PENDAL

Factsheet

Pendal Active Moderate Fund

Multi-Asset Strategies

ARSN: 610 997 709

May 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	0.15	0.22	0.26
3 months	1.98	2.20	2.85
6 months	5.99	6.43	7.61
1 year (pa)	3.02	3.89	7.49
2 years (pa)	4.79	5.67	6.41
Since Inception (pa)	5.49	6.39	6.60

Asset Allocation (as at 31 May 2019)

Australian shares	22.8%
International shares	16.0%
Australian fixed interest	21.0%
International fixed interest	13.7%
Australian property securities	3.5%
International property securities	1.0%
Alternative investments	15.0%
Cash	7.0%

Other Information

Fund size (as at 31 May 2019)	$206 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

Sentiment around the domestic economy improved following the Coalition party's surprise win in the Federal election. This saw the Australian equity market, as measured by the S&P/ASX 300 Accumulation Index, extended its gains this year by another 1.7%. Throughout May, Industrials (+1.9%) outperformed with the help of strong performance from Financials (+2.6%), and in particular the Banks (+5.3%). The broad outlook for the economy and earnings has changed favourably post the election. Resources (+1.3%) was the laggard, as Energy (-3.8%) pulled back amid a lower oil price. Metals & Mining (+3.3%) in general provided some offset, with the exception of Copper (-10.3%), which is another proxy for global growth prospects. Communication Services (+7.1%) recorded the best sector return' whereas Consumer Staples (-4.2%) was both the worst performing sector in terms of absolute return and the largest performance detractor from the headline index return.

Most major overseas equity indices were down between 5-10% in May in response to an escalation of trade tensions between the US and China, emerging trade issues between the US and Mexico, continued Brexit uncertainty and weakness in global economic data.

The 10-year treasury yield fell to the lowest level since September 2017 closing at just over 2%. Bond markets are now pricing in three US rate cuts over the next 12 months.

The US equity market led the declines, with all but one of the 11 sector groups registering a negative return, real estate being the exception. Energy stocks were impacted by concerns over demand growth for oil while the technology sector declined amid moves by the US Government against Huawei. Conclusion of the corporate earnings season was also a notable concern, with around 95% of US companies now having reported quarterly results. Earnings growth for five out of the 11 sectors was negative for the quarter and while a handful of companies acknowledged that a second-half earnings recovery is less likely, the majority are still projecting an earnings recovery. At the month's close, the S&P500 declined 6.6%, while the NASDAQ declined by 7.9%.

European markets also registered general weakness, despite the prevalence of localised issues. Elections were in focus for some markets, although results were mostly as expected. Economic indicators showed some degree of resilience, with the Flash Eurozone Composite PMI indicator for the region remaining broadly unchanged in expansionary territory. Conditions were particularly strong in Germany. In terms of market performance, the region's benchmark Euro Stoxx Index fell by 6.7%, although country level performance was considerably dispersed. Switzerland (-2.5%) and the UK (-3.5%) were at one extreme while Italy (-9.5%) and France (-6.8%) were in contrast.

The Australian dollar weakened against the majors, down 1.6% against the US dollar, 4.4% against the yen and around 1.2% weaker against the euro but 1.5% higher against the British pound. In commodity markets the oil price collapsed by 16.3% to close at US$53.50 per barrel, while gold rose 1.7% to US$1305 per ounce.

Australian bond yields fell substantially during May with larger declines at the long-end leading to a further flattening of the curve. The slide was driven by growing expectations of a rate cut from the RBA, as well as offshore movements led by the US. By month-end the market was pricing over a 90% probability of a rate reduction by the Reserve Bank in June. This followed an address by Governor Lowe in which he signalled an intention to act in the wake of a weaker employment picture and ongoing subdued inflation. At the time of writing, expectations had become reality with a 25bp cut delivered on June 4th. Domestic data through the month supported such a decision. The unemployment rate unexpectedly rose to 5.2% in spite of a larger number of job additions than anticipated. First quarter wage numbers missed expectations with 0.5% growth over the period, which kept the year-on-year rate at a sluggish 2.3%. Turning to market movements, the Australian 3 and 10 year yields fell by a sizeable 19bp and 33bp to 1.10% and 1.47% respectively. 90 day BBSW also experienced a large fall of 15bp to 1.42% alongside a lower repo rate, partly reflecting firmer expectations of a June RBA cut.

Global bond yields fell substantially during May with larger declines at the long-end leading to a flattening of the curve. The market's attention was firmly centred on the latest bout in the ongoing trade war as a further escalation damaged investor sentiment. Concerns were renewed when President Trump raised tariffs from 10% to 25% on US$200b of Chinese imports after claiming the Chinese broke a proposed deal. Policymakers in Beijing responded in kind with tariffs on US$60b of imports from the US. Towards month-end tensions increased after Chinese telecom provider, Huawei, was blacklisted by US authorities. Separately, the Trump administration threatened tariffs on Mexico if illegal immigration from its southern neighbour was not curtailed. Beyond trade developments, US data weakened over the period. In combination with the trade war concerns this fanned expectations that the Federal Reserve would be required to cut rates over the next twelve months. Turning to market movements, US yields witnessed large declines with the 2 year and 10 year lower by 34bp and 38bp to 1.92% and 2.13% respectively.

Fund performance

The Fund underperformed its benchmark over the month of May.

The Fund's return for May was negatively impacted by exposure to offshore equity markets. Australian shares and listed property provided a partially offsetting effect, as did Australian and overseas fixed income, highlighting the importance of diversification in the Fund. Exposure to Alternatives detracted from returns this month.

Performance relative to the benchmark was impacted largely by the asset allocation position, while the underlying investment strategies provided a net positive contribution.

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 Nine Entertainment and Telstra contributed to performance, although this was partially offset by an overweight position in Santos and underweight position in NAB.

Within the global equities portfolio, the Core and European Value strategies underperformed their respective benchmarks (pre fees), largely due to stock-specific outcomes. However, the emerging markets strategy generated over 3% in excess returns. 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 -0.19% versus a cash return of 0.15%. Within our Alternatives core portfolio the Global Macro, Equity Market Neutral and Managed Futures strategies detracted from returns, while most of the offsetting gains came from the Dedicated Short Bias and Long/Short Equity strategies.

In relation to our tactical positioning within the Alternatives component of the Fund, the main detraction came from our long volatility position and exposure to crude oil, while long positions in Australian, German and US bond markets registered marginal gains. May's market environment was driven more by tweets than investment fundamentals. We remain concerned of an escalation in rhetoric and the potential impact on market prices and are defensively positioned within bond markets.

Strategy and outlook

Geopolitics are continuing to have a disproportionate impact on investment markets, causing many assets to deviate from their intrinsic value. May saw the return of a risk-off environment in many overseas markets as investors grew weary of the fallout from the trade war and the questions over economic leadership in Europe and the UK.

The trade issue between the US and China is likely to permeate markets for some time and flow on to other markets, given the inter-relationships in our globalised world. Our investment strategy takes into account short term considerations such as this, but is weighted more towards longer term, fundamentally driven return expectations.

Focusing on the domestic economy, the Reserve Bank's decision to ease monetary policy at its meeting in early June highlighted the conundrum facing policy makers. It is highly likely that further easing occurs in the coming months, largely dependent on what happens in the labour market. Business confidence is likely to improve following the election but sustaining a positive sentiment is heavily reliant on consumer behaviour, which is where much of the concern lies.

Beyond the headline impacts, there are opportunities in asset markets to tactically add value. We take these opportunities within a systematic approach while maintaining a focus on risks. This approach has served investors well over the long term and we see no reason for that to change.

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

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