Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

February 2020

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	21	10	30
International shares	20	10	30
Australian fixed interest	17	5	35
International fixed interest	12	5	35
Australian property securities	3	0	10
International property securities	1	0	10
Alternative investments	15	0	20
Cash	11	0	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	-2.47	-2.40	-2.48
3 months	-1.33	-1.12	-0.85
6 months	0.58	1.01	1.28
1 year (pa)	6.29	7.19	8.22
2 years (pa)	4.31	5.20	7.10
3 years (pa)	5.42	6.31	6.84
Since Inception (pa)	5.53	6.42	6.68

Asset Allocation (as at 29 February 2020)

Australian shares	21.1%
International shares	18.4%
Australian fixed interest	17.0%
International fixed interest	13.2%
Australian property securities	2.9%
International property securities	0.9%
Alternative investments	16.4%
Cash	10.1%

Other Information

Fund size (as at 29 Feb 2020)	$184 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]	0.05% 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.

Market review

Australian equities, as measured by the S&P/ASX 300 Accumulation index fell by -7.8% over February, amid growing concerns of Covid-19 becoming a pandemic. US 10 year bond yields dropped from 1.52% to 1.14% while Australian 10 year government bonds fell from 0.95% to 0.82% as investors turned risk-averse. Resources (-13.2%) were hit the hardest, whilst Industrials (-6.4%) held up relatively better.

In terms of sector performance, a broad market de-rating weighed across the board and Information Technology (-16.2%) retreated the most on that basis. Link (LNK, -31.0%) played a role in this, however the WAAAX stocks also underperformed. Afterpay (APT) gave up -14.0%, Xero (XRO) -13.9% and Wisetech (WTC) -39.7%. WTC delivered another half of profit growth, but slashed its full year earnings guidance as the effect of Chinese production closures feeds through into global supply chains and logistics. WTC is now down -55.9% from its high point in September 2019.

Fears of a global spread in COVID-19 saw global equity markets sell off sharply this month. As the number of confirmed cases globally increased from 9,927 on January 31 to 86,013 by February 29, surprisingly it was developed markets that was hit harder than emerging markets. Emerging markets outperformed developed markets by 3.2% as the strongest market over the month was the MSCI China (+1.3%) while the weakest market was Russia (-14.4%). Among MSCI developed world GICS sectors, Energy (-13.9%), Materials (-10.0%) and Financials (-9.8%) underperformed the most, while Communication Services (-6.5%), Health Care (-6.8%) and REITs (-7.0%) fell the least.

European markets struggled with the UK FTSE market falling -11.8% (USD terms) and the DJ Euro Stoxx 50 index market falling -9.2% (USD terms). Japanese markets also took a beating from the economic impacts of the virus with the Nikkei falling -8.4% (USD terms). However, the depreciation of the Australian Dollar (-2.7%) softened these returns for Australian investors.

Australian bond yields fell and the curve flattened further in February. The downward direction was dominated by global developments, chiefly related to COVID-19. Concerns had been relatively contained through the first half of the month before fear levels later became elevated, which drove investors to the safety of government bonds. On market movements, Australian 3 and 10 year yields fell by 12bps and 16bps to 0.51% and 0.81% respectively. At the very front-end, 3 month BBSW dropped by 7bps to 0.81%.

Global bond yields fell further in February with the downward direction dominated by developments related to COVID-19. At month-end, the negative economic impact became more apparent after a gauge of Chinese manufacturing activity plunged to its lowest on record. In the US, the Federal Reserve did not meet during the month and data from the world's largest economy was mixed. Finally on market movements, the US 2 year fell 40bps to 0.92% and the 10 year declined by 36bps to 1.15%.

Fund performance

The Fund slightly outperformed the benchmark over the month of February.

Our active positioning entered the month of February with fairly neutral positioning with modest net longs in equities, a net neutral position in bonds, long gold and short copper.

Our trend-following models held overweight positions in US, German and Australian equities which gained during the first 3 weeks of the month after which the positions were closed, locking in healthy profits, as we judged equity markets were likely to fall in response to the escalating spread of Coronavirus infections outside China. Also, early in February our medium-term valuation-based models added a new short position in US large cap industrials (Dow Jones) to the existing short S&P-500. The combination of these decisions meant that the fund was underweight equities during the sharp sell-off during the fourth week contributing strongly to portfolio returns. On the final day of the month the short S&P-500 and Down Jones positions were closed out for a profit, as they had quickly moved close to our measure of fair value, and the trend-based overweights to US, German and Australian equities were reinstated with modest position sizes reflecting the heightened volatility environment.

In fixed income the trend-following overweights remain offset by the valuation-based underweight positions with the combined return close to neutral. On a valuation basis, Australia and the US remain our least-favoured bond markets, with UK Gilts most preferred.

In alternatives, the long gold and short copper positions had little return impact. Gold had been up strongly over the month but experienced a sharp reversal on the final day. At the end of February the short copper position was closed and a new short was added in Brent crude oil. The VIX volatility carry position was closed for a profit early in the month as we felt that the equity market was overly complacent of the developing Coronavirus situation – indeed the S&P-500 hit a number of record highs at this time. Towards the end of the month our cross-market sentiment model identified the likelihood of an equity market sell-off and volatility hedges were put in place which were profitable, helping to insulate returns somewhat.

Our active positioning at the start of March is again fairly neutral. The portfolio is positioned with modest overweights in equities, a net neutral position in bonds, long gold and short Brent crude oil. A number of equity markets are becoming quite attractively-valued and we may look to add positions in these markets on further weakness.

Outlook

On Covid-19 the focus is on China (ex-Hubei province), Singapore and Taiwan – which were among the first countries affected and thus guiding expectations elsewhere in the world. In these countries containment measures have focused on delaying the virus's spread and extending peak infections over a period long enough to enable medical infrastructure to cope with demand.

The trade-off has been a virtual economic shutdown for an extended period. If other governments follow this lead, the question becomes how long and severe is the downturn in each country – and how effectively can governments stimulate to plug the gap.

If these countries can successfully normalise economic activity without a spike in infections, then it suggests that the hit may be short term and potentially manageable with stimulus. One key question will be the strength of behavioural factors – will stimulus be able to outweigh the effect of "social distancing" as people look to reduce interactions with others.

We can look at the way forward in terms of four broad scenarios.

1) Worst case is a widespread global pandemic, provoking a sustained global recession, zero rates, unconventional policy responses and further material falls (>20%) in the equity market. We think this is a low probability outcome.

2) Rolling outbreaks globally, prompting short-term economic downturns of 2-4% followed by quick recovery. Policy responses could include zero rates and targeted fiscal stimulus.

This scenario could see further markets falls – potentially of up to ~10% - but a bounce back by the year's end.

3) A milder outbreak – with containment measures and the Northern hemisphere Spring curtailing the spread. This could see a short-term slowdown, with rate cuts and limited fiscal stimulus. The market may already have seen its lows if this is the case, with a good chance of a 10-20% bounce.

4) A quick resolution driven by a medical breakthrough. This could see economic acceleration, a reversal in rate cuts, bonds falling sharply and a 20%+ rally in equities. Like the negative extreme, we see this as a low probability outcome.

It is in uncertain situations such as this – with a degree of binary outcomes – that portfolio construction becomes critical.

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

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