PENDAL

Factsheet

Multi-Asset Strategies

December 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. **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	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 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: Equity and Bond, Income & Defensive.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.47	-0.39	-0.19
3 months	-4.55	-4.35	-3.12
6 months	-3.75	-3.34	-1.55
1 year (pa)	-2.24	-1.41	0.97
2 years (pa)	3.19	4.05	4.04
Since Inception (pa)	3.81	4.69	4.56

Asset Allocation (as at 31 December 2018)

Australian shares	21.7%
International shares	17.1%
Australian fixed interest	20.9%
International fixed interest	12.9%
Australian property securities	3.5%
International property securities	0.9%
Alternative investments	13.4%
Cash	9.6%

Other Information

Fund size (as at 31 Dec 2018)	$168 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]	0.07% 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.

Markets review

The S&P/ASX 300 Price Index pulled back by 9.2% (-8.4%, Accumulation) over the course of the December quarter, marking the first negative year of the domestic equity market since 2011. The same index was 7.1% lower over the past 12 months, or -3.1% after accounting for dividends, as a result of market de-rating. The change in market sentiment overshadows the positive earnings change posted by companies, particularly in relation to resource companies, which have been benefiting from an elevated level of commodity prices. In contrast, Financials have been a large drag on all fronts over the year. Revelations from the Royal Commission saw investor confidence for the sector plunge to historical lows; whereas the earnings outlook also remains subdued due to limited mortgage growth and higher funding costs for banks. Looking at sector performance more closely, all of the 11 GICS sectors finished the quarter lower, although some recorded smaller losses than others. Utilities (-3.1%) was the best performing sector, driven by AGL's (+5.6%) strong performance; whilst Energy (-21.6%) was the worst. 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.

Global equity markets saw the return of more volatile conditions during the December quarter, after the positive sentiment that has held markets afloat this year dissipated. Volatility spiked in October as some of the US mega tech stocks that have driven the market higher through the year dampened investor expectations. The trade tensions between China and the US simmered after Presidents Trump and Jinping came together to formalise intentions, while concerns over monetary over-tightening in the US added to the cautious tone in markets.

The US share market felt the supports being pulled away after some unexpected reporting results from Amazon, Google's parent entity Alphabet, and Apple. The latter spooked the market with its decision to cease reporting unit sales, while Alphabet reported lower than expected revenues and Amazon alerted the market to expectations of lower sales volumes through the holiday trading period. November saw a temporary reprieve before Trump's comments on Chairman Powell's impending actions to tighten monetary policy suggest the move will stifle the economy's growth. The market fell into correction territory for the quarter after the S&P500 lost 14.3% while the NASDAQ fell 17.4%.

European share markets were uniformly lower as investors reacted to both offshore developments and regional concerns. Italy came into the spotlight after the European Union rejected its latest budget proposal. Subsequent reports emerged that Italy would target lower budget deficits for 2019 and 2020, although ratings agency Moody's proceeded to announce a downgrade to Italy's sovereign debt rating to Baa3 – one notch above junk bond status. Elsewhere, markets were impacted by lower oil prices and growing uncertainty over the shape and form of Brexit as the target date draws near. Considering the implications for the broader economy in such a scenario, the Bank of England kept its official cash rate unchanged at 0.75%. Social unrest in Paris also contributed to declines on France's stock exchange, leading to a quarterly return of -14.1%, while the FTSE 100 lost 10.2% and Germany's DAX fell by 14.4%.

Most of Asia's equity markets also moved into correction mode, responding to issues surrounding the US and China. China's economic growth eased to 6.5%, signalling a slowing of expansion, while weakness in technology stocks offshore transpired to weakness among Asia's technology sector. A strengthening yen and imposition of tariffs on China weighed on Japan's performance (-17.5%). China's Shanghai Composite (-11.6%) reflected weakness in the mainland, while Hong Kong (-7.0%) fared little better, while the performance of Singapore (-5.7%), Korea (-13.0%), Taiwan (-12.0%) highlighted the disparate nature of investor sentiment across the region.

The Australian dollar lost ground against all major currencies, reflecting the risk-off tone on equity markets and the slide in key commodity prices. The local unit fell 2.4% against the US dollar and 1.5% against the euro but devalued by 6.1% against the Japanese yen and 3.6% against the British pound. Commodity markets witnessed a strong correction as the crude oil price fell by 40% to close at US$45.40 per barrel and the Trade-Weighted Index (TWI) declined 2.4%. The Gold price naturally rose to an 8% gain, closing at US$1282.45.

Australian bond yields sank on safe-haven demand as global equities endured a sizeable sell-off. A number of factors eroded investor confidence including ongoing trade war worries, the US government shutdown, weaker Chinese data and an unpopular rate hike from the Federal Reserve. In contrast, domestic monetary policy was again fairly uneventful with the RBA leaving the cash rate at 1.50%. Despite communication suggesting an eventual hike was preferred to a cut, market pricing for the next year shifted to the latter. The cash market was also guided by offshore developments as a widening in the US LIBOR-OIS spread fuelled a similar increase in its domestic BBSW-OIS cousin. Data-wise, a disappointing third quarter GDP figure revealed 0.3% growth over the quarter. Meanwhile 37k jobs were added over the month and the unemployment rate ticked up to 5.1% (due to a rise in participation). Leading indicators were mixed with a fall in business conditions and confidence, but a small rise in retail sales and consumer confidence. Finally, Australian 3 and 10 year yields fell by 20bps and 31bps to 1.84% and 2.33% respectively, while 90 day BBSW rose 18bps to 2.09%.

Global bond yields sank during the quarter on safe-haven demand as equities endured a sizeable sell-off. A number of factors eroded investor confidence, including fears of a trade war escalation that were reignited after Huawei's CFO was arrested. Market concerns were later compounded by disagreements between Trump and House Democrats on US border protection funding, which eventuated in a partial US Government shutdown. Further sapping investor sentiment was an ill-received 25bps interest rate increase from the Federal Reserve with another two hikes projected for 2019. Data-wise, payrolls revealed softer-than-expected additions for September and November. Meanwhile, the annual rate for Core PCE slipped back below 2.0% to 1.9%. Leading indicators were more encouraging, including continued strength in the ISM Manufacturing survey data. Elsewhere, some progress was made on policy issues in Europe, including the Italian budget and UK PM Theresa May survived a leadership challenge. In Asia, weaker Chinese data added to investors' woes as the NBS gauge of manufacturing activity fell to 49.4, firmly into contractionary territory. Finally the US 2 year and 10 year rates fell by 38bps and 46bps to 2.49% and 2.69% respectively.

Fund performance

The Fund's negative return for the December quarter was largely a function of its exposure to Australian and offshore equity markets which declined in value through the quarter. Exposure to alternatives also detracted from returns. Diversification through exposure to Australian and global fixed income delivered positive contributions to performance as Australian and US bond yields eased.

Underperformance was primarily driven by manager contribution which was most prevalent in Australian equities, the core global equity strategy, and alternatives.

The key factors influencing the alpha generated through active management were stock selection outcomes within Australian equities. Within the Australian equity strategy, overweight positions in Qantas, Ramsay Health Care and Evolution Mining, plus holding no exposure to Woodside Petroleum contributed to returns. These contributions were more than offset by overweight positions in CYBG, Santos and Nine Entertainment together with an underweight to Woolworths.

Within the global equities portfolio, the Concentrated and Dynamic Market equity strategies significantly outperformed their benchmarks while the core strategy detracted from relative performance.

Our Alternatives core portfolio registered a negative return this quarter. Through the quarter, six of the eight sub-strategies delivered negative returns, while one had a positive impact and the remaining strategy was neutral in impact. The Alternatives strategy delivered a total return (before fees) of -2.33% versus a cash return of 0.48%.

The Managed Futures, Long-Short Equity and Global Macro strategies generated negative returns this quarter after being impacted by long positions in commodity markets, notably energy contracts. Positioning within currency & fixed income markets also detracted from performance. The sole positive contributor over the quarter was Event Driven (+0.3%). Nearly 80% of the merger deals made gains over the quarter, on the back of a high percentage of successful completions vs cancelations.

In relation to our tactical positioning within the Alternatives component of the Fund, the overall positioning had a negative impact on performance. Gains through short positions in certain equity market futures were offset by losses in others, together with detractions from volatility positioning.

Strategy and outlook

We are in an environment of elevated macro uncertainty which, in combination with the persistent withdrawal of market liquidity as various central banks wind back QE and credit growth slows, is driving sharp swings in share markets. Key risks to growth are centred around two primary issues – the potential for over-tightening of interest rates in the US and the future of trade policy between the US and China. The market has been in a more upbeat mood on both these issues in recent weeks, although uncertainties remain and any disappointing developments here could see the market re-test its December lows. Europe's economy is also continuing to soften and given present uncertainties around the nature of Brexit this presents an additional area of risk.

Volatility in equity markets witnessed in recent weeks have naturally made investors feel uncomfortable. However, as we have discussed recently, this can be seen as a return to more normal market conditions. Even with the turmoil experienced in the S&P500 in February, April, October and December, the actual volatility of returns is not out of step with many other historical observations. Volatility also provides opportunities to acquire undervalued assets and we are focused on identifying areas to add value.

We will continue to apply a multi-faceted approach to generating additional returns on 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**

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