

Pendal Active Balanced Fund

ARSN: 088 251 496

Factsheet

Multi-Asset Strategies

29 February 2024

About the Fund

The Pendal Active Balanced 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 higher weighting towards growth assets than defensive 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-Balanced-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 primarily managed by specialist teams within Perpetual Group, including Pendal for alternatives, fixed interest and Australian equities, and a range of specialist managers within the Group for international equities. In respect of global listed property, we have outsourced to a specialist global property manager, AEW. The Perpetual 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	29	20	40
International shares	32	20	40
Australian fixed interest	8	0	25
International fixed interest	9	0	25
Australian property securities	2	0	10
International property securities	2	0	10
Alternative investments	14	0	20
Cash	4	0	20

*Neutral positions effective from 20 December 2023.

Investment Team

The Fund is managed by Perpetual's Multi-Asset Strategies Team. The team has a diverse skill set, with deep experience in asset allocation and portfolio construction; and draws on the broader resources of Perpetual Group's other specialist teams around the world. During March 2024 the prior responsible investment management team, being the Pendal Multi-Asset Investments Team, merged with the Perpetual Multi-Asset Team.

Performance¹

(%)	Total Returns (post-fee)	(pre-fee)	Benchmark Return
1 month	1.61	1.69	2.43
3 months	6.25	6.50	8.05
6 months	4.43	4.92	7.25
1 year	9.08	10.13	14.76
2 years (p.a)	4.85	5.86	6.64
3 years (p.a)	6.85	7.88	6.97
5 years (p.a)	6.35	7.37	7.15
Since Inception (p.a)	7.35	8.41	-

Source: Pendal as at 29 February 2024

"Post-fee" returns assume reinvestment of distributions and is calculated using exit prices. "Pre-fee" returns exclude the effects of management costs and any taxes. Returns for periods greater than one year are annualised. Fund inception: October 1989

Past performance is not a reliable indicator of future performance.

Asset Allocation (as at 29 February 2024)

Australian shares	30.4%
International shares	31.6%
Australian property securities	2.3%
International property securities	1.9%
Australian fixed interest	8.5%
International fixed interest	9.0%
Alternative investments	14.5%
Cash	1.8%

Other Information

Fund size (as at 29 February 2024)	\$266 million
Date of inception	October 1989
Minimum investment	\$25,000
Buy-sell spread ²	
For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
Distribution frequency	Half-yearly
APIR code	RFA0815AU

² The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Fees and costs

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

Management fee ³	0.95% pa
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³ This is the fee we charge for managing the assets and overseeing the operations of the Fund. The management fee is deducted from the Fund's assets and reflected in its unit price.

¹ The asset allocation neutral position, asset allocation ranges and the benchmark have changed over time. As it is historical information, the Fund performance reflects the asset allocation neutral positions and ranges that have applied over time. The benchmark performance shown is that of the combined benchmarks that the Fund has aimed to exceed over time.

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

As bonds retraced on the back of the pushing out & reduction of rate cut expectations, stocks were unbothered as we saw a typical 'risk-on' month in February. Bonds were down & stocks were up with the risk-on sentiment continuing this month. Stocks ignored any macro concerns as share prices continued to rise. Meanwhile, bonds were affected by the hotter than expected January Core PCE figure and higher than expected PMIs, pushing out rate cut expectations for 2024.

The MSCI World Developed Markets index (local currency terms) gained 4.6% in February driven by strong performance in the US. The MSCI Emerging Markets index outperformed, posting a strong month, gaining 5.1%. Continuing their recent momentum, US indices rallied hard during reporting season as the S&P500 (5.2%), Nasdaq (6.1%), Dow Jones (2.2%) were all up on January. Whilst within Emerging Markets, the gains were driven by a strong rebound in Chinese stocks on the back of supportive Chinese government announcements, such as a cut to the loan prime rate. In regard to style factors, "growth" was dominant over "value". Large caps outpaced their smaller counterparts with strong gains posted by the 'Mag 5' (excludes Apple & Tesla) during the US reporting season.

Australian equities bounced around in February before ultimately rallying into month end and posting a 1.0% gain for the month (S&P/ASX 300). The top performing sectors this past month were Information Technology, Consumer Discretionary and Real Estate. The sectors that underperformed the most were Energy, Materials and Health Care.

On hotter than expected macro data released in February, US and Australian 10-year benchmark yields rose 29bps & 12bps, respectively. Credit spreads pushed notably lower. Futures unwound their rate cutting expectations from 6 cuts starting in March, to 3 cuts starting in July which is aligned with Fed guidance. These rate cuts have been removed from expectations as opposed to pushed into 2025. The Bloomberg Global Aggregate AUD (Hedged) index as a result fell -0.8%.

Commodities on aggregate sold off, with the Bloomberg Commodity Index closing the month down -1.9% driven by Natural Gas which sold off over 20%. Production cuts from OPEC & Russia boosted Energy as WTI Crude Oil rallied off support, up 3.9% on the month. The VIX remained contained, trading in a tight range and finishing at a low level of 13.4 points.

Fund performance

The Fund underperformed its benchmark over the month driven by security selection within the various asset classes, whilst active asset allocation across the various asset classes detracted marginally.

In regard to security selection, underperformance within the Alternatives asset class was the main detractor. Driving the underperformance within Alternatives was the sustainable listed investment companies, which sold off in line with higher interest rates given their longer dated bond like cashflows. The alternatives benchmark also proved to be a difficult reference point over the month, given its substantial exposure to tech stocks which rallied over the month, whilst the Alternatives asset class by definition tends not to hold such stocks. The value style Barrow Hanley within International Equities also contributed negatively, given the month favoured growth stocks.

Our active asset allocation positioning at the start of February had moved to more modest overweight to bonds whilst maintaining a neutral equity position. Despite the sell-off in bonds over the month the main driver of the slight underperformance from the active asset allocation was the relative value equity positions, and in particular the underweight position in the US equity market.

Our active asset allocation positioning at the start of March maintained the more modest overweight to bonds and neutral equity position. We maintain our concern around the lagging effects of substantial cumulative global interest rate hikes, with markets effectively pricing in perfection and substantial interest rates cuts by central banks. However, the economic data and market technicals remains supportive of risk assets, as such we view it's hard to get bearish on equities. In this current uncertain economic environment and modest investment signals, results in our cautious and patient stance for now.

Outlook

The economic backdrop remains reasonably supportive for markets, although we remain mindful of still material risks. US inflation continues to trend in the right direction, which opens the door to rate cuts at some stage. February did see some inflation data points that were higher than expected. The message from the Fed is that the path to lower inflation is unlikely to be linear and that the overall trend remains in the right direction. At the same time, the US economy is holding up relatively well. This is important as it means the Fed can afford to sit on its hands and wait for confirmation that inflation is indeed being brought under control.

If we start to see a material deceleration in the economy, it would risk an earnings recession which could drag on equity markets, however, could also force the Fed into cutting rates sooner than they otherwise would.

At the other end of the spectrum, there is also the risk that inflation remains stubbornly high or even rebounds. This could drag on equity & bond markets, which continue to price in cuts for 2024.

Whilst we still view equity market valuations are generally close to fair in aggregate, US equities remain expensive driven by excitement around AI. Although economic conditions have been remarkably resilient in the face of rapid interest rate increases to date, the lagged impact of higher rates remains a risk. Recent positive momentum in equity markets however leads us to a neutral overall outlook on equities, and we're focusing our attention on a number of attractive relative value opportunities between markets.

For bonds, yields are broadly in line with our estimates of fair value, as attractive yield levels are offset by unattractive curve shapes. Whilst bond yields are only priced at fair value, their higher levels vs the last decade means bonds would be expected to provide their traditional “risk off” portfolio benefits in the event of an equity market downturn.

Overall, we remain cautious on the near-term outlook as we face a potential turning point in the economic and market environment. Despite some attractive relative value trades, our positioning across the funds is modest as we prefer at this point in time to be patient and wait for more attractive opportunities.

For more information please call 1300 346 821,
contact your key account manager or visit pendalgroup.com

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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.