Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

March 2019

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	1.14	1.22	1.28
3 months	5.61	5.83	6.17
6 months	0.80	1.23	2.86
1 year (pa)	4.38	5.27	8.00
2 years (pa)	4.97	5.85	6.24
Since Inception (pa)	5.52	6.41	6.42

Asset Allocation (as at 31 March 2019)

Australian shares	23.0%
International shares	17.5%
Australian fixed interest	19.4%
International fixed interest	12.8%
Australian property securities	3.6%
International property securities	1.0%
Alternative investments	14.0%
Cash	8.7%

Other Information

Fund size (as at 31 Mar 2019)	$193 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 Australian equity market orchestrated a meaningful turnaround in the first quarter of CY2019, despite a somewhat less sanguine reporting season in February. A few factors contributed to the general improvement of investor sentiment: In the US there has been a material shift in rhetoric from the Fed. Comments now indicate a more dovish stance suggesting the board is not as deaf to market feedback as many feared. While we are still facing an environment of reduced liquidity, investors are now less concerned that a sharp liquidity crunch could drive a more sustained correction.

Overall, the S&P/ASX 300 index capped its strongest quarter since September 2009, with a gain of 10.9%. Large cap Resources (+16.5%) outperformed strongly, whereas large cap Industrials (+7.8%) were laggards.

Most of the 11 GICS sectors recorded double-digit gains over the March quarter, with limited exceptions being Health Care (+6.7%), Financials (+5.9%), and Consumer Staples (+5.0%). Information Technology (+20.0%), Materials (+17.7%) and Communication Service (+16.6%) had the largest absolute gains.

Most major share markets delivered strong double-digit returns for the March quarter to register the best quarterly performance since 2010. A number of supportive factors came together to buoy market sentiment, namely the US Federal Reserve indicating it may put further interest rate increases on hold, growing optimism towards US-China trade resolution and a continuation of strong corporate earnings in the US and Europe. Continuing iterations on the shape and form of the Brexit issue were increasingly kept in perspective, as were concerns over prospects for global growth generally. Positive sentiment led the benchmark MSCI World ex Australia (A$) Index to deliver an 11.5% for the quarter.

The US share market continued to lead other markets with strong gains. These were a product of recovery from the heavy sell down of the market in December, improving expectations on the US-China trade issue, continued corporate earnings growth (averaging 12% for the market) and receding concerns over the extent of monetary tightening by the Fed. Gains were fairly broadly based, although defensive sectors outperformed later in the quarter. The S&P500 closed the quarter with a healthy 13.1% gain, while the NASDAQ moved even higher to a 16.2% rise.

European share markets completed three consecutive months of gains, buoyed by similar sentiments in the US. European investors seemed to form a consensus on expectations for the EU's monetary tightening bias moving towards being on hold, which came to fruition in March when the Board cut growth forecasts and revised their guidance to leave interest rates unchanged "at least to the end of 2019". Economic growth data for the eurozone came in a 0.2% for the December quarter, with the annual rate being a modest 1.2% to fall below the 2017 level. Italy's economy appears to be faring worse after it slipped into a technical recession in the fourth quarter when the economy contracted by 0.2%, following a 0.1% contraction for the prior quarter. Although growth concerns persisted, they weren't enough to curtail investor sentiment and the region's Euro Stoxx Index rose 11.6% for the quarter, driven higher by strong performances by Italy (+16.2%), Switzerland (+12.4%), France (+13.1%) and Switzerland (+12.4%) while Germany (+9.2%) and the UK (+8.2%) were still strong but laggards in this regard.

Within the Asian region, Chinese stocks were a clear leader of the region, with the Shanghai Composite rising an impressive 23.9% and Hong Kong up a sizeable 12.4%. China set the pace for the region to continue a rally that began with the Lunar New Year as expectations of a resolution on the trade issue supported sentiment. Most other markets followed with gains although Malaysia was the sole exception, down 2.8% on local issues.

The Australian dollar was relatively unchanged against the US dollar but stronger against the euro and Japanese yen. In commodity markets the oil price formed a rapid ascension to rise 32.4% over the quarter to close at US$60.10 per barrel as Russia, Saudi Arabia and other top exporters constrained production in response to a growing oversupply.

Australian bond yields experienced a significant fall that was shared by global peers over the quarter. The decline appeared tied to more dovish messaging from central banks, as well as emerging concerns over the outlook for the US economy. These developments overshadowed wavering trade war and Brexit-related headlines. In Australia, the RBA left rates unchanged at 1.50% through the quarter as widely-expected. However, Governor Lowe noted over the period that the outlook for rates had become "more evenly balanced". In turn, expectations for a rate cut increased with two reductions now priced by year-end. This contributed to a decline in OIS rates, while separately repo rates fell and translated to lower funding costs for the banks. Data-wise, fourth quarter GDP figures revealed a weak 0.2% pace of growth over the quarter, which brought the year-on-year rate to 2.3%. Finally on market movements, Australian 3 and 10 year yields fell 44bp and 56bp to 1.40% and 1.77% respectively. 3 month BBSW saw a similar decline of 32bp to 1.77%.

Global bond yields experienced a significant fall over the quarter that was tied to more dovish messaging from central banks, as well as emerging concerns over the prospects for the US economy. These developments overshadowed wavering trade war and Brexit-related headlines. The outlook for Fed policy was perceived as increasingly dovish over the period. The majority of Committee members no longer anticipate additional hikes this year and a need to be "patient" on further increases was emphasised in their communication. In combination with softening economic data, market-implied pricing shifted to an eventual cut from the Fed over the next year. Data varied with a significant range, with Non-Farm Payroll numbers and leading indicators were also mixed. In Europe, the ECB also adjusted its policy stance to a more dovish lean at its March meeting. President Mario Draghi pushed back the central bank's expected timeframe for a rate hike to the end of the year and announced a new TLTRO program. Meanwhile in Asia, Chinese policymakers announced a lower growth target of between 6% and 6.5%, from the previous "around 6.5%". Finally in terms of market movements, US 2- and 10-year yields dropped 23bp and 28bp to 2.26% and 2.41%.

Fund performance

The Fund underperformed its benchmark over the March quarter. The Fund's return for the March quarter was largely driven by its exposure to Australian and offshore equity and property markets which experienced a strong rally. Overweight exposures to the best performing asset classes and investing in alternatives contributed to returns. The Australian and international fixed income made positive contributions to returns in keeping with its role of diversifying exposure to growth assets.

Performance relative to the benchmark was a function of our tactical asset allocation (TAA) and dynamic asset allocation (DAA) processes working in unison. Our TAA decisions saw the Fund's overweight exposure to Australian and global equities contribute to relative returns, while exposure to fixed interest assets had a fairly neutral impact. Our DAA process is intentionally designed to diversify and complement the TAA process by managing risks, particularly in persistently trending markets like we saw through the quarter.

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 Santos, Viva Energy and Fortescue Metals contributed to performance, although somewhat offset by overweight position in Qantas, CSL and Resmed - positions which have performed very well for our investors over the past year.

Within the global equities portfolio, the Concentrated, European Value and Emerging Markets strategies underperformed their benchmarks (pre fees) although they all delivered strong gains and performed in line with our expectations.

The Alternatives strategy delivered a total return (before fees) of +1.15% versus a cash return of 0.52%. Within our Alternatives core portfolio the Global Macro, Event Driven and Fixed Income Relative Value strategies contributed to returns, while the Equity Market Neutral strategy detracted from performance, in line with expectations during a positively trending market.

In relation to our tactical positioning within the Alternatives component of the Fund, contributions from positioning in copper and volatility were more than offset by a detraction from a short position in crude oil.

Since the end of the quarter we added new long positions in US and Australian equities and switched to a long position in Gold.

Strategy and outlook

Underlying asset markets have been trending higher in 2019, reflecting the prevailing influence on market sentiment from macroeconomic and political uncertainties. This is set against the generally positive earnings results of corporates and the more benign development of credit spreads. Despite the short term decline we saw at the end of 2018, markets have demonstrated a strong rebound this year which highlights the importance of remaining invested through longer periods.

The Fund’s performance through the past quarter has highlighted the importance of remaining invested in a long term strategy. The Fund’s performance also exhibits the benefit of having a well-diversified and disciplined investment strategy that can smooth returns from underlying assets which tend to be more volatile in isolation. We also structure the Fund to take advantage of temporal dislocations in markets through the use of modelling to guide tactical and dynamic asset allocation practices. These are useful in capturing trends and other well documented behavioural biases that prevail in market psychology.

We are unreservedly active in our approach to identifying and capitalising on opportunities to grow our investors’ retirement savings beyond what could otherwise be achieved through relying solely on market returns. We also seek to manage risks to those retirement savings through using the levers of tactical and dynamic asset allocation. Taken together, these approaches can have a synergistic effect in sourcing additional returns and managing risks.

The domestic market is likely to be preoccupied with issues like the upcoming Federal election, developments in the housing market and policy direction of the RBA. Looking further afield, investors are likely to remain alert to the prospects for growth in Europe, China, the UK and the US. Each market is facing well-publicised issues which have the potential to negatively impact retirement savings in worst-case scenarios.

Regardless of short term market gyrations, we are always focused on continual improvement through a rigorous, research-based approach and are focused on ensuring the funds are well positioned to achieve their long term objectives.

We remain confident that our tried and tested investment philosophy and asset allocation processes will continue to deliver favourable investment outcomes over the long term. We continue to employ an active approach to modelling scenarios and assessing market technical factors to identify opportunities and limit risks for our investors.

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

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