

## Pendal Active Moderate Fund

ARSN: 610 997 709

## Factsheet

Multi-Asset Strategies

December 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](http://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:

- Strategic asset allocation** – weighted asset class exposures designed to meet the investment objectives over the long term investment horizon
- Active management** – exploitation of market inefficiencies within asset classes
- 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	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		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.86	0.93	0.36
3 months	5.67	5.90	4.76
6 months	7.17	7.63	6.25
1 year (pa)	2.63	3.50	4.35
2 years (pa)	7.06	7.97	8.81
3 years (pa)	3.86	4.75	6.13
Since Inception (pa)	5.23	6.13	6.42

### Asset Allocation (as at 31 December 2020)

Australian shares	19.4%
International shares	20.4%
Australian fixed interest	12.9%
International fixed interest	16.0%
Australian property securities	3.7%
International property securities	2.7%
Alternative investments	18.0%
Cash	6.9%

### Other Information

Fund size (as at 31 Dec 2020)	\$186 million
Date of inception	June 2016
Minimum investment	\$25,000
Buy-sell spread <sup>1</sup>	For the Fund's current buy-sell spread information, visit <a href="http://www.pendalgroup.com">www.pendalgroup.com</a>
Distribution frequency	Quarterly
APIR code	BTA0487AU

<sup>1</sup> 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<sup>2</sup>

Issuer fee <sup>3</sup>	0.85% pa
Estimated indirect costs <sup>4</sup>	0.05% pa

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

<sup>3</sup> 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.

<sup>4</sup> 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 made some further gains (+1.3%) in December, capping the year's return at +1.7%. Stronger commodity prices, the iron ore in particular, which gained ~70% over the year propelled returns for Resources (+8.4%/+9.2% Dec/CY20); whereas Industrials (-0.4%/-0.1%) were the laggard.

Covid cases in the US continue to rise and Europe has started to deteriorate again. In the UK concern centres on the rise of cases in London, and the focus has been on a potentially new strain/variant of Covid-19. While it has proven more infectious, there is no evidence to suggest this new strain will make people sicker or is more resistant to vaccines. The latter is critical to market sentiment.

Despite worsening health news and greater restrictions, the economy is holding up better than expected. This is despite softer consumer confidence and shoppers holding back from physical retailers and restaurants. November retail sales, released in December were softer, but real time measures suggest this may have picked up again. Surveys for holiday sales continue to look ok, with a substantial shift to online.

Global equity markets ended the year off well with positive US stimulus news and progress on vaccine rollouts contributing to positive returns. The MSCI World ex Australia (Net Dividends) Standard in USD earned a positive return over the month (4.20%). However, with US stimulus approved during December, the US Dollar weakened. Australian investors suffered from a large rise of 4.72% in the Australian dollar vs the US dollar, which saw the MSCI World ex Australia (Net Dividends) Standard in AUD return a negative -0.50%.

Driving global markets higher was the US market and especially the Nasdaq which rose 5.65% in local currency terms, whilst the broader S&P 500 rose 3.84%.

European markets also rose with the German DAX market gaining 3.22% and the UK FTSE market rising 3.10%. Asian markets showed positivity with the Hang Seng (3.38%) and Nikkei (3.82%) both earning positive returns in local currency terms. However, the rise in the Australian dollar vs the Yen (3.69%) and Hong Kong dollar (4.74%) softened these returns for Australian investors.

While positive US stimulus news and progress on vaccine rollouts bolstered markets in December, continuing fears of the SARS-CoV-2 strain of coronavirus and further lockdowns weigh on global markets moving into 2021.

## Fund performance

The Fund outperformed the benchmark over the month of December.

Active positioning contributed very strongly to returns again in December, rounding off a very successful year for active asset allocation in Pandal's diversified funds. Our active tilts at the start of December remained risk-on but less so than the prior month, continuing the recent trend in our positioning as selected markets reach expensive extremes. The portfolio held 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 held long positions in copper, gold and Brent crude oil.

In equities, our active positioning driven by valuation insights held overweights in Mexico's Bolsa, long positions 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 equity volatility carry through VIX futures. On the other side we held short positions the Italian FTSE MIB, French CAC 40 and US S&P-500 indices, all of which are considered expensive within our valuation framework.

Our trend-following process held an overweight to S&P-500, offsetting the abovementioned valuation underweight. At the end of the month new trend-driven overweights were initiated in S&P/ASX-200 and German Dax indices.

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. 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) was held unchanged and we added to the Australian 10s-20s curve flattener.

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

Our active positioning at the start of January is more risk-on than in recent months. The portfolio is positioned with overweights in a range of under-valued equity markets, underweights in expensive equity markets, long equity volatility carry and overweight markets exhibiting strong upward trends. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper, gold and Brent crude oil.

## Market outlook

The rate of Covid infection continues to deteriorate in the northern hemisphere, leading to lockdowns. Jobs have stalled well below pre Covid-levels in the US as the restrictions hit sectors such as leisure and hospitality. Health care systems are under pressure in several countries and regions. Meanwhile, a Covid outbreak in NSW has led to localised restrictions and state border closures.

Nevertheless, the market remains relatively positive, driven by the twin beacons of vaccines and policy support.

Vaccination programmes are ramping up – at differing rates – across many countries. This is giving hope of rolled back restrictions and demand growth. This remains a key risk to watch – any disappointment here could hit markets and the recovery sectors which have recently run hard.

Policy remains a key bulwark of market support. The Democrat victory in the Georgia run-off hands them control of the Senate – and Congress. This means more fiscal stimulus, against the backdrop of already extremely accommodative monetary policy.

The current policy settings are extraordinary. In short, we could see stimulus worth near 9% of US annual GDP channelled into the first quarters of 2021. Even if only a fraction gets spent in that period, it means both growth and earnings are likely to be a lot higher than current consensus expectations.

At the same time, we don't believe that the Georgia win leads to legislation of some of the more radical Democrat policies, given that their majority remains thin in both Houses. The markets concerns are centred on the potential for tax increases. Corporate tax rates are likely to increase, but from 21% to something in the vicinity of 23-25%, rather than the 28% pledged by Biden on the campaign trail.

It is also important to remember the importance of the Fed's conceptual shift from expected to actual inflation targeting and its stated desire to see inflation run above 2% for a sustained period. This is likely to require unemployment to drop below 3%, which is going to take some time. To give some context to this shift the Fed indicated that under the current policy framework the rise in rates post-GFC would have been delayed around 2 ¾ years.

The combination of this fiscal stimulus and Fed accommodation means the US economy could grow above 6% through 2021, driving earnings upgrades and supporting valuation.

For more information please call **1800 813 886**,  
contact your key account manager or visit [pendalgroup.com](http://pendalgroup.com)

**PENDAL**

This factsheet has been prepared by Pental Fund Services Limited (**PFSL**) ABN 13 161 249 332, AFSL No 431426 and the information contained within is current as at the date of this factsheet. It is not to be published, or otherwise made available to any person other than the party to whom it is provided.

PFSL is the responsible entity and issuer of units in the Pental Active Moderate Fund (**Fund**) ARSN: 610 997 709. A product disclosure statement (**PDS**) is available for the Fund and can be obtained by calling 1800 813 886 or visiting [www.pentalgroup.com](http://www.pentalgroup.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.

This factsheet is for general information purposes only, should not be considered as a comprehensive statement on any matter and should not be relied upon as such. It has been prepared without taking into account any recipient's personal objectives, financial situation or needs. Because of this, recipients should, before acting on this information, consider its appropriateness having regard to their individual objectives, financial situation and needs. This information is not to be regarded as a securities recommendation.

The information in this factsheet may contain material provided by third parties, is given in good faith and has been derived from sources believed to be accurate as at its issue date. While such material is published with necessary permission, and while all reasonable care has been taken to ensure that the information in this factsheet is complete and correct, to the maximum extent permitted by law neither PFSL nor any company in the Pental group accepts any responsibility or liability for the accuracy or completeness of this information.

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 factsheet and PFSL reserves the right to vary these from time to time.