PENDAL

Factsheet

Multi-Asset Strategies

June 2018

Pendal Active Moderate Fund

Previously known as 'BT Wholesale Moderate Fund'

ARSN: 610 997 709

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. **Tactical 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 tactical 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	24	10	30
International shares	17	0	20
Australian fixed interest	20	10	45
International fixed interest	12	5	40
Australian property securities	3	0	15
International property securities	1	0	15
Alternative investments	15	0	20
Cash	8	3	30

Investment Team

The Fund is managed by Stuart Eliot who has more than 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: Income & Fixed Interest and Equity.

Performance

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.52	0.59	1.27
3 months	2.69	2.91	3.32
6 months	1.58	2.00	2.56
1 year (pa)	7.47	8.37	7.42
Since Inception (pa)	6.78	7.68	6.54

Asset Allocation (as at 30 June 2018)

Australian shares	23.7%
International shares	18.8%
Australian fixed interest	17.7%
International fixed interest	10.4%
Australian property securities	3.9%
International property securities	1.0%
Alternative investments	16.6%
Cash	7.9%

Other Information

Fund size (as at 30 Jun 2018)	$140 million
Date of inception	June 2016
Minimum investment	$25,000
Buy-sell spread[1]	0.24% (0.12%/0.12%)
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]	0.06% 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 finished the June quarter with a gain of 8.4%, closing the financial year with a 13.2% return. Earnings growth has powered these gains, as the Royal Commission and a challenging environment has seen the banks de-rate, keeping the market's aggregate valuation rating steady. This is important, as ultimately we see earnings-driven market growth as more sustainable than valuation-driven returns. All of the GICS sectors, except for Telecommunication Services (-13.3%) finished the quarter higher. In particular, most managed to record double-digit gains, including Energy (19.8%), Health Care (+15.9%), Consumer Staples (+12.0%), Materials (+11.4%), Information Technology (+11.0%), Consumer Discretionary (+10.6%) and Real Estate (+10.0%).

During the June quarter, global equity markets were heavily influenced by geopolitical influences which obscured the more fundamental drivers of performance. The US-instigated trade policy moves were primarily targeted towards China but also encountered Canada, Australia and Europe, which served to provide uncertainty on the impact on multi-national corporations. Amid trade tensions and political brinkmanship, commodity markets proved more buoyant. Crude oil prices moved to their highest level since 2014 to advance above US$80 at their peak. Despite trade war fears and consternation over central bank policy direction, most major share markets advanced for the quarter, while a weaker Australian dollar translated to a 5.5% gain in the MSCI World (A$) Index.

US stocks advanced during the quarter, despite the market's preoccupation with trade tensions. However, there was considerable dispersion across industry sectors. Momentum moved in favour of trade-related and growth oriented sectors, with Energy the standout performer. Consumer Staples lagged on concerns that a stronger US dollar would impact profitability, with many of the major operators having businesses outside of the US. Expectations of higher interest rates also weighed on the sector while US economic data continued to paint a picture of strength. The market closed the June quarter with the S&P500 delivering a total return of 3.4%, while the NASDAQ rallied with a return of 6.3%.

The performance of European equity markets saw considerable dispersion through the quarter, with many Nordic markets setting the pace while others like Italy (-2.4%), Germany (+1.2%) and Spain (+0.7%) generally lagged. Economic data pointed to a mixed outlook. Headline inflation for the region edged up to 2%, driven by higher food and energy prices, although core inflation was subdued at 1%. A rise in the eurozone Purchasing Managers' Index (PMI) from 54.1 to 54.8 was above expectations; however, consumer sentiment and retail sales indicators in some key markets were somewhat disappointing. For the quarter, the UK (+8.2%) was a standout performer, alongside Finland (+6.8%) and France (+4.9%) which were in contrast to the weakness in some other markets.

Most Asian equity markets ended the quarter lower, given the expectation that emerging markets are net losers in a trade war between the US and China. Concerns over China's growth more generally, acted to weaken regional markets. During June, the People's Bank of China announced a reserve ratio cut of 0.50% (the reserve ratio is the portion of depositors' balances that banks must have on hand as cash) to generate liquidity and support growth, which reflected some concerns over the growth trajectory. The region's weakness was reflected in the returns for Thailand (-10.2%), Malaysia (-9.2%), Hong Kong (-3.8%) and Singapore (-4.7%), while Japan (+4.0%) traded into positive territory after assistance from a weaker yen.

The Australian dollar declined by 3.6% against the US dollar but rose against the euro (+1.6%), the British pound (+2.3%) and the Japanese yen (+0.5%).

Australian bond yields finished the quarter relatively unchanged. After increasing earlier in the quarter on improving broader risk sentiment, concerns over geopolitics caused a retracement lower in late May and June. These worries included Italian political turmoil and escalating trade tensions. Meanwhile, the Reserve Bank of Australia (RBA) left rates unchanged through the period and made few changes to its statement. The board did however highlight some of the aforementioned geopolitical factors as well an easing in the Sydney and Melbourne housing markets. Local data was relatively mixed over the period. First quarter GDP rose a healthy 1.0% while the trimmed mean measure of CPI printed at 0.5% over the same period, as did quarterly wage growth. Leading indicators like business conditions and consumer confidence were reasonably constructive. Other noteworthy local developments included the third round of the banking Royal Commission. Finally in terms of market movements, the 3-year yield fell 4bps to 2.07% while the 10-year yield rose a marginal 3bps to 2.64%. Meanwhile, three month BBSW rose 8bps to 2.11% and importantly, its spread versus OIS widened further, causing some concern over local funding costs.

Global bond yields finished the quarter higher overall. After increasing in the first half of the period on improving broader risk sentiment, concerns over geopolitics drove a retracement lower in late May and June. These worries included Italian political turmoil and escalating trade tensions. On the former, an unexpected coalition between two Italian populist parties saw intentions for anti-euro policies announced, which spooked investors. However, sentiment improved at the end of May as the proposed measures were abandoned and a less euro-skeptic finance minister was appointed. Turning to the US, the Federal Reserve hiked rates by 0.25% and issued a more hawkish rate outlook. Data was relatively healthy over the period and annual core CPI increased to 2.0%. Meanwhile in Europe, the European Central Bank (ECB) announced it would end its quantitative easing program in December this year, but keep rates at their current levels until at least the European summer 2019. This in turn was perceived as a dovish message from the central bank. Beyond developed markets, several emerging economies endured significant issues over the quarter, including Turkey, Brazil and Argentina that added to investor worries. Finally turning to market movements, the US 2-year yield and 10-year yield rose 26bps and 12bps to 2.53% and 2.86%, respectively.

Fund performance

The Fund delivered a positive return over the June quarter, supported by exposure to Australian and offshore equity and listed property markets. Global and Australian fixed income markets also generated positive, albeit modest returns which contributed to performance. Exposure to alternatives detracted from returns this quarter. At a Fund level, the contribution to performance was primarily driven by asset allocation outcomes, while manager contribution detracted value across a select number of strategies.

The contribution from tactical asset allocation was largely driven by the Fund's overweight exposure to Australian equities and listed property as well as underweight positioning in fixed income.

The key factors influencing our active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in BHP, Santos and Aristocrat and an underweight in NAB. These contributions were mitigated by overweight positions in Metcash, Telstra, JB Hi-fi and AMP.

Within the global equities portfolio, the Concentrated portfolio outperformed while the Core portfolio fell short of the benchmark but positively contributed to overall returns.

Our Alternatives core portfolio detracted from returns this quarter, with four of the eight sub-strategies within the core portfolio delivering negative returns, which more than offset the positive impact of the remaining four sub-strategies. The Alternatives strategy delivered a total return (before fees) of -2.07% vs. a cash return of 0.49%.

The event driven, global macro and relative value strategies made positive contributions this quarter. These were more than offset by detractions from the equity market neutral, dedicated short bias and long-short equity strategies which were hampered by weak equity market trends.

In relation to our tactical positioning within Alternatives, positioning in each sub-segment contributed to performance. Our long position in equity market futures added value, together with positioning in Australian and US bonds. Long positions in gold and copper detracted from returns, however our short volatility and long oil positions generated value. At the end of the period we added long positions in German equities and Australian bonds, and moved to a short on US bonds.

Strategy and outlook

Asset market valuations are not a material source of concern, however the degree to which these are being complicated by more esoteric forces like global trade and political brinkmanship give rise to factors which can distort underlying fundamentals. At the same time, uncertainties such as these can lead to temporary bouts of volatility and greater dispersion between the performance of different asset classes, sectors, industries and companies. This is a very fertile ground for investors to take active, research based decisions on where and how to allocate capital.

While some challenges may persist due to imbalances across markets to warrant a degree of caution, Pendal in continuing to apply its multi-faceted approach to generating additional returns on these investments and managing risks, with both short term and medium term considerations, and being cognisant of structural and cyclical drivers. We have recently taken advantage of such moves which have been supported by our modelling. By managing our relative exposures to growth and defensive assets and maintaining a material allocation to the diversifying properties of Alternatives, we can demonstrate that opportunities do exist when employing a dynamic approach to allocating capital.

Investors can expect to see some refinements in asset allocation as we actively position the Fund to meet its longer term targeted outcomes, while retaining the ability to take advantage of active allocation opportunities as they arise.

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

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