Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

July 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	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)	(pre-fee)	Benchmark Return
1 month	1.31	1.38	1.42
3 months	3.60	3.82	4.02
6 months	8.24	8.69	9.38
1 year (pa)	5.32	6.21	9.23
2 years (pa)	6.59	7.49	8.76
3 years (pa)	5.82	6.71	6.76
Since Inception (pa)	6.35	7.25	7.50

Asset Allocation (as at 31 July 2019)

Australian shares	22.9%
International shares	16.4%
Australian fixed interest	21.1%
International fixed interest	13.9%
Australian property securities	3.5%
International property securities	1.0%
Alternative investments	15.5%
Cash	5.7%

Other Information

Fund size (as at 31 Jul 2019)	$208 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

Performance was strong for the Australian market in July, with the S&P/ASX 300 Accumulation index recording another 3%. While all sectors finished the month in the black, both index heavyweights Financials (-1.8%) and Materials (+1.2%) were laggards. The latter's muted performance was also in a stark contrast to the stronger iron ore price over the period (+10%).

Within Financials, bank performance remained muted: CBA (-0.6%) received several downgrades from brokers ahead of August reporting season, as it was trading at a valuation premium to its Big Four peers, which is getting harder to justify given the subdued operating environment domestically. NAB (+6.7%) was the standout from the cohort, as its appointment of the new CEO was well received by the market. Outside of the banks, AMP (AMP, -15.6%) came under pressure as management announced that the sale of its life insurance and mature business to Resolution Life is unlikely to proceed following intervention by the Reserve Bank of New Zealand (RBNZ). The RBNZ requires New Zealand-related assets to be ring-fenced, which would require a renegotiation of terms with Resolution Life. Management cancelled its interim dividend as a result.

Consumer Staples (+9.6%) led the gainers, with Woolworths (WOW, +7.2%) being the largest contributor.

The major equity markets delivered mixed returns in July, with investors again preoccupied by macro developments around US-China trade which intensified over the course of the month, Meanwhile the UK installed a new Prime Minister but markets are none the wiser as to what form (if any) BREXIT will take. Anticipation of a rate cut in the US clearly helped to propel some markets higher during the month. The eventual 25 basis points (bp) cut delivered on the last day of July was accompanied by commentary indicating the move was not the start of a longer term easing cycle, which disappointed the market.

European markets were also mixed in July, with investors moving to a risk-off stance amid continued uncertainty over the US-China trade dispute, the UK's change in leadership and its implications for an increasingly likely 'hard' Brexit, and expectations of renewed monetary easing as economic growth indicators remain weak.

The Australian dollar weakened by 2.5% against the US dollar at the end of the month as the US lowered interest rates. The local unit also fell against the yen (-1.7%) but rose 1.8% against the British pound. Commodity markets were relatively uneventful, although the Australian trade weighted index fell 1%, weighed down by weaker iron ore prices.

It was another strong month for the local bond market as yields continued their slide. This was driven in part by the RBA's second consecutive rate cut as well as growing expectations of further easing by major central banks. The labour market data during the month revealed the unemployment rate remained static at 5.2% with a meagre 0.5K jobs added over the period. Second quarter CPI was also soft with the RBA's preferred gauge, the trimmed mean, rising 0.4% over the quarter and 1.6% year-on-year. Leading indicators were also weak with the NAB Business Confidence figure dropping back to +2 from its bounce to +7 in the prior month. Consumer confidence also dropped with a slide back below 100, the level separating optimism and pessimism. Similarly, retail sales rose by an anaemic 0.1% month-on-month.

Turning to market movements, the Australian 3 and 10 year yields fell by 15bp and 13bp to 0.80% and 1.20% respectively. At the very front-end, 90 day BBSW dropped by a larger 20bp to 1.01% in response to the RBA cut.

Global bond yields experienced a mixed month as three month US yields fell while the 10 year rate rose slightly. Moves at the very front-end were driven by a 25bp cut by the Federal Reserve, its first reduction in more than a decade. Further, the FOMC announced it would halt its quantitative tightening at the start of August.

ECB President Mario Draghi delivered a dovish post-meeting press conference during July. The prospect of new stimulus, including deeper negative interest rates, was raised in response to a sluggish economy (particularly evident in manufacturing) and persistent subdued inflation. Beyond monetary policy developments, trade war worries were less prevalent than previous months. A gathering of US and China trade officials was held in Shanghai during the month with little major progress. Finally on market movements, the US 2 and 10 year yields rose 12bp and 1bp to 1.87% and 2.02%.

Fund performance

The Fund's return for July was driven by contributions from all asset classes, while higher returns from the Fund's exposure to Australian and offshore equity and property markets contributed the most to returns. Australian and international fixed income again generated positive returns following downward pressure on bond yields.

Performance relative to the benchmark broadly reflected the application of our active asset allocation processes. Our tactical decisions saw the Fund's overweight exposure to global equities move to an underweight position which had a marginal impact on performance, while asset allocation across other sectors delivered a fairly neutral impact.

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 Viva Energy and Metcash detracted from performance, as did holding no exposure to Woodside Petroleum, while overweight positions in Fortescue Metals and Amcor together with holding no exposure to A2 Milk detracted from performance.

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

The Alternatives strategy delivered a total return (before fees) of 0.48% versus a cash return of 0.12%. Within our Alternatives core portfolio the Managed Futures, Event Driven and Dedicated Short Bias strategies generated positive returns, while the notable offsetting detractor was the Opportunistic strategy which experienced a net loss on its portfolio of deep value trades.

In relation to our tactical positioning within the Alternatives component of the Fund, holding long positions in Gold and US, German and Australian bond markets made contributions. Since the end of July we have added short positions in German equities and copper.

Strategy and outlook

The Australian market appears to have passed the initial impact of the post-election improvement in sentiment, although there are clear signals that domestic demand has not recovered since this time. Hence, a cautious approach to economically-sensitive assets is warranted.

Signals from outside of our shores add further weight to the cautious stance, considering the prospects of weaker growth from the world's main economic engines. Further monetary as well as fiscal policy responses will be required and these will have varying implications – both positive and negative – for asset markets.

Central banks globally have become more dovish, weighed down by slowing global trade and falling inflation expectations. The Reserve Bank of Australia's (RBA) adjustment to monetary policy has come in response to domestic factors, while a key focus remains on the labour market. The RBA sees the non-accelerating inflation rate of unemployment (NAIRU) as being 4.5%, well-below the current unemployment rate of 5.2%. A further increase in the unemployment rate would most likely be met with further policy easing. A deteriorating external environment would only add to the case for further monetary policy accommodation. The risks to global growth are clearly tilted towards growth disappointing.

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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