Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

August 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	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)	(pre-fee)	Benchmark Return
1 month	1.46	1.53	1.34
3 months	2.22	2.44	2.71
6 months	-1.72	-1.30	0.22
1 year (pa)	-1.16	-0.31	1.50
2 years (pa)	1.70	2.56	4.74
3 years (pa)	3.71	4.59	6.12
Since Inception (pa)	4.42	5.30	5.92

Asset Allocation (as at 31 August 2020)

Australian shares	20.1%
International shares	22.6%
Australian fixed interest	14.9%
International fixed interest	11.2%
Australian property securities	3.9%
International property securities	1.7%
Alternative investments	16.1%
Cash	9.2%

Other Information

Fund size (as at 31 Aug 2020)	$178 million
Date of inception	June 2016
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	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

The Australian equities market performed strongly during reporting season, with the S&P/ASX 300 Accumulation index adding +3.0%. Whilst Industrials (+3.6%) outperformed, Resources (+0.9%) were the laggard as gold miners (-8.3%) retreated from the recent highs.

The Victorian lockdown continues to drag on the national economic pulse. The state's decision to pursue an effective elimination strategy is material – it means stricter restrictions for longer, with a greater impact on activity, the economy and budget deficits - Australia is a negative outlier in terms of global trends in industrial survey improvement as a result. This remains a headwind for the domestic equity market and specific companies within it.

In terms of sector performance, Consumer Discretionary (+9.7%), Information Technology (+15.2%), Real Estate (+7.6%) and Health Care (+4.0%) were the largest contributors to the headline index; whereas IT was also the best performing sector by absolute return. In contrast, Communication Services (-3.8%), Utilities (-4.8%) and Consumer Staples (-0.3%) finished the month in the red. Index heavyweights Materials (+1.2%) and Financials (+1.3%) also underperformed the index in August.

Global markets recorded another solid rise in August on vaccine hope and US tech. Most global DM sectors rose, with Consumer Discretionary (12.2%), Tech (10.7%) and industrials (8.7%) outperforming, while Utilities (-1.4%), REITs (0.7%) and Energy (1.7%) underperformed. Limiting returns to Australian investors was the 2.2c rise in AUD to $0.740, partly due to the large rise in iron ore prices to US$125/t and improving China growth. A falling USD and a more optimistic growth outlook saw oil prices rise modestly. Gold prices went over US$2000/oz before reverting down to US$1,957.35/oz. Global bond yields increased slightly in August, driven by rising inflation expectations.

In USD terms, DM (6.7%) outperformed EM (2.2%) in the month of August. The S&P 500 rose 7.25%, outperforming all major global markets. In USD terms the Nikkei 225 (+6.3%), and the ASC 200 (+6.0%) were the next best but still underperformed in comparison to the DM world return. The worst performing Index's in USD terms were the MSCI world emerging markets (+2.2%), and the MSCI Asia ex Japan Index (+3.6%).

Through August, global confirmed cases rose 8.0m to a record high 25.6m. The countries with the highest confirmed case counts as of 31 August were the United States (6.2m), Brazil (3.9m), India (3.6m), Russia (0.9m) and Peru (0.65m). On August 31 India broke USA's record of highest COVID-19 cases in a single day, registering over 80,000 new cases in 24 hours.

With the U.S. election just 63 days away, COVID-19 lingering and fiscal supports diminishing, getting the next "market" footstep right is complicated for investors by multiple cross-currents.

Fund performance

The Fund outperformed the benchmark over the month of August.

Active positioning contributed positively to returns in August. Portfolios started the month positioned with overweights in a range of under-valued equity markets plus an overweight to S&P-500 and Dax in equity trend-following, partially offset by an underweight in Dow Jones and meaningfully protected via options. Fixed income positions were relative value in nature and we held small short positions in Brent crude and VIX.

In equities, our active positioning driven by valuation insights held modest overweight positions in UK's FTSE 100, India's Nifty 50 and Mexico's Bolsa, a long position in the futures of EURO STOXX 50 dividends paid in the calendar year 2024 and overweights to both global and Australian listed property, all of which screened amongst the most under-valued markets in the universe which we monitor. These mostly overweight positions are meaningfully hedged by an option strategy to protect against possible downside in Australian equities which consists of buying a put spread, funded by selling an out-of-the money call option, all with an expiry in December: beyond the US presidential election and the associated event risk. Attractive features of this hedging strategy are that the net premium cost was approximately zero and that the strike price of the sold call option is where we expect to be reducing exposure to Australian equities on a valuation basis. During the month we switched the long FTSE 100 position into FTSE 100 dividends paid in 2023, increasing the position at the same time as we view the potential upside to be greater while having less downside risk. Our trend-following process held overweights to Dax and S&P-500 during August.

In fixed income, the portfolio was directionally neutral with a modest overweights in Australian, German and Canadian 10-year bonds offset by underweights in US 10-year Notes and UK Gilts, as our trend-driven long positions remain offset in aggregate by valuation-based underweights. We re-entered the part of the Australian "curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures) upon which we took profits in July as the spread moved to more attractive levels. At the end of August our trend-following process closed the long position in German Bunds, resulting in a modest net short to fixed income in September.

In alternatives the portfolio was short VIX and Brent crude oil during August and added a long position in Copper at the end of the month.

Our active positioning at the start of September remains risk-on. The portfolio is positioned with overweights in a range of under-valued equity markets plus overweights to S&P-500 and Dax in equity trend-following, partially offset by an underweight in Dow Jones and meaningfully protected via options. Fixed income positions are mostly relative value in nature, with a small short bias. In alternatives we hold a long position in copper and small short positions in Brent crude and VIX.

Market outlook

The net result of earnings season is that earnings were down -38% for the second half of FY20 and -16% for the full year. Dividends fell 30% as companies took a prudent stance on capital management.

This was a worse result than the GFC, where earnings fell -20% in the second half of FY09. Nevertheless, the market continued to rally through August as investors proved willing to look through the near term impact of Covid-19. Instead, the focus was on how management are going about adapting to the new environment.

Few sectors saw material earnings upgrades. Miners saw the largest ones, but had already done well and tended to lag in August. The largest downgrades were in telcos – which underperformed – but other sectors such as media, gaming and materials saw downgrades, but still outperformed.

Essentially, there are two widely divergent views on the broader equity market from this point. The bear case is that equity markets are overvalued and due for a prolonged correction driven by a combination of excess government debt, the ultimately deflationary effects of quantitative easing and the economic damage of risk aversion, bankruptcies and structural employment.

The bull case, in contrast, is that we are at the start of a cyclical recovery where sustained expansionary policies and significant surplus capacity, combined with a wave of pent up demand – potentially super charged by the advent of a vaccine – and a lengthy period of low rates continue to boost the equity market. In this vein, it is also important to note that the Australian equity market has lagged global indices – partly driven by a smaller exposure to technology stocks – and has reached nowhere near the same degree of relative valuations.

Uncertainty remains high. As well as questions over the pace of recovery, we must also contend with the run up to the US Presidential election and heightened tensions with China.

We note that the key factors in supporting equity markets – abundant liquidity, low interest rates, and a better than expected pace of economic recovery, remain in place. However it is not the time to make a heroic call on the outcome. Our approach is to focus on stocks and invest where we can find limited relative downside risk, at the same time as building a balanced portfolio which has some protection against a material deterioration in conditions.

Reporting season highlighted the sometimes extreme divergence we are seeing between industries and between companies driven by a combination of cyclical and structural shifts behaviour and demand. This is proving to be constructive environment for active management.

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

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