PENDAL

Factsheet

Multi-Asset Strategies

December 2019

Pendal Multi-Asset Target Return Fund

ARSN: 623 987 968

About the Fund

The Pendal Multi-Asset Target Return Fund (**Fund**) is an actively managed multi-asset class portfolio that invests in Australian and international shares, Australian and international listed property securities, Australian and international fixed interest, cash and alternative investments.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) of Australian CPI^ plus 5% per annum over rolling five year periods. The suggested investment timeframe is 5 years or more.

The Fund benchmark is the Australian Consumer Price Index.

Description of Fund

The Fund is designed for investors who are seeking a return that exceeds inflation, diversification across a broad range of asset classes and are prepared to accept some variability of returns.

The Fund aims to generate its returns by investing in shares, listed property securities, fixed interest and alternative investments, both in Australia and globally. To gain its exposure to these asset classes the Fund may invest in shares, bonds, derivatives, unit trusts, exchange traded funds, and listed investment companies/trusts. The Fund will not invest in illiquid assets such as direct property or direct infrastructure.

The Fund's asset allocation is dynamically managed by Pendal, based on an assessment of market valuations, the market/economic cycle and technical indicators. Pendal also seeks to add value and/or reduce risk by employing other strategies such as tactical trades that seek to take advantage of shorter term market dislocations and relative value strategies that focus on mispricing between similar types of financial assets.

Investment Team

The Fund is managed by Michael Blayney who has more than 21 year's industry experience and leads the multi asset investments team at Pendal. 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.

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.
- **Derivative risk -** The risk that the Fund makes substantial losses or has volatile returns through the use of derivatives.
- **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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.48	0.54	0.14
3 months	0.08	0.27	0.42
6 months	1.46	1.86	0.94
1 year (pa)	3.77	4.59	1.90
Since Inception (pa)	2.62	3.43	1.86

Asset Allocation (as at 31 December 2019)

Australian shares	1.06%
International shares	17.42%
Australian and International property securities	1.99%
Fixed interest	16.56%
Alternative investments	6.74%
Cash	56.23%

Investment Guidelines

Asset allocation ranges (%)	Ranges Min	Ranges Max
Australian shares	0	30
International shares	0	50
Australian and International property securities	0	20
Fixed interest	0	100
Alternative investments	0	30
Cash	0	100

Other Information

Fund size (as at 31 Dec 2019)	$125 million
Date of inception	April 2018
Minimum investment	$25,000
Buy-sell spread[1]	0.24% (0.12%/0.12%)
Distribution frequency	Quarterly
APIR code	PDL3383AU

[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]	0.78% pa
Estimated indirect costs[4]	0.04% pa

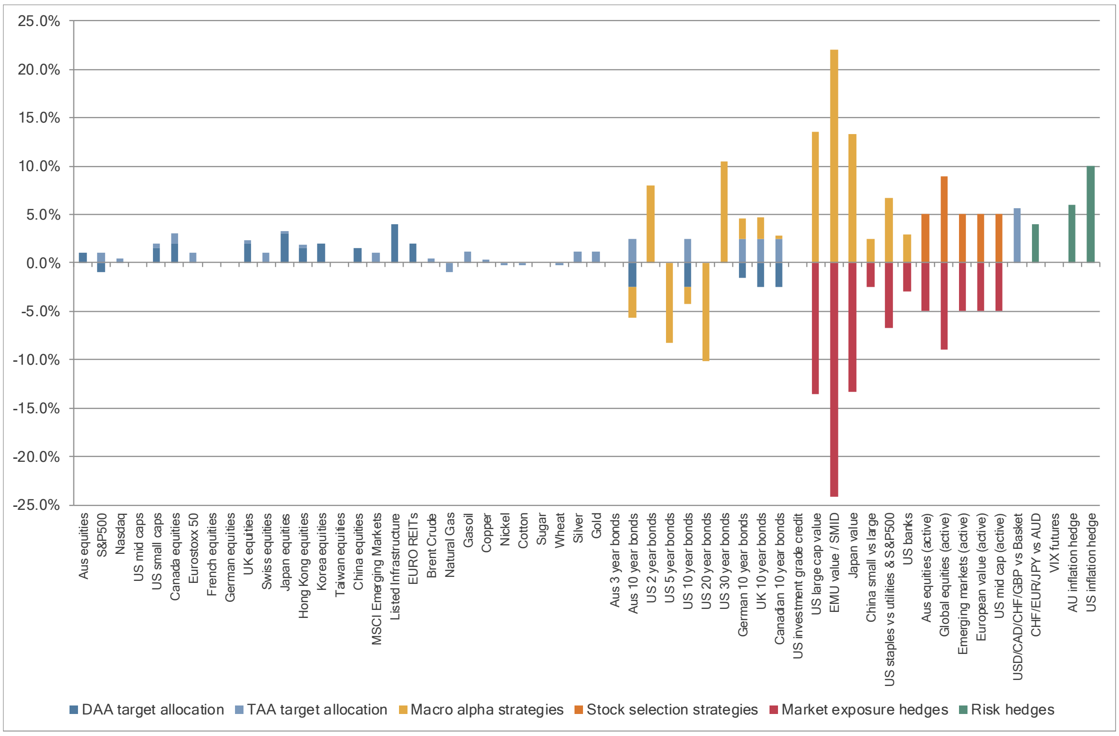
[2] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[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.

^Australian CPI or Australian Consumer Price Index means the All groups Consumer Price Index (CPI) as published by the Australian Bureau of Statistics (ABS).

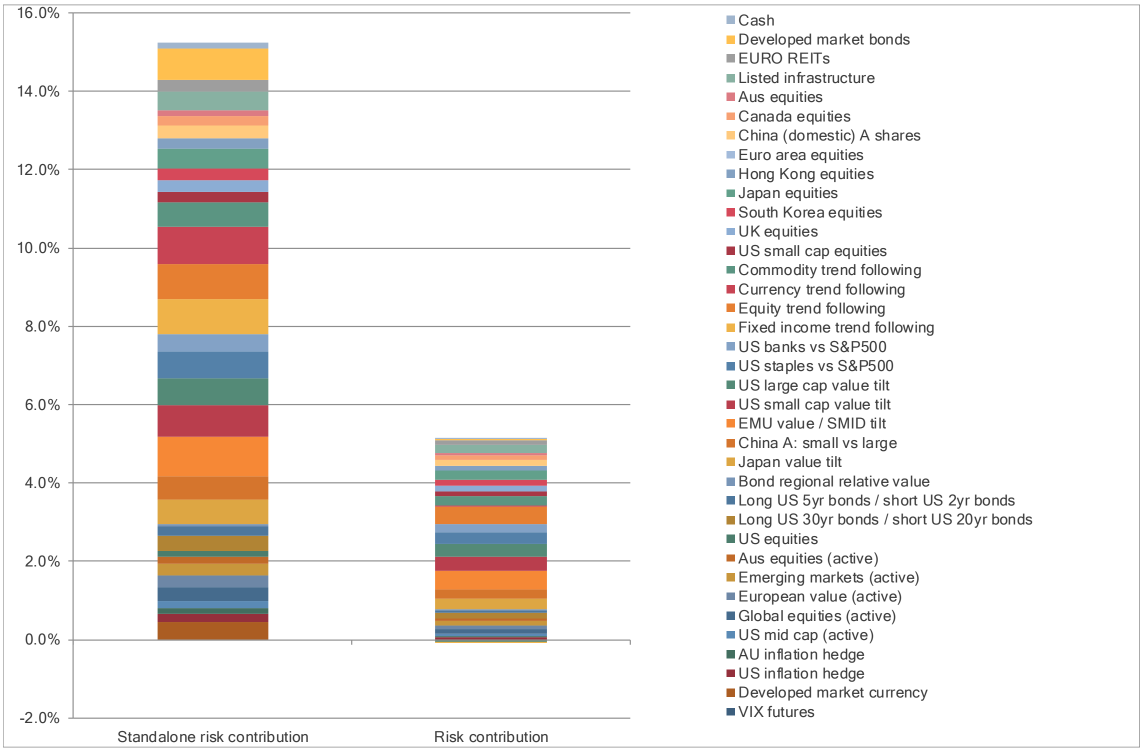
Asset Allocation (as at 31 December 2019)



This chart above illustrates the target portfolio weights as at the date shown. Actual weightings may differ from these due to market movements, cash flows and other factors.

Bond futures effective exposure is shown on the basis of 10 year equivalents. i.e. In the above chart, the allocations from 'Aus 3 year bonds' through to 'US 20 year bonds' have been adjusted based on the ratio of the modified duration of the bond future in question to the modified duration of the 10 year bond future in that market. This is to ensure greater consistency in how the exposures from bond futures are shown in the chart across instruments with different maturities.

Risk Allocation (as at 31 December 2019)



The risk allocations in the chart above are intended to provide an indication of both the total risk taken in respect of the portfolio at a point in time, and how this is divided up among the different positions held within the portfolio. The total of the "risk contribution" bar represents the expected (forward looking) standard deviation of annual returns for the portfolio, based on the target portfolio weights shown. The "standalone risk contribution" for each position shows the level of volatility when the position is considered in isolation; whereas the "risk contribution" for each position puts this into the context of a total portfolio, allowing for the benefits of diversification.

The risk allocations shown in the chart above are based on the target portfolio weights for the date shown, and use proprietary, forward looking, standard deviation and correlation assumptions for each position in the portfolio, which are based on a combination of historical market returns, finance theory and professional judgement.

The standalone risk contribution for each position is calculated by taking the expected standard deviation of returns for the exposure in question multiplied by its target weighting in the portfolio. It does not allow for diversification benefits from investing in multiple asset classes / positions – this is however allowed for in the risk contribution column.

The risk contribution from each position is calculated as the total expected portfolio standard deviation of returns multiplied by the proportionate contribution to this from the position in question, taking into account its weighting in the portfolio, its own expected standard deviation of returns and it's correlation to every other position in the portfolio. This is presented by way of illustration only, and is not intended to provide any guarantee as to the future performance of any asset class or strategy.

Fund manager's commentary

Over December, the Fund returned 0.48%, bringing the return over one year to 3.77% net of fees. This was a good result, in a month where more traditional "balanced" portfolios were generally negative.

The portfolio's approach to investing combines active asset allocation, tactical risk hedging, and uncorrelated alpha in pursuit of its dual return and risk objectives. The active asset allocation approach combines a value-oriented approach to its asset allocation, seeking exposure to well-valued assets (dynamic asset allocation) with quantitative trend following strategies across equities, fixed income, commodities and currencies (tactical asset allocation).

"Uncorrelated alpha" refers to strategies that seek to enhance returns without materially increasing the portfolio's overall exposure to equity or fixed income market risk. Alpha generation focuses on macro alpha (relative value) strategies that seek to exploit relative mis-pricings between similar classes of assets; and also incorporates stock selection alpha (currently predominantly fundamental stock picking strategies with the corresponding market exposure hedged out via futures).

Active asset allocation – Dynamic (value oriented) & Tactical (trend following)

Overall, exposure to equity markets via the valuation oriented (dynamic) component of the active asset allocation process added the most value over the month, with the trend following component of the process also adding value in equities. Exposure to Asian equities was accretive to returns, with Korean and Chinese equity markets particularly strong, buoyed by more positive sentiment on trade. As markets continue to rally, the dynamic component of the process is finding less attractive markets to invest in, however the trend following component has benefited the portfolio, as it has ensured that the portfolio retained a higher equities allocation than it would have via value alone.

Exposure to fixed income had a fairly neutral impact on returns over the month. While the trend following component of the process still favours bonds; given stretched valuations, the dynamic (value oriented) component of the process offset this, resulting in an overall portfolio duration that was close to zero. As a result the portfolio was largely insulated from rising yields in December.

Alternative assets was the second highest positive contributor to returns in December. The portfolio's UK public private partnership investments rallied on the UK election result, with the Conservatives seen as more investor friendly than Labour in respect of private sector investment in infrastructure. In addition, US master limited partnerships also had a good month, driven by higher oil prices and positive sentiment in the US equity market more generally.

Active currency management detracted value in both the trend following component of the process and the risk hedges sleeve (outlined further below) as the Australian dollar was stronger over the month, whilst the US dollar fell.

Trend following in commodities added value, with long exposure to Silver and Gold contributing positively to returns.

Active asset allocation - Risk hedges

In our "risk hedges" sleeves we held a mixture of defensive foreign currency exposure (as the Australian dollar tends to fall in times of crisis, making this a good diversifier), and strategic inflation hedges ("break-even" inflation – which is the rate of inflation implied by market pricing of inflation linked bonds vs nominal bonds). While market expectations of inflation remain at incredibly low levels, an increase in market inflation expectations in the US over the month meant that our exposure to break even inflation added value. As mentioned above, exposure to foreign currencies detracted value slightly as the Australian dollar rose.

Macro alpha (relative value)

Over the month value style stocks (stocks that trade on lower than market multiples on traditional valuation ratios such as price to earnings, price to book value, price to cash flow etc) underperformed, particularly in Japan. Value stocks have underperformed considerably over the last few years, and we have been steadily increasing exposure to value stocks (with the corresponding broad market exposure hedged out) as relative valuations have progressively reached more extreme levels.

Stock selection

Stock selection had a slight negative impact overall. Stock selection within Australian equities was positive, while the portfolio's three active global strategies (Europe, Emerging Markets and Concentrated Global) underperformed.

Over the month the portfolio made a new investment in a US mid cap strategy. Unlike the other stock selection strategies which the portfolio employs, which use Pendal Group capabilities, the new stock selection strategy is based on US mutual fund holdings data. It builds on a range of academic research which shows that the "best ideas" of individual mutual fund managers outperform (even though the average fund does not), by using a proprietary approach to building a portfolio from the "best ideas" of a wide universe of mutual funds to construct a risk-managed active portfolio. It effectively replaces the active US small/mid cap strategy which was liquidated in November as a result of the closure of the Boston based US/global small/mid cap team.

Overall Portfolio Strategy

Looking forward, we continue to hold equity exposure focused on the markets offering the most compelling value, no exposure to credit assets given relatively tight spreads, and a range of diversifying assets and "alpha" opportunities (relative value and active management within individual categories of equities). In particular, in response to both the low yield environment, and the compelling opportunity in value stocks mentioned in the previous paragraph, we maintain a significant exposure to these relative value positions. Overall we believe this positioning represents a sensible balance between return seeking and downside risk management, consistent with the portfolio's objectives.

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

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