

Pendal Multi-Asset Target Return Fund

Multi-Asset Strategies

ARSN: 623 987 968

March 2020

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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	-7.16	-7.10	0.15
3 months	-9.12	-8.94	0.46
6 months	-9.05	-8.69	1.15
1 year (pa)	-7.03	-6.30	2.31
Since Inception (pa)	-2.56	-1.80	2.00

Asset Allocation (as at 31 March 2020)

Australian shares	1.2%
International shares	32.7%
Australian and International property securities	4.4%
Fixed interest	26.7%
Alternative investments	10.8%
Cash	24.2%

Investment Guidelines

Asset allocation ranges (%)	Ranges	
	Min	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 Mar 2020)	\$117 million
Date of inception	April 2018
Minimum investment	\$25,000
Buy-sell spread ¹	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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 Costs²

Issuer fee ³	0.78% pa
Estimated indirect costs ⁴	0.04% pa

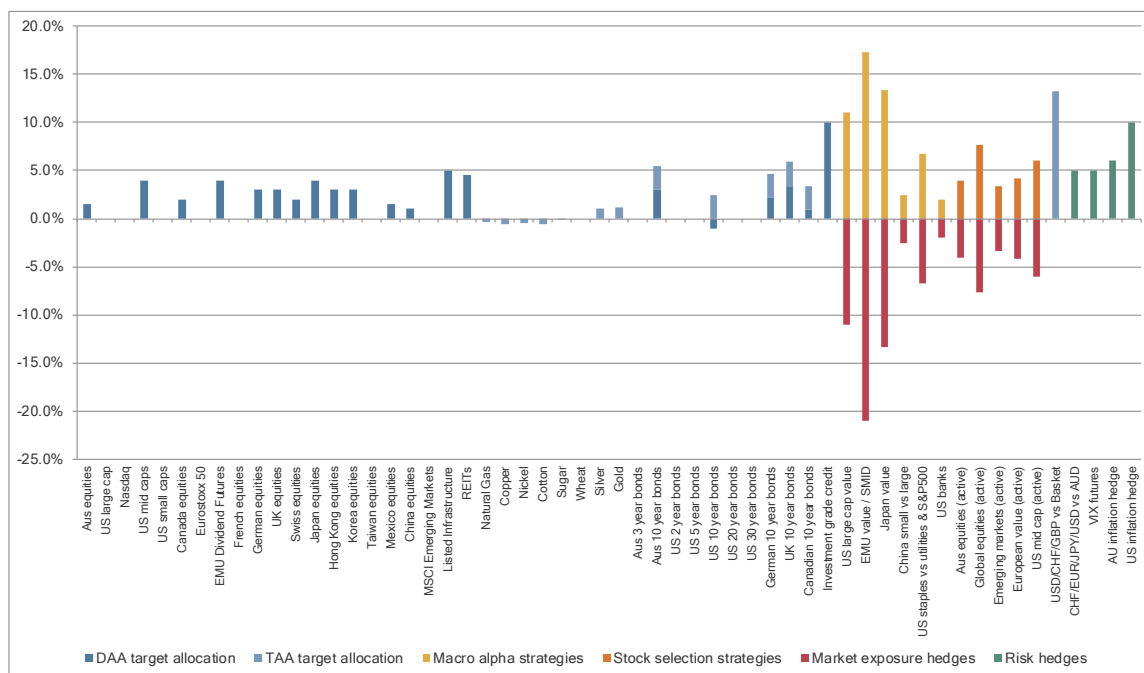
² You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

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).

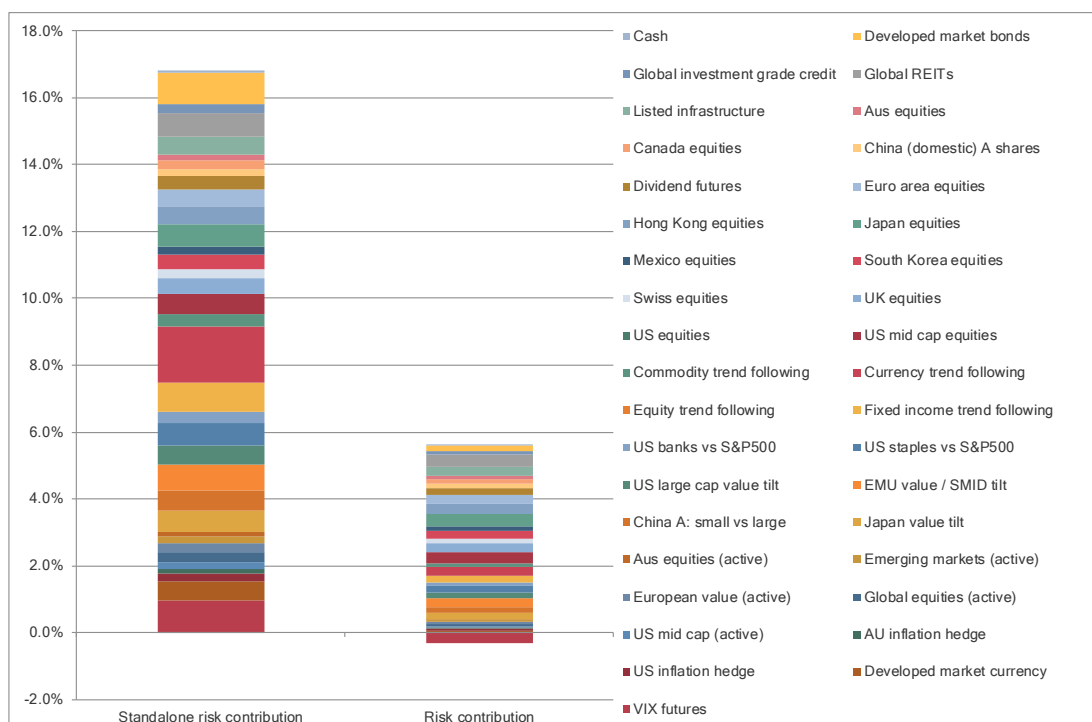
Asset Allocation (as at 31 March 2020)



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 March 2020)



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 its 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 March, the Fund returned -7.16%, bringing the return over one year to -7.03% net of fees.

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 process combines a value-oriented approach, 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 significantly 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)

Exposure to equity markets was the largest detractor from returns. While we entered the month with a relatively modest exposure to equities overall, given the very large downward movements in markets this had a significant impact on returns. During the month we took advantage of more attractive valuations to increase exposure, favouring markets where valuations were cheaper and governments had done a better job of "flattening the curve", particularly in Asia. We also introduced an exposure to long dated dividend futures in Europe, where market pricing was discounting very significant falls in dividends some 3-5 years into the future, which we believe represented an over-reaction and compelling investment opportunity.

Exposure to listed real assets (infrastructure and property) also detracted from returns over the month. While these sectors are usually more defensive than broad equities, in many cases these fell more than the broader market due to exposure to activities directly impacted by social distancing measures (such as shopping centres). We took the opportunity to introduce exposure to alternative energy within our infrastructure holdings, as these assets fell significantly to very attractive valuation levels. We also increased exposure to listed property (REITs). Over a 3-5 year investment horizon we believe that these yielding assets will again become attractive to investors given the ultra-low interest rate environment.

Exposure to sovereign fixed income had a positive impact on returns over the month as yields fell. However as yield curves steepened considerably mid-month, we took the opportunity to increase exposure to 10 year bonds via futures.

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 given the portfolio has a CPI plus objective and so holds an element of inflation protection). A significant fall in market inflation expectations in the over the month meant that our exposure to break even inflation detracted value. Exposure to foreign currencies was generally a positive contributor as the AUD fell.

Macro alpha (relative value)

The relative value component of the process had a negative impact on returns, with value stocks underperforming the market significantly in a flight to quality. After broad equity exposure, the underperformance of value stocks was the next largest detractor from total portfolio returns. Over a 3-5 year horizon, we continue to believe that value stocks represent a compelling investment opportunity, though have increased the (existing) quality screen on some of our baskets of value stocks given the risks associated with higher corporate leverage in this environment.

Stock selection

Stock selection also had a negative impact on returns over the month.

Stock selection in Australian equities and US Mid-Caps was slightly positive, however this was more than offset by underperformance from the Concentrated Global Share strategy.

Overall Portfolio Strategy

While performance over the month was disappointing, the volatile environment did create significant opportunities to enter assets at better valuations. In particular, we added investment grade credit to the portfolio and also increased our exposure to equities, listed infrastructure and REITs. At the same time, to provide balance, we re-initiated a long volatility exposure – but using longer dated instruments to avoid the extremes of pricing in respect of shorter dated instruments. With steeper yield curves and falling inflation expectations, we have also increased the interest rate duration of the portfolio, which helps to somewhat balance the increase in risk assets and acts as insurance against a prolonged recession.

Overall we ended the month positioned more aggressively than we have been for some time, and 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

PENDAL

This fact sheet has been prepared by Pental Fund Services Limited (PFSL) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this fact sheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Multi-Asset Target Return Fund (Fund) ARSN: 623 987 968. A product disclosure statement (PDS) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.pentalgroup.com. You should obtain and consider the PDS before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

This fact sheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this fact sheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this fact sheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

Performance figures are calculated in accordance with the Financial Services Council (FSC) standards. Where performance returns are quoted "Post fees" then this assumes reinvestment of distributions and is calculated using exit prices which take into account management costs but not tax you may pay as an investor. Where performance returns are quoted "Pre fees and tax", they exclude the effects of management costs and any taxes. Past performance is not a reliable indicator of future performance.

If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by PFSL as soon as reasonably practicable after becoming aware of it. If PFSL does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this fact sheet and PFSL reserves the right to vary these from time to time.