Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

April 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	0.68	0.75	1.29
3 months	4.47	4.69	5.16
6 months	4.72	5.16	6.81
1 year (pa)	3.42	4.29	7.85
2 years (pa)	4.79	5.67	6.32
Since Inception (pa)	5.60	6.50	6.70

Asset Allocation (as at 30 April 2019)

Australian shares	23.7%
International shares	17.9%
Australian fixed interest	19.5%
International fixed interest	13.0%
Australian property securities	3.4%
International property securities	1.0%
Alternative investments	14.9%
Cash	6.6%

Other Information

Fund size (as at 30 Apr 2019)	$201 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 performance of the Australian market extended in April, with the S&P/ASX 300 Accumulation Index advancing by 2.5% over the month. We saw a general rotation between Materials (-2.1%) and Financials (+4.4%), particularly from miners (-3.9%) to the banks (+4.4%). As a result, Industrials (+3.8%) outperformed, whereas Resources (-2.5%) were the laggard. The big four banks finished the month with gains in the range of +0.3% (NAB) to +6.1% (WBC). Macquarie Group (MQG, +4.1%) also outperformed.

Elsewhere, Consumer Staples (+7.3%) was one of the best-performing sectors over the month. Information Technology (+7.4%) also recorded a strong month in April, with Afterpay Touch (APT, +22.1%), Xero (XRO, +11.9%) and Computershare (CPU, +4.4%) being the largest contributors.

Global markets ended the month higher, with European and US markets outperforming emerging markets and the S&P 500 once again rose close to its all-time highs. The prevailing positive sentiment led the benchmark MSCI World ex Australia (A$) Index to close 4.6% higher.

The bulk of the US second quarter reporting season proceeded in April, with 76% of companies reporting earnings ahead of expectations and 68% reporting positive earnings growth, albeit averaging only 1.6% over the prior corresponding period. Despite a more tempered outlook commentary from corporates compared to the first quarter, consensus estimates still appear to be forecasting a meaningful re-acceleration of earnings growth in the second half of 2019. Economic data also continued to support sentiment, with first quarter GDP coming in at an annual growth rate of 3.2%. Positive data on consumer sentiment and retail sales, along with an additional 196,000 new jobs added in March also supported market sentiment. At the month's close, the S&P500 registered a 3.9% gain, while the NASDAQ had risen by 4.7%.

European share markets registered another month of strong gains, buoyed by easing concerns over the US-China trade issue and better than expected economic data out of Europe. According to preliminary data, the eurozone economy grew by 0.4% in the first quarter of 2019, somewhat above consensus estimates. Italy — Europe's third-largest economy — emerged out of a technical recession to register a 0.2% expansion for the quarter. Collectively, the data suggests conditions in the region are better than many have feared. Germany's DAX (+7.1%) equity market index topped the region's leaders board, while the UK (+1.9%), France (+4.4%), Spain (+3.6%) and Italy (+2.8%) all contributed to the region's aggregate gain of 4.9%.

Asian equity markets were mixed this month and generally underperformed western markets. China (-0.4%) was particularly weak although its sister market Hong Kong (+2.2%) fared better. Singapore (+5.8%) and Japan (+5.0%) were standout performers and reflected the flow-on prospects to these economies from a settling of US-China trade tensions. However, ASEAN markets generally underperformed, led by Malaysia (-0.1%), India (+0.9%), Thailand (+2.1%) and Indonesia (-0.1%).

The Australian dollar weakened against the majors, down 0.7% against the US dollar, 0.9% against the yen and around 0.6% weaker against the euro and British pound. In commodity markets the oil price's continued to strengthen, up 6.3% for the month to close at US$63.91 per barrel, while iron ore rose 8.8% to a level last reached in August 2014.

Australian bond yields fell at the front-end leading the curve to steepen during April. This was driven largely by growing expectations of a rate cut from the RBA. The Board's communication during the month was perceived as relatively dovish, including the discussion of a low-inflation and higher unemployment scenario that would require lower rates. Later in the period, a weaker-than-expected first quarter CPI print fanned expectations further and by month-end the market was pricing a roughly 50% chance of such a move. The first quarter inflation data revealed headline CPI was flat at 0.0%, while the RBA's preferred gauge (the trimmed mean) rose a sluggish 0.3% over the same period. Meanwhile, labour market data was mixed. On market movements, the Australian 3-year yield fell by 12 bp while the 10-year rose 3 bp to 1.28% and 1.80% respectively. At the very front-end, 3 month BBSW dropped a more substantial 21 bp to 1.56%. The BBSW-OIS spread also narrowed further and funding pressures eased with the continued decline in repo rates.

Global risk sentiment remained supported in April by the Fed's recent 'pivot' to a more dovish stance. Similarly, traders viewed trade war developments with more optimism than pessimism and quickly looked past negative news flow during the month. This included Trump's threats of new tariffs on EU imports, which arose after the WTO suggested European subsidies may have put American aircraft producers at a disadvantage. Data-wise, US first quarter GDP beat expectations with a healthy 3.2% annualised increase. Jobs data also exceeded forecasts as did first quarter corporate earnings results. In Europe, the ECB offered no changes to their forward guidance at their April monetary policy meeting. In Asia, Chinese credit data revealed a lift over the month and boosted investor sentiment towards the region. Finally on market movements, the US curve steepened over the month with the 2 year flat at 2.27% while the 10 year added 10 bp to 2.50%.

Fund performance

The Fund's return for April was largely driven by its exposure to Australian and offshore equity markets. Listed property gave back some of the prior month's gains although the overall impact on performance was minimal. Exposure to Australian fixed income made a small contribution, however, exposure to international fixed income detracted from returns this month.

Performance relative to the benchmark was impacted largely by performance of the underlying investment strategies.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian and international equities. Within the Australian equity strategy, overweight positions in Metcash and Santos, together with holding no exposure to GPT Group contributed to performance, although this was more than offset by overweight position in Viva Energy and Qantas, in addition to holding no exposure to A2 Milk.

Within the global equities portfolio, the Concentrated, Core, Emerging Markets and European Value strategies underperformed their respective benchmarks (pre fees), largely due to stock-specific outcomes. These active strategies are long term in nature and can be expected vary in performance during shorter term periods.

The Alternatives strategy delivered a total return (before fees) of -0.81% versus a cash return of 0.16%. This outcome is generally consistent with positively trending equity markets. Within our Alternatives core portfolio the Equity Market Neutral, Dedicated Short Bias and Long/Short equity strategies detracted from returns, while most of the offsetting gains came from the Global Macro and Managed Futures strategies. 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 equity markets, with gains from long positions in Australia and the US, while long positions in Australian, German and US bond markets registered marginal detractions. A long volatility position also contributed to gains, while positioning in commodity markets was generally unfavourable this month.

Strategy and outlook

Positive trends in equity markets are naturally welcomed by investors, particularly those with a bias towards growth assets. With geopolitical developments playing an ever-increasing role in determining the fortunes of equity investors, it is often easy to lose sight of the underlying fundamentals of the asset classes. Market participants have become generally accustomed to the seismic shifts of market expectations in recent years, where investors momentarily move from risk-on to risk-off modes, from positions of global recession to global upturn or from Fed tightening to Fed enlightening. Brexit has quickly faded into market memory and the proverbial can has been kicked down the road to October when the deadline looms.

In reality, issues like trade talks are almost never binary in outcomes and there is arguably further to be played out between US and China. The short term shifts in sentiment we have seen in May bear testament to the fractious nature of these macro influences. However, it is clear earnings are peaking in some quarters of the Australian and US market and we expect markets to remain volatile for the next few months.

The Fund’s performance through this year and beyond 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 and through shorter term periods. We also structure the Fund to adequately diversify on many levels to capture opportunities for generating long term gains within a tightly controlled risk management framework to grow our investors’ retirement savings beyond what could otherwise be achieved through relying solely on market returns.

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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