the oil price's continued to strengthen, up 5% for the month to close at US$60.10 per barrel as Russia, Saudi Arabia and other top exporters constrained production in response to a growing oversupply.

Australian bond yields experienced a significant fall that was shared by global peers over the month. The decline appeared tied to more dovish messaging from central banks, as well as emerging concerns over the outlook for the US economy. These developments overshadowed wavering trade war and Brexit-related headlines. In Australia, the Reserve Bank of Australia (RBA) left rates unchanged at 1.50% as widely-expected and its accompanying March statement offered few changes. Subsequent communication highlighted weakness in house prices and the negative effects on household consumption. In turn, expectations for a rate cut increased further, with two reductions now priced in by year-end. Data-wise, fourth-quarter GDP figures revealed a weak 0.2% pace of growth over the quarter, which brought the year-on-year rate to 2.3%. Labour data was mixed with only around 4,600 jobs added, yet a drop in participation helped the unemployment rate fall by 0.1% to 4.9%. Meanwhile, leading indicators were weak, with business and consumer confidence both falling as well as retail sales growing a meagre 0.1%. In terms of market movements, Australian 3- and 10-year yields fell 23 basis points (bp) and 33bp to 1.40% and 1.77% respectively. The three-month BBSW saw a more modest decline of 10bp to 1.77% and the OIS-BBSW spread narrowed further.

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 March. 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 underperformed its benchmark over the month of March.

The Fund's return for March was largely driven by its exposure to Australian and offshore equity and property markets. Listed property was particularly strong this month, owing to lower bond yields. Australian and international fixed income also made positive contributions to returns this month.

Performance relative to the benchmark was relatively neutral this month, although a general tilt towards growth assets added to performance.

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 JB Hifi and Fortescue Metals Group, together with holding no exposure to Woodside Petroleum contributed to performance, although somewhat offset by overweight position in ANZ Bank and Caltex, in addition to holding no exposure to Woolworths.

Within the global equities portfolio, the Concentrated and Core strategies underperformed their benchmarks (pre fees) although they all performed in line with our expectations. However, the European Value and Emerging Markets strategies delivered significant outperformance this month.

The Alternatives strategy delivered a total return (before fees) of -0.48% versus a cash return of 0.17%. Within our Alternatives core portfolio the Managed Futures and Dedicated Short Bias strategies delivered gains, while the Equity Market Neutral and Opportunistic strategies detracted from returns. From a tactical perspective, the Alternatives strategy continues to operate at slightly less than its long term risk target.

In relation to our tactical positioning within the Alternatives component of the Fund, the main contribution came from our positioning in bond markets, with gains from long positions in Australia, Germany and the US.

Since the end of March we have added new long positions in US and Australian equities and switched to a long position in Gold.

Strategy and outlook

Underlying asset markets have been trending higher in 2019, reflecting the prevailing influence on market sentiment from macroeconomic and political uncertainties. This is set against the generally positive earnings results of corporates and the more benign development of credit spreads. Despite the short term decline we saw at the end of 2018, markets have demonstrated a strong rebound this year which highlights the importance of remaining invested through longer periods.

The Fund's performance through the past quarter has highlighted the importance of remaining invested in a long term strategy. The Fund's performance also exhibits the benefit of having a well-diversified and disciplined investment strategy that can smooth returns from underlying assets which tend to be more volatile in isolation. We also structure the Fund to take advantage of temporal dislocations in markets through the use of modelling to guide tactical and dynamic asset allocation practices. These are useful in capturing trends and other well documented behavioural biases that prevail in market psychology.

We are unreservedly active in our approach to identifying and capitalising on opportunities to grow our investors' retirement savings beyond what could otherwise be achieved through relying solely on market returns. We also seek to manage risks to those retirement savings through using the levers of tactical and dynamic asset allocation. Taken together, these approaches can have a synergistic effect in sourcing additional returns and managing risks.

The domestic market is likely to be preoccupied with issues like the upcoming Federal election, developments in the housing market and policy direction of the RBA. Looking further afield, investors are likely to remain alert to the prospects for growth in Europe, China, the UK and the US. Each market is facing well-publicised issues which have the potential to negatively impact retirement savings in worst-case scenarios.

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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