PENDAL

Factsheet

Multi-Asset Strategies

August 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	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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.17	0.24	0.14
3 months	3.62	3.84	3.90
6 months	5.68	6.12	6.86
1 year (pa)	4.63	5.51	8.09
2 years (pa)	6.24	7.14	8.51
3 years (pa)	5.91	6.79	6.89
Since Inception (pa)	6.23	7.13	7.35

Asset Allocation (as at 31 August 2019)

Australian shares	22.2%
International shares	17.0%
Australian fixed interest	20.8%
International fixed interest	14.0%
Australian property securities	3.8%
International property securities	1.0%
Alternative investments	15.1%
Cash	6.1%

Other Information

Fund size (as at 31 Aug 2019)	$211 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

Australian stocks (S&P/ASX 300 Accumulation Index) fell 2.3% in August. With the sudden escalation in the Sino-US trade dispute and a mixed reporting season, six out of the 11 GICS sector ended the month with a negative return. Defensive sectors such as Health Care (+3.4%) and Real Estate (+2.4%) were the best performers in August. Real Estate was aided by signs of some recovery in the housing market as the RBA cut the cash rate to 1%; while the respective 52/30 basis points (bp) decline in the US/AU 10-year bond yield also generally supported the bond sensitives.

The major equity markets retreated during August amid waning sentiment on the likelihood of resolution to the US-China trade issue, a persistent impasse on the Brexit issue and a more recent issue affecting bond markets. In terms of the latter, August saw an inversion of the US and UK yield curves, whereby the shorter dated yields have inverted to be higher than their 10-year counterparts. Such a development has been associated in the past as a predictor of a recession. Exacerbating the general uncertainty was a historic one-day market drop in Argentina, together with mixed global economic data. These developments, coupled with the latest instalment in the tariff saga with China announcing it would apply tariffs of 5-10% on US$75b worth of US imports from September, contributed to further caution on equity markets.

The US equity market adopted the trade rhetoric with an unsurprising negative tone, with a number of flat-to-down days characterising the month. Acceptance of the continued growth mantra that has supported the market appeared fragile, as evidenced by news that US economic growth decelerated in the second quarter by more than initially reported. Investors promptly drew conclusions about the growing impact of Trump's tariffs on the country's economic expansion. The US second-quarter reporting season also drew to a close, with numbers on the whole better than consensus. That said, in aggregate the market has recorded a second consecutive quarter of negative earnings growth. At the month's close, the S&P500 registered a decline of 1.8%, while the NASDAQ fell by 2.6%.

The major European markets were uniformly down in August. Negative sentiment emanating from the global economy's health was exacerbated by further complications with the UK's uncertain Brexit path, together with the UK debt yield curve inversion — being the first such instance since 2008. UK economic data released during the month revealed a slowdown in economic growth through the first half of 2019, largely explained by weaker business investment and slowing global economic growth. Elsewhere in Europe, earlier weakness was recouped to a degree by month end, although a definite bias emerged towards defensive sectors such as Consumer Staples, Utilities and Health Care and away from the cyclically oriented Financials, Information Technology and Energy sectors was evident. In terms of market performance, the region's benchmark Euro Stoxx Index declined by 1.2%, with the UK (-5.0%), Germany (-2.1%) and Spain (-1.8%) leading the region lower.

Asian equity markets were far from a place of refuge for investors during August. Social unrest in Hong Kong continued while the Chinese yuan was allowed to fall through a key threshold to an 11-year low, attracting accusations of currency manipulation by Trump. China's economic data provided little comfort, with industrial production slowing to a lower-than-expected 4.8% year-on-year growth in July, while fixed asset investment rose 5.7% over the first seven months of the year. The manufacturing purchasing managers' index (PMI) slipped further into contractionary territory to a reading of 49.5 in August compared with 49.7 in July. Hong Kong (-7.4%) bore the brunt of selling, followed by Singapore (-5.9%), Japan (-3.4%) and Thailand (-3.3%).

The Australian dollar weakened against all major currencies, headlined by falls of 3.9% against the yen, 1.6% against the US dollar and British pound, and 0.8% against the euro. Commodity markets trended lower, led by a 6% fall in the oil price. Weaker iron ore prices also contributed to the Australian trade weighted index being down by 1%.

Australian bonds extended their rally in August as yields tumbled globally on a combination of factors. This included geopolitical risks with the further intensification of the trade war, as well as building concerns over weaker global growth. Such downside risks were noted by the RBA in its August policy statement. In the wake of two back-to-back cuts from the Board, it opted to keep rates on hold at 1.0% during the month and indicated it could "ease monetary policy further if needed". Domestic data was mixed over the month. The NAB Business Conditions survey eased 2 points to +2, while confidence did the opposite. Retail sales (+0.4%) surprised to the upside and consumer confidence bounced back to 100 from 96.5. In contrast, the CBA August Composite PMI dropped into contractionary territory (49.3 from 52.1). Meanwhile among the lagging data, job additions of 41.1K beat expectations and were driven by full-time positions. However, an increase in the participation rate to 66.1% kept the unemployment rate steady at 5.2%.

The Australian 3 year yield fell -13bps to 0.67% and the 10 year by -31bps to 0.90%. Meanwhile at the very front-end, 90 day BBSW slid a relatively marginal 3bps to 0.97%.

Global bonds extended their rally in August as yields tumbled on a combination of factors. This included geopolitical risks with the further intensification of the trade war, as well as building concerns over weaker global growth. Trade fears were reignited at the outset of the month as President Trump announced an additional 10% tariff on the US$300b of remaining Chinese imports, to take effect on September 1st. Adding to investor worries were a litany of regional events; Hong Kong protests, Argentina default speculation, Brexit uncertainty and another Italian political drama.

Beyond the politics, the Fed did not meet during the month after delivering a cut at the end of July, its first in more than a decade. Communication including an address by Chairman Powell at Jackson Hole was underwhelming, but suggested the central bank remained tilted towards further easing. Also in the US, a collection of leading indicators from the world's largest economy pointed to a further softening. Turning to market data, US yields experienced sizeable declines with the 2 and 10 year falling -37bps and -52bps to 1.51% and 1.50% respectively.

Fund performance

The Fund's return for August reflected the detractions from equity markets which were generally weaker during the month. The impact of the drawdown was mitigated to a degree by positive returns from bond and listed property markets, both domestically and offshore, reflecting the impact of lower bond yields.

Performance relative to the benchmark broadly reflected the application of our active asset allocation processes. Our tactical decisions saw the Fund move to a neutral exposure to growth assets while retaining an overweight exposure to global fixed income.

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, CSL and James Hardie contributed to performance, while overweight positions in Viva Energy and Caltex, together with not holding Woolworths detracted from performance.

Within the global equities portfolio the Core, Concentrated and European Value strategies underperformed, while the Emerging Markets strategy significantly outperformed the benchmark (pre fees).

The Alternatives strategy delivered a total return (before fees) of 0.30% versus a cash return of 0.08%. Within our Alternatives core portfolio the Managed Futures, Fixed Income Relative Value and Dedicated Short Bias strategies generated positive returns, while the notable offsetting the Equity Market Neutral and Global Macro strategies detracted part of the sector's return.

In relation to our tactical positioning within the Alternatives component of the Fund, holding opposing positions in Gold and Copper as did our overall defensive positioning through added exposure to fixed income markets. Since the end of September we have removed the long volatility position and increased tactical exposure to equity markets.

Strategy and outlook

Consensus on the slowing rate of expansion for the global economy appears to be strengthening and the somewhat symptomatic distractions of trade wars and Brexit are acting to suppress small bouts of market confidence. With the recent yield curve inversion in the US and UK, the stated lower for longer mantra of the central banking community of a few years ago appears all but set to continue. The US Fed has moved to an easing stance, while in Australia the Reserve Bank left the cash rate unchanged at its meeting in early September and continues to see an extended period of low interest rates. Annual underlying inflation is not expected to reach 2% here until mid-2021 and the unemployment rate is expected to remain above 5% over the near term.

With the risks to global growth yet to play out, a diversified and actively managed exposure to all asset classes is warranted. There are several examples of market segments with better prospects than others, and an active, research based approach to capitalise on these within the construct of a well-managed portfolio should hold retirement savings in good stead over shorter and longer-term periods.

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.