Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

October 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)	Total Returns (pre-fee)	Benchmark Return
1 month	0.01	0.08	0.27
3 months	0.91	1.12	1.01
6 months	3.11	3.55	4.28
1 year (pa)	-1.96	-1.12	0.60
2 years (pa)	3.36	4.24	6.10
3 years (pa)	2.54	3.41	5.14
Since Inception (pa)	4.11	5.00	5.61

Asset Allocation (as at 31 October 2020)

Australian shares	19.3%
International shares	21.0%
Australian fixed interest	15.8%
International fixed interest	11.7%
Australian property securities	4.4%
International property securities	1.6%
Alternative investments	16.6%
Cash	9.6%

Other Information

Fund size (as at 31 Oct 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 S&P/ASX 300 Accumulation index gained +1.9% over October; although -4% was wiped off the market during the last week of the month. Resources (-1.2%) continued to underperform Industrials (+2.7%) as performance miners and energy companies remained lackluster.

The continued surge in new Covid cases in the US and Europe led to the start of lockdowns in the latter. Meanwhile Pfizer announced that the interim results of its vaccine trial would be delayed. In the US there were some speculation that the election may be tighter than people expected a few weeks ago, while results season has been a touch disappointing thus far. The key issue is how the combination of the pandemic, US election and policy responses will impact on the potential for rotation within the market. The market is at historical extremes when it comes to the outperformance of growth over value and also on the latter's valuation premium.

Domestically, the Australian Federal budget was stimulatory, as expected. On balance, the scale of injection was probably a touch larger than consensus was looking for. The scale of measures, which will drive the budget deficit close to 12%, demonstrates the willingness of policy makers to underpin the economy. The shift in mindset away from fiscal prudence and balance budgets is material and suggests that there is more the government can do if required.

Turning to sector performance, there were five sectors finishing the month in the red, led by Industrials (-3.5%). The rise in long-term bond yields – from 0.68% to 0.85% for the US 10 years – dragged on the infrastructure names. Transurban (TCL, -4.6%), Sydney Airport (SYD, -7.0%) and Atlas Arteria (ALX, -7.1%) were amongst the largest performance detractors within their sector. The acceleration in Covid cases and the newly declared lock-down in France also weighed on investor sentiment for ALX.

Global markets retreated through October, driven by fading stimulus expectations, weak US tech results and rising COVID cases with European and US second waves intensifying and geopolitical risks mounting (US election, Brexit, trade). The MSCI World ex Australia (USD) sold off -3.07% while emerging markets (+2.0%) outperformed developed markets (-3.1%) in US dollar terms. Although, the -1.4% depreciation in the Australian dollar vs the US dollar from risk-off sentiment and dovish RBA comments benefitted Australian investors in October.

Following this sentiment, major US indices S&P 500 (-2.77%), NASDAQ (-2.29%) and Dow Jones (-4.61%) all sold off in October. Rising European cases saw the FT 100 (-4.92%), German DAX (-9.44%) and French CAC 40 (-4.36%) also decline. Across Asia, the Hang Seng (2.76%) managed to hold up while the Nikkei (-0.90%) fell.

Fund performance

The Fund underperformed the benchmark over the month of October.

Active positioning contributed negatively to returns in October. Portfolios started the month positioned with overweights in a range of under-valued equity markets, a volatility carry position in VIX futures, plus overweights to S&P-500 and DAX in equity trend-following, partially offset by an underweights in Dow Jones and ASX-200 while being meaningfully protected via options. Fixed income positions were mostly relative value in nature, with a small short bias. In commodities, we held long positions in copper and gold with a short position in Brent crude.

In equities, our active positioning driven by valuation insights held overweight positions in Mexico's Bolsa, a long position in the futures of EURO STOXX 50 dividends paid in the calendar year 2024 and FTSE 100 dividends paid in the calendar year 2023 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. The portfolio was long volatility carry through VIX futures. On the other side we held a short position in Dow Jones, as US large cap equities trade materially expensive, however this was switched from Dow Jones to S&P-500 towards the end of the month, netting off against the trend-based S&P overweight, as the S&P-500 moved to be considerably more expensive than the Dow Jones. 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 expected to be reducing exposure to Australian equities on a valuation basis at the time the trade was initiated. Our trend-following process held overweights to DAX and S&P-500 and an underweight to S&P/ASX-200 during October. At the end of the month the underweight ASX was closed and the DAX trend switched from overweight to underweight, the combination of which slightly reduced the portfolio's overweight to growth assets.

In fixed income, the portfolio was slightly short with modest overweights in Australian and Canadian 10-year bonds more than offset by underweights in German Bunds, US 10-year Notes and UK Gilts. We took profit on half of the Australian "3s-10s curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures), later adding a flattener in the 10- vs 20-year part of the curve. At the end of the month, the trend models re-initiated the overweight to German Bunds.

In commodities, the portfolio was long copper and gold and short Brent crude oil.

Our active positioning at the start of November remains risk-on but slightly less so than the prior month. The portfolio is positioned with overweights in a range of under-valued equity markets, long volatility carry, underweight DAX in equity trend-following while being meaningfully protected via options. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper and gold with small short positions in Brent crude.

Market outlook

The "Blue wave" did not emerge in the US election. While the Democrats seem set to take the White House, they underperformed expectations in both Houses. Their majority in the House of Representatives was reduced, while the Senate also looks set to retain a republican Majority. The Democrats have done worse than expected in the House of Representative, losing nine seats thus far. They should retain a majority, albeit smaller.

The prospect of divided government means lower likely stimulus, but also less chance for some of the more contentious policy changes such as higher taxes. Without the control of Congress Biden is likely to plump for a more centrist cabinet, potentially taking some of the more left wing agenda off the table. It is also notable that Biden has a strong relationship with Republican Senate Leader McConnell, which may be constructive for some degree of cooperation. All in all, the outcome has been broadly welcomed by markets.

Covid cases continue to deteriorate throughout Europe and the US, with increased test positivity indicating the momentum continues to rise.

Total US hospitalisations are up to 50k, versus the previous peak of 60K. In this instance they are spread wider geographically and there are no signs of strain on the system as yet. However this remains a key factor to watch.

Several European countries have reinstated lock downs. However the market seems to be taking a relatively sanguine view at this point and appears to be looking through this wave of Covid on a combination of:

- a better understanding of the virus,
- better healthcare system preparation,
- a view that lockdowns work within a reasonable time frame,
- that policy stands ready to plug the economic gap,
- that liquidity is so prevalent it means any sell-off is quickly supported,
- optimism on positive vaccine developments.

The prospect of further trade friction with China remains a risk to Australian equities. There has been speculation of additional measures on some goods – for example of low grade iron ore. At this point Beijing may be happy to have these additional threats in conversation without acting on them, but this is an issue which must be watched.

That said, we are mindful that there are several positives lining up which can support the market into the year's end. These include:

1. Supportive global markets
2. Fiscal stimulus from the budget flowing through
3. Melbourne re-opening, perhaps more quickly now than hoped
4. Borders re-opening
5. Pent-up demand, with more people than usual staying in Australia over Christmas
6. More stimulus from the RBA
7. Cautious positioning from investors
8. The potential for M&A activity.

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