

Pendal Active Moderate Fund

Multi-Asset Strategies

Previously known as 'BT Wholesale Moderate Fund'

September 2018

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	-0.65	-0.59	-0.40
3 months	0.84	1.05	1.62
6 months	3.55	3.99	5.00
1 year (pa)	6.54	7.44	8.07
2 years (pa)	6.14	7.02	6.20
Since Inception (pa)	6.40	7.30	6.55

Asset Allocation (as at 30 September 2018)

Australian shares	22.8%
International shares	17.4%
Australian fixed interest	20.9%
International fixed interest	11.4%
Australian property securities	3.4%
International property securities	0.9%
Alternative investments	13.7%
Cash	9.5%

Other Information

Fund size (as at 30 Sep 2018)	\$161 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 Costs²

Issuer fee ³	0.85% pa
Estimated indirect costs ⁴	0.07% 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 Australian share price index recorded marginal gains (+0.2%) over the September quarter, although with dividends added, the Accumulation index was 1.5% higher. The domestic equity market started July on a solid footing and was able to maintain its momentum during the August reporting season, supported by a large cohort of growth stocks which drove the market higher. However, the euphoria quickly lapsed in September as a confluence of macro thematic factors drove investor sentiment, including the ongoing Sino-US trade conflict, as well as rising global bond yields and the oil price. The Royal Commission also remained an overhang for the Financials (-0.2%) sector, with Banks (-0.5%) in particular seeing limited buying support. The interim report of the Royal Commission was released at the end of September.

Financials, Materials (-1.2%), Consumer Staples (-1.0%) and Utilities (-3.9%) registered negative returns for the quarter. Gold miners (-11.9%) were hit the hardest as the gold price continued to slide due to a higher greenback and rising global bond yields. On the other side of the spectrum, the recently beleaguered Communication Services (+24.8%) was the best performing sector over the quarter. Information Technology (+10.2%) also recorded double-digit gains over the period. The sector now trades on a 30x next 12-months (NTM) P/E multiple, compared to the broad market's 15-16x. Lastly, Health Care (+4.6%) also recorded solid gains over the quarter, as sector heavyweight CSL (CSL, +5.1%) reported strong headline growth and margin expansion.

Global equities delivered a strong return for the quarter as a result of three consecutive months of positive returns. Gains were led by a strong rally in US stocks, with investor sentiment held aloft on continued positive news on the economy and corporate earnings. Implications from the Trump tariffs appeared as a side show, although the impacts were more prevalent in Asia and other emerging markets. European markets experienced a more volatile quarter, commencing July positively before weakening in August and recovering somewhat in September. The benchmark MSCI World ex Australia Index closed the quarter with a return of 7.4%.

The US stock market reached twin milestones in August by marking the longest ever bull run in its history and reaching another all-time high. Supporting the market was another strong quarterly reporting season, led by cyclical sectors. Concerns over trade tensions simmered from the US perspective and the market distanced itself from the political arena to support businesses delivering strong earnings, although some weakness emerged in the mega technology players following the latest round of earnings releases. Twitter, Netflix and Facebook experienced rapid sell-downs following their earnings announcements, although sectors like Industrials and other cyclical sectors fared considerably better. The latest economic data confirmed the buoyant conditions in the economy, with GDP reaching an annual rate of 4.1% the strongest pace of growth since 2014. The market closed the quarter with the

S&P500 delivering a total return of 7.2%, while the NASDAQ also rallied with a return of 7.1%.

European markets exhibited a mixed set of returns, driven by a number of country-specific factors. The region was spooked by the prospect of contagion from the deteriorating economic conditions in Turkey and Italy, although these impacts appeared to be contained. Markets took some confidence out of the latest economic data which showed headline inflation for the region advanced 2.1% for September although core inflation remains low at 0.9%. European Central Bank (ECB) President Mario Draghi noted the "relatively vigorous" pickup in inflation, indicating firmer expectations particularly in light of strengthening labour markets. A similar direction for inflation was noted for the UK market, which ended the quarter down 1.7% after the boost from higher oil prices was offset by concerns over the prospect of a hard Brexit. Switzerland (+5.6%) and France (+3.2%) were the best performing markets, while Germany (-0.5%), Italy (-4.2%) and Spain (-2.4%) weighed on the broader region's relatively flat return.

Asian equity markets posted a mixed set of returns. Another increase in US interest rates and imposition of tariffs by the US on US\$200 billion worth of imports from China impacted returns from China's Shanghai Composite index (-0.9%), although southeast Asia markets like Thailand (+10.1%) and Malaysia (+6.0%) advanced. Japan (+8.1%) was the standout performer in September. Higher US bond yields kept a lid on the yen, while Shinzo Abe's successful election for a third consecutive term as Liberal Democratic Party leader provided a boost to markets.

The Australian dollar continued to weaken on concerns related to China and emerging markets. The local unit was 0.9% lower against the US dollar and 0.5% against the British pound but 0.3% firmer against the euro.

Australian bond yields dropped midway through the quarter before rising into the end of September. This followed swings in global macro sentiment during the period where geopolitical concerns intensified then cooled by quarter-end. Meanwhile, there was little action regarding domestic monetary policy with the RBA leaving rates unchanged over the quarter. The RBA's monthly statements were largely unchanged over the quarter; however, its communication did offer a more constructive view on the Australian labour market and global economic conditions. Overall though, the Board's communication over the period suggested rates will remain on hold over the near-term. Regarding domestic data, GDP growth surprised to the upside with a solid 0.9% for the second quarter, which brought the year-on-year rate to 3.4%. Labour market data was also reasonably healthy with 50,900 jobs added in July and 44,000 added in September. Meanwhile second quarter inflation was weaker-than-anticipated with the RBA's preferred gauge, the trimmed mean, growing only 0.5% for the quarter and 1.9% year-on-year. Finally on market movements, Australian 3 and 10 year rates rose 1bp and 4bp to 2.08% and 2.68%, respectively. At the very front-end, 90-day BBSW fell a modest 17bp to 1.94%.

Global bond yields dropped midway through the quarter before rising into the end of September. This followed swings in global macro sentiment during the period where geopolitical fears intensified then cooled by quarter-end. Trade wars were one of the chief concerns for investors early in the quarter as US and Chinese policymakers implemented successive rounds of tariffs and threats of further action. However, concerns eased during September as markets began to believe an endgame was in sight. Similarly, worries over emerging markets contagion receded with several positive developments for individual countries. Meanwhile in the US, the FOMC delivered a 25bp rate hike in September (as widely expected). The Committee's target rate dot plot was closely scrutinised with their projections suggesting another rate hike in December and three increases in 2019. This outlook was reinforced by solid US economic data over the quarter. In Europe, the ECB left policy unchanged during the quarter and offered no change to its forward guidance. Also in the region the EU was also displeased with Italy's proposed 2019-2021 budget that suggested a deficit-to-GDP of 2.4%. This caused a sharp increase in the country's 10-year yields to 3.3%. Finally on market movements, US, 2 and 10-year yields increased a sizeable 29bp and 20bp to 2.82% and 3.06%, respectively.

Fund performance

The Fund delivered a positive return over the September quarter, supported by exposure to Australian and offshore equity and listed property markets. The Australian fixed income market also generated a positive, albeit modest return which contributed to performance but global fixed income was negative for the quarter, largely related to rising US bond yields. 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 key factors influencing the alpha generated through active management returns were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Metcash, Santos and Telstra plus holding no exposure to Insurance Australia Group contributed to returns. These contributions were partially reduced by overweight positions in Origin Energy and Caltex, and holding no exposure to Woodside Petroleum and Brambles.

Within the global equities portfolio, the Concentrated and Core portfolios fell short of the benchmark but positively contributed to overall returns, given the strong performance of global equity markets.

Our Alternatives core portfolio detracted from returns this quarter, with three of the eight sub-strategies within the core portfolio delivering negative returns, which more than offset the positive impact from two other sub-strategies. The Alternatives strategy delivered a total return (before fees) of -1.55% versus a cash return of 0.52%.

The Equity Market Neutral and Dedicated Short Bias strategies made detracted from returns this quarter in line with expectations in a positive market. Similarly, the Managed Futures strategy contributed to performance, largely from positioning within Energy, Metals and Agriculture sectors and long positions in equity Index markets. The Convertible Arbitrage strategy benefitted from a general appreciation of convertible bonds over the quarter, while event driven strategies made a small deduction.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a neutral impact on performance. Our long position in equity market futures, primarily in the US generated returns, although this contribution was offset by a long position in copper. At the end of July we re-established a short position in US bonds, having been either short or square since the end of February. The Gold position was switched from long to short at the end of July and Copper switched from long to short at the end of August.

Strategy and outlook

We are continuing to see growing dispersion in the performance of different capital markets, reflective of both fundamental and technical underlying forces. Consider the strength of US corporate earnings and the rise in the S&P500 Index which has increased by over 150% in the past seven years, together with US bond yields continuing on an upward path as the Fed normalises interest rates. This is considerably contrasted against the benign interest rate environment in Australia and Europe. We think that bond yields may continue to rise here, but ultimately they are unlikely to rise too far. The forthcoming RBA's Statement on Monetary Policy will provide a clearer picture into the likely path for monetary policy. But there is little to suggest that there is likely to be a change anytime soon.

In Europe, the central bank authorities are somewhat optimistic based on commentary on emerging inflation and employment data, but appear some way behind the curve of US monetary settings. These challenges in reflating and sustaining economies may persist due to imbalances across markets, which warrant a degree of caution. Growing dispersion is often accompanied by higher market volatility, which increases risk but also opportunities through mis-pricing. The recent spike in volatility has demonstrated that opportunities can arise when employing a dynamic approach to allocating capital. Pendal continues to apply its multi-faceted approach to generating additional returns on these investments and managing risks, most notably with a balanced allocation across traditional markets and the diversifying properties of alternatives.

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

PENDAL

This factsheet has been prepared by Pendal 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 Pendal 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.pendalgroup.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 Pendal 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.