PENDAL

Factsheet

Multi-Asset Strategies

May 2020

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.

Labour, Environmental, Social and Ethical Considerations

We do take labour standards, environmental, social and ethical considerations into account when making investment decisions. Sustainable investment practices are incorporated into the Fund.

The Fund will not invest in companies or issuers directly involved in the following two activities:

- tobacco production; and
- controversial weapons manufacture.

The Fund will also not invest in companies or issuers directly involved in the following activities, where such activities account for 10% or more of a company's or issuer's total revenue:

- the production of alcohol;
- manufacture or provision of gaming facilities;
- manufacture of non-controversial weapons or armaments;
- manufacture or distribution of pornography;
- direct mining of uranium for the purpose of weapons manufacturing; and
- extraction of thermal coal and oil sands production.

Investments are reviewed regularly to ensure they remain within the sustainable and ethical screens of the Fund. If the review process identifies that an investment ceases to comply with the screens, the investment will usually be sold as soon as reasonably practicable having regard to the interests of investors, but this may vary on a case by case basis.

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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.28	-0.21	0.18
3 months	-3.56	-3.37	0.48
6 months	-5.14	-4.78	0.94
1 year (pa)	-3.30	-2.54	2.14
Since Inception (pa)	-0.61	0.17	1.96

Asset Allocation (as at 31 May 2020)

Australian shares	2.8%
International shares	25.1%
Australian and International property securities	4.9%
Fixed interest	20.0%
Alternative investments	3.0%
Cash	44.2%

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 May 2020)	$164 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 Costs[2]

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

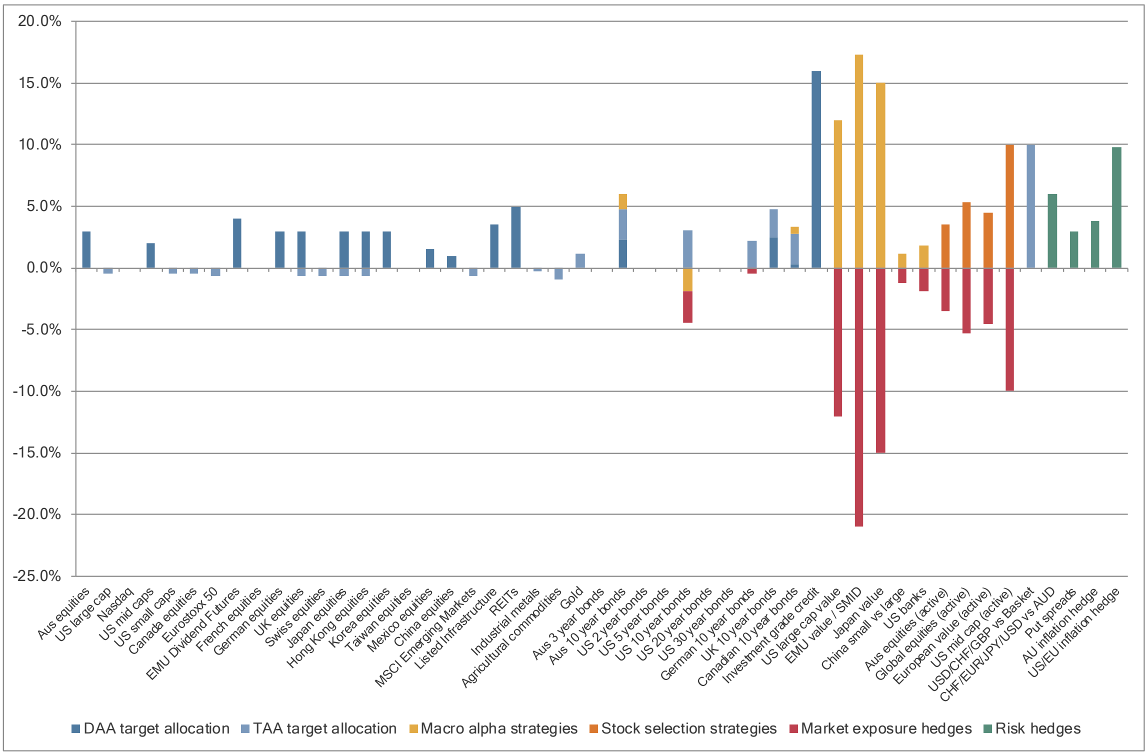
[2] You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

[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).

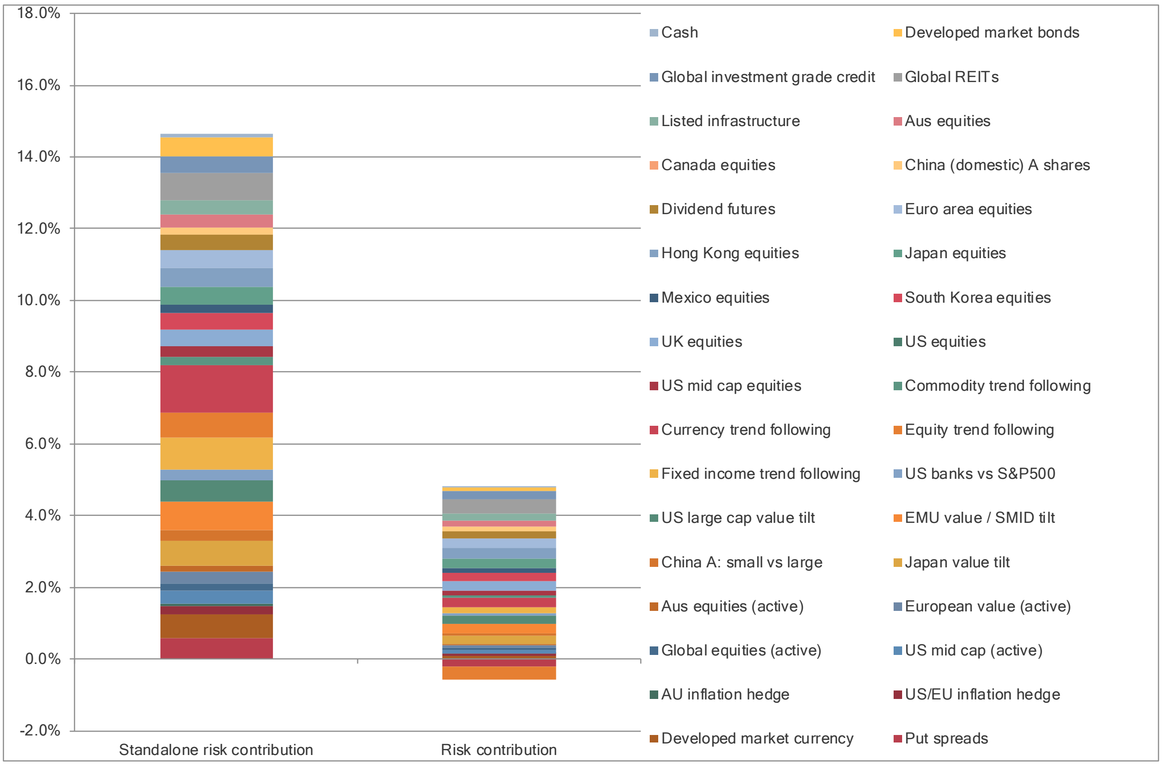
Asset Allocation (as at 31 May 2020)



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 May 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 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

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

Exposure to equity markets contributed positively to returns over the month, with the additional equity exposure added during the volatility of March continuing to be beneficial. The positions in Japanese and German equities & US mid caps performed very strongly and European dividend futures also rose. As equities have continued to rally, we have reduced exposure slightly, and also purchased some downside protection on the S&P500, which is, we believe, one of the most expensive markets globally; and also on the DAX given we have built up a reasonable European allocation. The trend following component of the process is acting to further reduce equity exposure, given that the signals are based on medium term trends that the sharp rally has not yet caused to "flip".

Hong Kong was a key exception to the general uptrend in equities over the month, as China announced it would impose a national security law on the city. While this does introduce additional downside risk, we note that the long term valuation case on the Hang Seng remains strong. Overall, equities continue to offer reasonable value, however not to the degree of "cheapness" that we saw in March.

Holdings of listed real assets (infrastructure and property) were beneficial. We continue to find REITs, and selected listed infrastructure to be attractive value; particularly given the low yield environment. In commodity futures, long positions in gold and silver both performed well. Gold in particular has benefited from safe haven status and the low interest rate environment. We continue to be long gold, and short a basket of agricultural commodities & industrial metals.

Fixed income had a positive impact on returns over the month, primarily driven by falling credit spreads, with movements in sovereign bond yields fairly muted. Within fixed income, we continue to view investment grade corporate bonds as offering the best relative value, given still elevated credit spreads, coupled with limited downside risk over the Fund's investment horizon.

Exposure to foreign currencies was a negative contributor to returns as the USD fell and AUD rose over the month in a more "risk-on" environment. We hold a mix of defensive foreign currency for downside protection, and a tactical basket (long & short) via our trend following process. As both of these favoured "risk off" currencies, this detracted from returns.

Macro alpha (relative value)

The relative value component of the process had a negative impact on returns in May, with the tilt towards value stocks vs broad market exposure detracting value, in spite of value staging somewhat of a comeback towards month end. 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. The quality screen applied to our value baskets is particularly focused on balance sheet strength given the macro environment.

Stock selection

The European Concentrated Value strategy outperformed over the month, while the Emerging Market Opportunities strategy and Concentrated Global Shares strategies underperformed their respective benchmarks. The US Mid Cap Strategy continued to perform well. We divested the Emerging Market Opportunities strategy during the month, and applied sustainable screens over the other stock selection strategies, which resulted in modest turnover on a "look through" basis.

Overall Portfolio Strategy

During the month we implemented a number of changes to the portfolio in order to increase the portfolio's focus on Sustainability & ESG within its existing investment process, in order to better position our clients for what we believe will be a key theme over the coming decade. We have communicated these changes in detail separately, but are happy to provide more details if needed.

Looking forward we maintain a moderate exposure to attractively valued equity markets, while retaining some downside protection via options. In addition, this is supplemented with selected exposure to listed real assets (infrastructure and REITs), which still represent good value in this environment.

Within fixed income, we continue to focus exposure on investment grade bonds, which offer compelling compensation for risk. At the same time, we maintain exposure to interest rate duration, and foreign currency to provide an additional degree of downside protection.

In relative value, value stocks are trading at extreme levels relative to the broader market, and while they have suffered in the COVID-19 sell off on a 3-5 basis represent an excellent opportunity to enhance long term returns.

Overall, the prospective beta of the portfolio (which measures its sensitivity to equity market returns) is currently at its "through the cycle" average, of approximately 0.2. In our view this positioning represents a sensible balance between return seeking and downside risk management in the current environment, consistent with the portfolio's objectives.

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.

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

PENDAL