

Pendal Active Conservative Fund

ARSN: 087 593 100

Multi-Asset Strategies

December 2020

About the Fund

The Pendal Active Conservative 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 significant weighting towards 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 term. The suggested investment timeframe is three 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-Conservative-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	Max
Australian shares	9	0	20
International shares	11	0	20
Australian fixed interest	20	10	40
International fixed interest	20	10	40
Australian property securities	3	0	10
International property securities	2	0	10
Alternative investments	15	0	20
Cash	20	0	40

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.

Performance¹

(%)	Total Returns		Benchmark Return
	(post-fee)	(pre-fee)	
1 month	0.56	0.63	0.21
3 months	3.06	3.28	2.57
FYTD	4.22	4.66	3.60
6 months	4.22	4.66	3.60
1 year (pa)	2.11	2.96	3.56
2 years (pa)	4.87	5.75	6.24
3 years (pa)	2.91	3.77	4.76
5 years (pa)	3.54	4.41	4.83

Asset Allocation (as at 31 December 2020)

Australian shares	9.2%
International shares	10.5%
Australian fixed interest	18.3%
International fixed interest	19.8%
Australian property securities	3.6%
International property securities	2.5%
Alternative investments	17.4%
Cash	18.6%

Other Information

Fund size (as at 31 Dec 2020)	\$129 million
Date of inception	February 1990
Minimum investment	\$25,000
Buy-sell spread ²	For the Fund's current buy-sell spread information, visit www.pendalgroup.com
Distribution frequency	Quarterly
APIR code	BTA0805AU

² The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

Management Costs³

Issuer fee ⁴	0.83% pa
Estimated indirect costs ⁵	0.05% pa

³ You should refer to the latest Product Disclosure Statement for full details of fees and other costs you may be charged.

⁴ 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.

⁵ 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.

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.
- **Interest rate risk** - The risk associated with adverse changes in asset prices as a result of interest rate movements
- **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 made some further gains (+1.3%) in December, capping the year's return at +1.7%. Stronger commodity prices, the iron ore in particular, which gained ~70% over the year propelled returns for Resources (+8.4%/+9.2% Dec/CY20); whereas Industrials (-0.4%/-0.1%) were the laggard.

Covid cases in the US continue to rise and Europe has started to deteriorate again. In the UK concern centres on the rise of cases in London, and the focus has been on a potentially new strain/variant of Covid-19. While it has proven more infectious, there is no evidence to suggest this new strain will make people sicker or is more resistant to vaccines. The latter is critical to market sentiment.

Despite worsening health news and greater restrictions, the economy is holding up better than expected. This is despite softer consumer confidence and shoppers holding back from physical retailers and restaurants. November retail sales, released in December were softer, but real times measures suggest this may have picked up again. Surveys for holiday sales continue to look ok, with a substantial shift to online.

Global equity markets ended the year off well with positive US stimulus news and progress on vaccine rollouts contributing to positive returns. The MSCI World ex Australia (Net Dividends) Standard in USD earned a positive return over the month (4.20%). However, with US stimulus approved during December, the US Dollar weakened. Australian investors suffered from a large rise of 4.72% in the Australian dollar vs the US dollar, which saw the MSCI World ex Australia (Net Dividends) Standard in AUD return a negative -0.50%.

Driving global markets higher was the US market and especially the Nasdaq which rose 5.65% in local currency terms, whilst the broader S&P 500 rose 3.84%.

European markets also rose with the German DAX market gaining 3.22% and the UK FTSE market rising 3.10%. Asian markets showed positivity with the Hang Seng (3.38%) and Nikkei (3.82%) both earning positive returns in local currency terms. However, the rise in the Australian dollar vs the Yen (3.69%) and Hong Kong dollar (4.74%) softened these returns for Australian investors.

While positive US stimulus news and progress on vaccine rollouts bolstered markets in December, continuing fears of the SARS-CoV-2 strain of coronavirus and further lockdowns weigh on global markets moving into 2021.

Fund performance

The Fund outperformed the benchmark over the month of December.

Active positioning contributed very strongly to returns again in December, rounding off a very successful year for active asset allocation in Pandal's diversified funds. Our active tilts at the start of December remained risk-on but less so than the prior month, continuing the recent trend in our positioning as selected markets reach expensive extremes. The portfolio held overweights in a range of under-valued equity markets, underweights in expensive equity markets, and long volatility carry. Fixed income positions are relative value in nature. In commodities, we held long positions in copper, gold and Brent crude oil.

In equities, our active positioning driven by valuation insights held overweights in Mexico's Bolsa, long positions in the futures of EURO STOXX 50 dividends paid in the calendar year 2024 and FTSE 100 dividends paid in the calendar year 2023 and overweights to both global and Australian listed property, all of which screened amongst the most under-valued markets in the universe which we monitor. The portfolio was long equity volatility carry through VIX futures. On the other side we held short positions the Italian FTSE MIB, French CAC 40 and US S&P-500 indices, all of which are considered expensive within our valuation framework.

Our trend-following process held an overweight to S&P-500, offsetting the abovementioned valuation underweight. At the end of the month new trend-driven overweights were initiated in S&P/ASX-200 and German Dax indices.

In fixed income, the portfolio was directionally neutral with modest overweights in Australian and Canadian 10-year bonds offset by underweights in German Bunds, US 10-year Notes and UK Gilts. The Australian "3s-10s curve flattener" (which holds a long position in 10-year bond futures combined with a larger notional short position in 3-year bond futures) was held unchanged and we added to the Australian 10s-20s curve flattener.

In commodities, the portfolio was long copper, gold and Brent crude oil.

Our active positioning at the start of January is more risk-on than in recent months. The portfolio is positioned with overweights in a range of under-valued equity markets, underweights in expensive equity markets, long equity volatility carry and overweight markets exhibiting strong upward trends. Fixed income positions are relative value in nature. In commodities, we hold long positions in copper, gold and Brent crude oil.

Market outlook

The rate of Covid infection continues to deteriorate in the northern hemisphere, leading to lockdowns. Jobs have stalled well below pre Covid-levels in the US as the restrictions hit sectors such as leisure and hospitality. Health care systems are under pressure in several countries and regions. Meanwhile, a Covid outbreak in NSW has led to localised restrictions and state border closures.

Nevertheless, the market remains relatively positive, driven by the twin beacons of vaccines and policy support.

Vaccination programmes are ramping up – at differing rates – across many countries. This is giving hope of rolled back restrictions and demand growth. This remains a key risk to watch – any disappointment here could hit markets and the recovery sectors which have recently run hard.

Policy remains a key bulwark of market support. The Democrat victory in the Georgia run-off hands them control of the Senate – and Congress. This means more fiscal stimulus, against the backdrop of already extremely accommodative monetary policy.

The current policy settings are extraordinary. In short, we could see stimulus worth near 9% of US annual GDP channelled into the first quarters of 2021. Even if only a fraction gets spent in that period, it means both growth and earnings are likely to be a lot higher than current consensus expectations.

At the same time, we don't believe that the Georgia win leads to legislation of some of the more radical Democrat policies, given that their majority remains thin in both Houses. The markets concerns are centred on the potential for tax increases. Corporate tax rates are likely to increase, but from 21% to something in the vicinity of 23-25%, rather than the 28% pledged by Biden on the campaign trail.

It is also important to remember the importance of the Fed's conceptual shift from expected to actual inflation targeting and its stated desire to see inflation run above 2% for a sustained period. This is likely to require unemployment to drop below 3%, which is going to take some time. To give some context to this shift the Fed indicated that under the current policy framework the rise in rates post-GFC would have been delayed around 2 ¾ years.

The combination of this fiscal stimulus and Fed accommodation means the US economy could grow above 6% through 2021, driving earnings upgrades and supporting valuation.

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

PENDAL

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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.