PENDAL

Factsheet

Multi-Asset Strategies

June 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	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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	2.11	2.18	2.29
3 months	2.96	3.17	3.88
6 months	8.73	9.18	10.28
1 year (pa)	4.65	5.54	8.57
2 years (pa)	6.05	6.94	7.99
3 years (pa)	6.06	6.95	7.09
Since Inception (pa)	6.07	6.97	7.21

Asset Allocation (as at 30 June 2019)

Australian shares	22.8%
International shares	17.6%
Australian fixed interest	20.6%
International fixed interest	13.8%
Australian property securities	3.5%
International property securities	1.0%
Alternative investments	16.0%
Cash	4.7%

Other Information

Fund size (as at 30 Jun 2019)	$204 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

June was another positive month for the Australian equity market, with the S&P/ASX 300 Accumulation Index returning +3.6%. The same index had a strong second quarter, adding 8.1% to what was already a solid recovery in the previous quarter (+10.9%) following the market's decline in late 2018.

Domestically, sentiment improved somewhat following the Coalition's surprise win in the Federal election. Nevertheless, the 10-year bond yield is now at record lows, down 15bps in June after the Reserve Bank of Australia (RBA) cut the cash rate to a record low of 1.25% in June. Ten of the 11 GICS sectors finished the month higher. Consumer Discretionary posted a loss of -1.5%, while at the other end, Materials (+6.2%) finished the month the strongest, with the help of Metals & Mining (+7.7%).

Most major indices recorded gains in June to rebound from May's weakness. Although trade tensions did not dissipate over the month, investors chose to take a more optimistic outlook following the outcome of the G20 meetings which took place in the last days of the month. While no definitive agreement was concluded, a resumption of US-China trade talks, the absence of additional tariff announcements and the resumption of US technology exports to Huawei appeared to be what markets were hoping for.

Global economic data remains subdued, and unsurprisingly the US Federal Reserve opted to leave US rates unchanged, with markets building expectations for an easing this year.

A Brexit agreement has yet to be concluded in the UK. The process is underway to appoint a new Prime Minister, with markets looking for a change in leadership as the catalyst to establish a consensus amongst the British Parliament and move forward with a Brexit agreement.

The Australian dollar was relatively unchanged against the US dollar, euro and Japanese yen. In commodity markets the oil price held onto its strength being range bound to close the month at US$65 per barrel.

Australian bonds continued their rally in June as yields fell to new record lows. The decline in yields was shared by global counterparts alongside growing speculation of easing by major global central banks. The RBA delivered on expectations with a cut of 25bps to 1.25% during the month and messaging from the Board suggesting further easing ahead. This was evident in addresses by Assistant Governor Luci Ellis and Governor Philip Lowe, who both indicated that their estimate of the unemployment rate associated with full employment had fallen from 5% to 4.5%. Labour market data during the month illustrated the gap between the unemployment rate of 5.2% and full employment persisted.

Meanwhile some leading economic indicators reflected signs of optimism in the wake of the surprise Coalition victory at the Federal Election. This included a bounce in the NAB Business Confidence survey from 0 to 7. However, business conditions and consumer confidence were weaker, as were the latest retail sales figures published for April month end.

Turning to market movements, Australian 3 and 10 year yields dropped by -14bps and -13bps to 0.96% and 1.34% respectively. At the very front-end of the curve, 90 day BBSW fell by a sharper -21bps to 1.20% on the back of the RBA rate cut.

Global bonds continued their rally in June as yields fell alongside growing speculation of easing by major global central banks. Movements were dominated by expectations that the Federal Reserve would cut rates during the remainder of the year. During the month, roughly 1.00% of reductions were priced over the next twelve months. Such expectations were not dismissed by Fed Chairman Jerome Powell at the Fed's June meeting. Weaker data also built the case for easing with soft employment growth of 75K and a drop in the ISM manufacturing survey. Expectations for more accommodative policy were also evident elsewhere after ECB President Mario Draghi offered a more dovish than anticipated message at the central bank's gathering in Sintra, Portugal. Meanwhile, there were fewer trade war developments during June and as such they bore less influence over rates than previous months. For most of the month, traders were awaiting the outcome of a meeting between President Trump and Xi Jinping at the G20 summit in Osaka.

In terms of market movements, US yields experienced similar declines of -17bps for the 2 year and -12bps for the 10 year to 1.76% and 2.01% respectively.

Fund performance

The Fund's return for June was largely driven by its exposure to Australian and offshore equity and property markets which experienced positive returns. Overweight exposures to the best performing asset classes contributed to returns. The Australian and international fixed income made positive contributions to returns as markets delivered gains from easing pressure on bond yields.

Performance relative to the benchmark was primarily driven by our active asset allocation processes. Our tactical decisions saw the Fund's overweight exposure to global equities contribute to relative returns, while an underweight exposure to Australian fixed interest assets also generated a 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 Qantas, Nine Entertainment and Metcash detracted from performance while overweight positions in Fortescue Metals and underweight positions in NAB and Wesfarmers contributed to performance.

Within the global equities portfolio the Core, Concentrated and Emerging Markets strategies delivered gains however they underperformed their benchmarks (pre fees), while the European Value strategy outperformed.

The Alternatives strategy delivered a total return (before fees) of 0.64% versus a cash return of 0.13%. Within our Alternatives core portfolio the Managed Futures, Event Driven and Fixed Income Relative Value strategies contributed to returns but were offset by detractions from the Equity Market Neutral, Global Macro and Dedicated Short Bias strategies.

In relation to our tactical positioning within the Alternatives component of the Fund, contributions from positioning in bond markets were partially offset by detractions from positioning in equity markets and volatility strategies.

Since the end of June we have taken new active asset allocation decisions to establish long positions in gold and in Japan.

Strategy and outlook

The Australian market has in the main now move past some concerns from earlier in the year, mainly in relation to the Federal election, developments in the housing market and policy direction of the RBA. With economic monetary and fiscal policy now proceeding together towards stimulatory settings, growth assets like shares and property are well placed to benefit, albeit to a degree.

The labour market needs to be a key area of focus, considering the bearing it has on management of related pressures such as household debt, low inflation and benign wages growth. Further easing of monetary policy in conjunction with tax relief can play its role in shoring up a weakening economy. Expansionary settings employed in the past few economic cycles have generally had the desired effect, although the record low level of the cash rate and external factors relating to trade warrant a degree of caution for investors, particularly those with a greater reliance on cash-based yields.

The Fund’s performance 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 adequately diversify on many levels to capture opportunities for generating long term gains within a tightly controlled risk management framework.

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

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

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

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