Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

November 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	Ranges Max
Australian shares	19	10	30
International shares	22	10	30
Australian fixed interest	15	5	35
International fixed interest	16	5	35
Australian property securities	3	0	10
International property securities	2	0	10
Alternative investments	15	0	20
Cash	8	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	4.76	4.83	4.10
3 months	4.19	4.41	3.76
6 months	6.50	6.96	6.57
1 year (pa)	1.03	1.90	3.10
2 years (pa)	6.35	7.25	8.51
3 years (pa)	3.75	4.63	6.08
Since Inception (pa)	5.13	6.02	6.46

Asset Allocation (as at 30 November 2020)

Australian shares	24.2%
International shares	21.3%
Australian fixed interest	10.0%
International fixed interest	9.3%
Australian property securities	4.0%
International property securities	1.9%
Alternative investments	16.7%
Cash	12.8%

Other Information

Fund size (as at 30 Nov 2020)	$186 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 +10.2% over November – the best monthly return achieved since 1988. Resources (+10.7%) rebounded strongly during the month and marginally outperformed Industrials (+10.1%); as confidence in the economic recovery continued to drive commodity price gains. Copper was up +11.7% for the month and is well above pre-Covid level. Brent Crude also gained +29% for the month. Demand remains a key difference between copper and oil – as the lack of air travel continues to weigh on the latter. In contrast, gold (-4.9%) continued to sell-off as need for safe haven has reduced for now.

Covid cases in the US remain a risk. However, European restrictions are taking swift effect – with far less economic impact than previously. Coupled with vaccine upon the horizon, the market seems to be looking through near term Covid risks to focus on a more positive 2021.

On the vaccine, front questions emerged over the quality of the most recent AstraZeneca trials, which appear to have a small sample size and a skew in terms of age profile. This may lead to a delay in approval as more data on different trial groups is collected. This is a material issue in terms of the vaccination plans for countries outside the US. The latter's plan is skewed more towards Pfizer and Moderna. However, in places like the EU, UK and Australia the AstraZeneca vaccine formed a much larger proportion of the proposed plan. In Australia, in particular, this places far more significance on the Novavax trials. Ultimately, this could see a vaccination program rolled out faster in the US than in other parts of the world, with implications for relative rates of economic growth.

Turning to sector performance, Energy (+28.2%) was the best performing sector on the back of the stronger oil price; followed by Financials (+16.1%), Communication Services (+14.4%), Real Estate (+13.2%) and Industrials (+12.0%). The big four banks all performed strongly during November, ranging from +14.3% (WBC) to +24.8% (NAB), as their latest updates got well received by the market. The outlook remains unconvincing - revenue trends remain challenged, credit growth - while stabilising - is still low, margins remain under pressure and any tangible benefit from cost out is an FY22 story. However, they remain propped up by the likelihood of lower bad and doubtful debts (BDDs), which supports the capital position and headline earnings, bolstering the dividend yield. Without BDD deterioration, it is hard to see the sector underperform materially.

Against the backdrop of a contested US presidential election and a still rampant COVID-19, multiple equity markets have delivered record monthly returns and stand at-or-near record highs with the MSCI World ex Australia (AUD) climbing 7.43%. In USD terms, DM (6.7%) outperformed EM (2.2%) in the month of November. Iron ore prices saw continued strength in November and the copper-gold ratio surged. The AUD was buoyed by the rallying iron ore and appreciated 4.93% over the month against the US Dollar, softening the strong November returns for Australian investors.

With US presidential election uncertainty falling from previous months and rising hopes of a COVID-19 vaccine, US markets rose in November with the S&P 500 (USD) (10.75%), NASDAQ (USA) (11.80%) & Dow Jones (USA) (11.84%) all riding double digit growth. France's ability to flatten its curve has seen a 20.12% rise in the CAC 40 in November. Elsewhere in Europe, the German DAX (15.01%) and UK FT 100 (12.35%) also performed strongly. Across Asia, the Hang Seng (9.27%) and the Nikkei (15.04%) rose.

Fund performance

The Fund outperformed the benchmark over the month of November.

Active positioning contributed very strongly to returns in November. Portfolios started the month-tilted risk-on but slightly less so than the prior month. The portfolio was 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 were relative value in nature. In commodities, we held long positions in copper and gold with a small short position in Brent crude oil.

In equities, our active positioning driven by valuation insights held overweights 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 S&P-500, netting off against the trend-based S&P overweight, as this index is the most expensive of all US large cap equities. The option hedge, open since July, was closed at close to zero cost as it was nearing expiry and having provided very useful protection over the period during which it was held.

After a weak start to the month, equities in many countries rose strongly on good news related to COVID vaccines with some markets jumping more than 20% in the days following the news. Among these were the Italian FTSE MIB and French CAC 40 indices, which moved to expensive valuations on a broad range of measures, and accordingly we initiated underweight positions in these markets following their sharp rises.

Our trend-following process held overweights to S&P-500 and an underweight to Dax during November. At the end of the month the underweight Dax was closed.

In fixed income, the portfolio was directionally neutral with modest overweights in Australian and Canadian 10-year bonds offset by underweights in German Bunds, US 10-year Notes and UK Gilts. We added to 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) as the spread widened, having taking partial profit on the position the prior month. The Australian 10s-20s curve flattener was held unchanged.

In commodities, the portfolio was long copper and gold and short Brent crude oil, turning long Brent crude oil at the end of November.

Our active positioning at the start of December remains risk-on but less so than the prior month, continuing the recent trend in our positioning as selected markets reach expensive extremes. The portfolio is positioned with overweights in a range of under-valued equity markets, underweights in expensive equity markets, and long volatility carry. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper, gold and Brent crude oil.

Market outlook

The S&P/ASX 300 gained 10.23% in November – its best monthly return since March 1988. It was also a good month for the Fund, which outperformed.

While improved sentiment toward US politics and vaccines drove markets, the move was supercharged by two surprises. First, contrary to consensus expectations, there was no “Blue Wave” of change in US politics. The Presidential race was very close and the Senate looks set to remain in Republican hands, leaving the US with a far more moderate – and market friendly – government than many expected.

Second, on the vaccine front, the ~95% efficacy rates reported by Modern and Pfizer were far higher than most expected.

These positive surprises – and the several, more negative ones which occurred through 2020 - emphasise the importance we place on building a robust portfolio.

As we look to the final month of CY20, we remain positive given the combination of stimulus, negative real rates, vaccine roll-out, growth momentum, and earnings upgrades. COVID cases in the US remain a risk. However, European restrictions are taking swift effect – with far less economic impact than previously. Coupled with a vaccine upon the horizon, the market seems to be looking through near term COVID risks to focus on a more positive 2021.

Nevertheless, the world is in a better place than many feared in March. The economic rebound has been strong, helped by a surge in monetary and fiscal policy support. In The US, strong industrial production is helping offset weaker activity in services. Vaccines are on the horizon. The world is getting better at living with the virus and mitigating its economic damage.

The risk of prolonged recession has receded. Policy-makers remains in the mindset of “whatever it takes” – with the policy settings supporting both the economy and markets.

The upshot is that we believe our balanced approach remains as valid now as it did earlier in the year.

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

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