

Pendal Multi-Asset Target Return Fund

Multi-Asset Strategies

ARSN: 623 987 968

October 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.

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 | | Benchmark |
|----------------------|---------------|-----------|-----------|
| | (post-fee) | (pre-fee) | Return |
| 1 month | 0.08 | 0.15 | 0.06 |
| 3 months | -0.31 | -0.11 | 1.10 |
| 6 months | -0.48 | -0.09 | 0.35 |
| 1 year (pa) | -5.05 | -4.31 | 0.52 |
| Since Inception (pa) | -0.59 | 0.19 | 1.25 |

Asset Allocation (as at 31 October 2020)

| | |
|--|-------|
| Australian shares | 1.2% |
| International shares | 14.6% |
| Australian and International property securities | 3.8% |
| Fixed interest | 36.6% |
| Alternative investments | 8.4% |
| Cash | 35.4% |

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 Oct 2020) | \$170 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 | 0.01% pa |

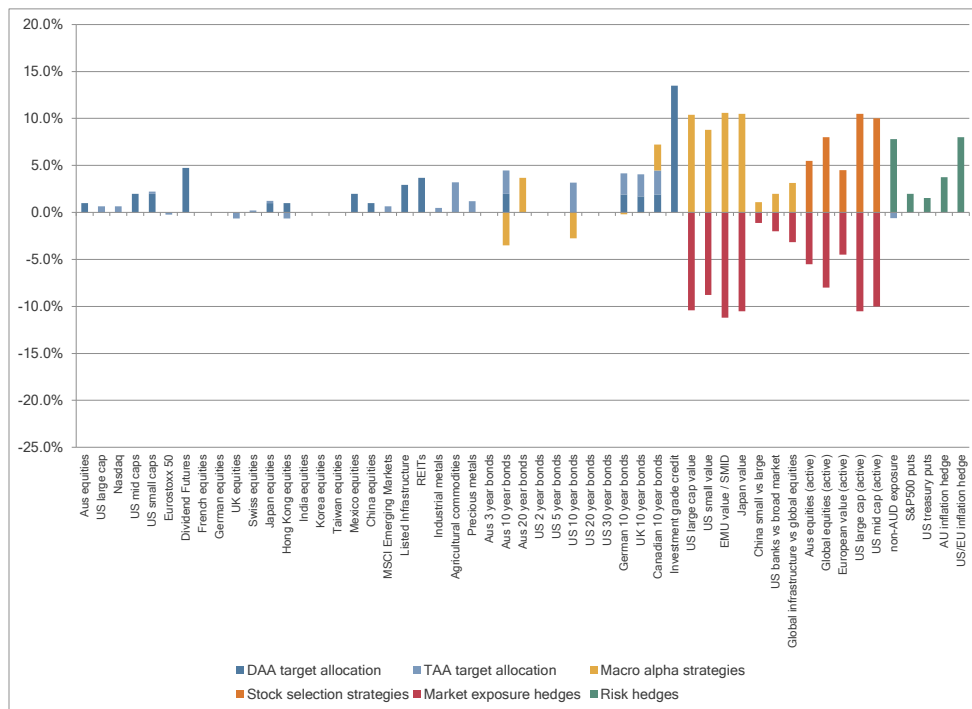
² You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

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).

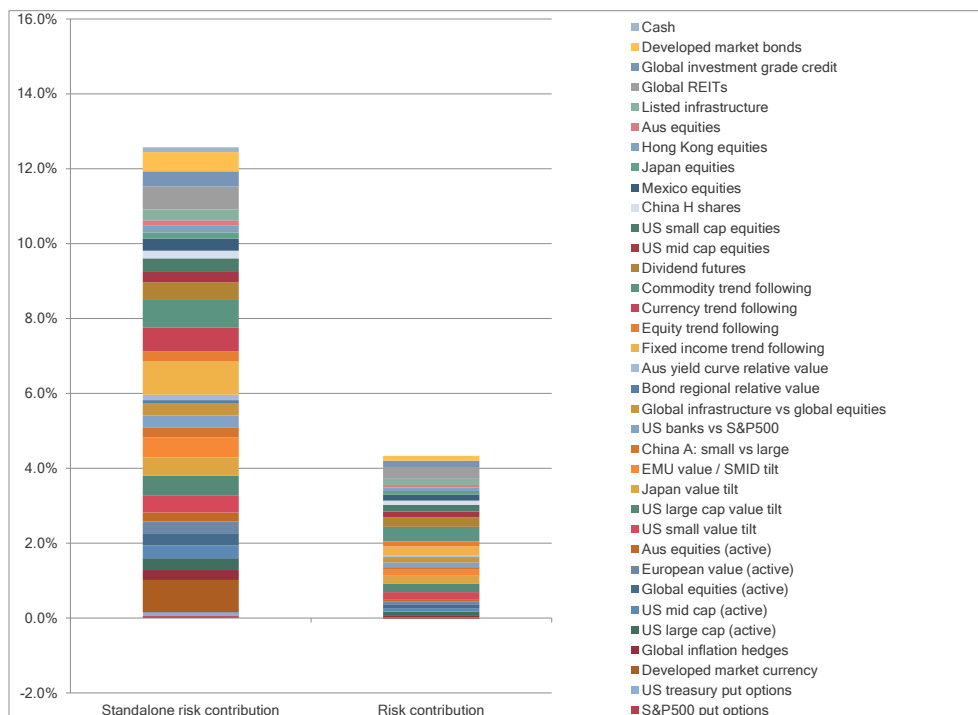
Asset Allocation (as at 31 Oct 2020)



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 Oct 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

The portfolio's return for October was 0.08% (post-fee).

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 exploit relative mispricing 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 or other similar instruments).

Active asset allocation

Exposure to equity markets contributed negatively to returns over the month with most markets globally down somewhat. Dividend futures in Europe also remained weak, in line with more "risk off" sentiment over the month. However, as dividend futures are already pricing in a steep fall in dividends together with virtually no recovery over the next 3-4 years, we believe they are an attractive way to gain equity exposure with only modest downside risk over the fund's investment time horizon, and indeed post month end they have recovered strongly. Overall, attractively valued opportunities in major equity markets are becoming harder to find, and consequently our overall exposure to equities is fairly modest, with our strategy to focus on more niche areas such as dividend futures, small/mid cap stocks, and selected Asian/emerging markets where valuations are more attractive.

Performance from holdings of listed real assets (infrastructure and property) were mixed, with listed real estate investment trusts (REITs) falling in sympathy with the broader weakness in equity markets, but listed public private partnership vehicles performing well given their more defensive characteristics. We continue to find REITs, and selected listed infrastructure to be attractively valued; and believe that these will in time gain favour with investors again given the low yield environment. We favour non-economically sensitive public private partnership (PPP) assets, and renewables (predominantly wind and solar) in UK/Europe given solid yields and a favourable "sustainability tailwind" as economies transition to a low carbon future. Many assets in these categories also provide a degree of inflation hedging in respect of their cash flows, and with the massive fiscal and monetary stimulus having been injected into the system by governments and central banks, there is clearly increased risk of higher inflation at some point further in the future.

Fixed income exposure made a small positive contribution to returns, with sovereign nominal bonds losing ground, but inflation linked bonds and credit a little stronger. Credit continues to benefit from central bank support; and inflation linked bonds outperformed over the month as markets became more concerned about the potential for inflation driven by fiscal and monetary stimulus. Within fixed income, we continue to view investment grade corporate bonds as offering the best relative value, offering reasonable credit spreads, coupled with limited downside risk over the Fund's investment horizon.

Positioning in currency added value over the month. The positive contribution arose from defensive currency exposures that are held to provide a degree of downside resilience to the portfolio, specifically put options on the Australian dollar and call options on the Japanese Yen.

Macro alpha (relative value)

The relative value component of the process had a positive impact on returns in October, with strong performance from our sector tilt towards US banks. We continue to believe that over a 3-5 year horizon value stocks (stocks that trade on lower valuation metrics than the broad market) represent a compelling investment opportunity, with the disparity between market sentiment towards "growth stocks" and "value stocks" at extremes. We hold a broadly diversified basket of "value trades", essentially long a basket of value stocks with the broad market exposure hedged out, across US large and small caps, Japanese equities and European equities.

Stock selection

Stock selection contributed positively over the month, with the sustainable Australian equities, US mid cap, and sustainable global equities portfolios performing well.

Overall Portfolio Strategy

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

Within fixed income, exposure is focused on investment grade bonds, which offer compelling compensation for risk, together with inflation linked bonds which help to provide a degree of hedging any possible future outbreak in inflation. 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, we view on a 3-5 year 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 slightly below 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 pandalgroup.com

PENDAL

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PFSL is the responsible entity and issuer of units in the Pandal 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.pandalgroup.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.

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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.