Pendal Active Moderate Fund

ARSN: 610 997 709

Factsheet

Multi-Asset Strategies

January 2021

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	19	10	30
International shares	22	10	30
Australian fixed interest	15	5	35
International fixed interest	16	5	35
Australian property securities	3	0	10
International property securities	2	0	10
Alternative investments	15	0	20
Cash	8	0	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.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.44	-0.37	-0.12
3 months	5.20	5.42	4.34
6 months	6.15	6.60	5.40
1 year (pa)	0.29	1.14	1.65
2 years (pa)	5.89	6.79	7.53
3 years (pa)	3.57	4.45	6.08
Since Inception (pa)	5.04	5.93	6.27

Asset Allocation (as at 31 January 2021)

Australian shares	19.0%
International shares	20.3%
Australian fixed interest	13.5%
International fixed interest	14.7%
Australian property securities	3.6%
International property securities	2.7%
Alternative investments	16.9%
Cash	9.3%

Other Information

Fund size (as at 31 Jan 2021)	$185 million
Date of inception	June 2016
Minimum investment	$25,000
Buy-sell spread[1] For the Fund's current buy-sell spread information, visit www.pendalgroup.com	
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]	0.05% 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

Global markets pulled back toward the end of January, potentially from flows related to short squeezes. The recent positive sentiment around vaccines wobbled, with concerns over mutated strains and worries over production issues. This was exacerbated by some selling by hedge funds forced to de-lever in response a squeeze on some heavily shorted stocks. This dragged on the US market, whilst dampening market sentiment around the world. Against this backdrop, the S&P/ASX 300 Accumulation index finished the month flat (+0.3%), as a result of a large unwind in cyclical stocks over the last week of the month. Industrials (+0.6%) also gradually outperformed their Resources (-0.6%) counterpart.

On the Covid/vaccine front in particular, there was a lot of new data to digest. The Novavax vaccine trial data showed efficacy as good as Moderna's, with better tolerance and has a great ability to quickly ramp up production. The 65% jump in Novavax stock reflected how well the trial was received. Australia has signed up for 51m doses of this vaccine.

Trials in the UK and South Africa showed that efficacy fell from 96% for the original strain, to 86% for the UK variant and 49% for the South African version (60% for patients without HIV). Their plan is to develop a booster to deal with this, likely to be available in Q3. The other point is that this partial immunity still gives protection against severe infections - even with the South African strain.

Johnson and Johnson vaccine was more disappointing. Overall efficacy is around 66%; 72% for the original strain, down to 57% for the South African variant. Importantly, while it may be less effective than other vaccines at stopping infection, it is still very effective in preventing severe infections. As such, it will play a role in alleviating pressure on health care systems and reducing mortality. The company is also running two-dose trials, which may lead to improved results. It is important in that it is a key part of the European supply and can be rolled out more easily.

Globally, Energy & Health Care were the only sectors which rose in January. EM outperformed DM with the MSCI World Emerging Markets Index rising 3.1%, while the DM World returned -1.0% in USD terms. The Emerging Markets outperformance was partially driven by Asia ex Japan which rose by 4.1%. Australian investors benefitted from a fall of -0.57% in the Australian dollar vs the US dollar, however, the MSCI World ex Australia (Net Dividends) Standard in AUD returned a negative -0.45% for January.

In the US, the Nasdaq rose 1.42% in local currency terms, whilst the broader S&P 500 fell -1.01%. Market uncertainty impacted European markets with the German DAX market falling -2.08% and the UK FTSE market retreating -0.82%. Asian markets showed strength with the Hang Seng (3.87%) and Nikkei (0.80%) both earning positive returns in local currency terms.

Fund performance

The Fund underperformed the benchmark over the month of January.

We have added a new investment, the Regnan Global Equity Impact Solutions strategy, to the fund with a target allocation of 10% of global equities, which is expected to enhance both returns and diversification within the portfolio. Regnan Global Equity Impact Solutions aims to generate market-beating long-term returns by investing in solutions to the world's environmental and societal problems. The Strategy is a high conviction, diversified, global multi-cap portfolio with low turnover and a strong emphasis on driving impact through engagement. The experienced four-person Equity Impact Solutions team aims to generate long-term outperformance by investing in mission-driven companies that create value for investors by providing solutions for the growing unmet sustainability needs of society and the environment.

Our active positioning at the start of January was more risk-on than in recent months and was not immune to the recent Reddit-driven market turmoil, recording a modest negative contribution to returns in January all of which occurred in the last 3 days of the month. Market events such as these, while meaningful to those directly involved and providing plenty of entertaining content for market commentators, are essentially "noise" in the context of our investment process and, at the time of writing, January's negative returns have been more than fully recovered.

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 overweights to S&P-500, offsetting the abovementioned valuation underweight, Australia's S&P/ASX-200 and Germany's Dax indices. At the end of the month the S&P/ASX-200 overweight was closed, leaving the portfolio a little less "risk-on", but still positioned overall to benefit from rising equity markets.

In fixed income, the portfolio was directionally neutral with overweights in Australian and Canadian 10-year bonds offset by underweights in German Bunds, US 10-year Notes and UK Gilts. At the end of the month or valuation framework turned more positive on Australian and Canadian bonds in response to the higher interest rates now on offer and our long positions in these markets were increased. The overall portfolio is now modestly overweight fixed income, expressed through these two markets. 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) and the Australian 10s-20s curve flattener were both held unchanged. Both curves have steepened recently offering attractive carry-based returns to those with the ability to patiently wait for reversion to historical norms.

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

Our active positioning at the start of February is risk-on, but less so than January. 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 predominantly relative value in nature, with a net overweight to Australian and Canadian bonds. In commodities, we hold long positions in copper, gold and Brent crude oil.

Market outlook

There are signs of excess in pockets of the market. It is showing up in the performance of concept stocks like Tesla, in IPOs, in renewable energy ETFs, in bitcoin – and in January, the surge in retail money designed to squeeze the shorts in certain stocks. This is likely a consequence of the combination of stimulus cheques, lockdowns, the Northern hemisphere winter and a lack of other spending options.

However, in our view it does not necessarily signal that the market as whole is in froth territory. Valuations in growth stocks remain well above historical highs – but that is not the case for other parts of the market, or for markets in aggregate.

We are also mindful of the degree to which fiscal and monetary policy setting underpin equity markets. A Democrat administration in the US looks set to inject a massive stimulus package into the economy – at the point where vaccination programmes should start taking effect, paving the way for a reopening. This is likely to drive economic momentum and earnings growth.

At the same time, central banks are being extraordinarily accommodative. Rates are flagged to stay low until inflation and employment milestones are reached – which could still be some years away. They have also been quick to hose down any speculation over tapering – mindful of the 2016 taper tantrum. This abundant liquidity is supporting markets and increasing the relative attraction of equities.

In combination, we think it reduces the risk of a material drawdown – and could very well support further equity markets gains in 2021.

The key proximate risk is around vaccines. Optimism over vaccinations is a key facet of recent market strength. Any disappointment around vaccine efficiency could hurt sentiment. Mutated strains of Covid are key to watch in this regard. At the moment, while vaccine efficacy is lower against the South African variant, in particular, they still work to reduce severity and mortality.

Nominal bond rates continue to rise, driven largely by inflation expectations on the back of stimulus packages. Higher nominal yields are good for financials, while higher break-even rates (i.e. inflation expectations) are generally good for cyclicals. At the same time real rates, which are historically correlated with growth, look to have troughed for the moment.

As of the end of January 1.2% of the global population has received a COVID-19 vaccine. Israel (54%), the UAE (33.7%) and then the United Kingdom (13.9%) are the countries which have made the most progress in their respective vaccine rollout programs. The United States has been able to vaccinate 9.4% of its population. Looking ahead, there are concerns about vaccination supply constraints, as Bio-medical companies struggle to scale production to meet demand.

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

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