

# Pendal Sustainable Balanced

Quarterly Investment Option Update

30 September 2021

## Aim and Strategy

The option aims to provide a return (before fees, and expenses) that exceeds the option's benchmark over the medium to long term. ~~The benchmark for the option is created from a weighted composite of market indices with reference to the option's neutral asset allocation.~~ The benchmark for the option 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. The option invests in Australian and international shares, Australian and international property securities, unlisted property (including infrastructure), Australian and international fixed interest, cash and alternative investments.

The option may also use derivatives. Sustainable and ethical investment practices are incorporated into the Australian and international shares, Australian and international fixed interest and part of the ~~a~~ Alternative investment components of the option. Pendal actively seek exposure to securities and industries that demonstrate leading ESG and ethical practices and exclude companies not meeting the investable criteria.

## Investment Option Performance

To view the latest investment performances for each product please visit [amp.com.au/performance](https://amp.com.au/performance)

## Investment Option Overview

<b>Investment Category</b>	Multi-Sector
<b>Suggested minimum investment timeframe</b>	5 years
<b>Relative risk rating</b>	6 / High
<b>Investment style</b>	Active
<b>Manager style</b>	Single Manager

Asset Allocation	Benchmark (%)	Actual (%)
Australian shares	26	25.71%
Global shares	34	34.63%
Australian property securities	2	4.35%
Global property securities	<del>30</del>	2.02%
Unlisted property and infrastructure	<del>03</del>	0.00%
Growth alternatives	15	19.19%
Australian fixed interest	8	6.66%
Global fixed interest	7	3.51%
Cash	5	3.93%

## Investment Option Commentary

The fund outperformed the benchmark over the September quarter.

Active positioning again contributed strongly to returns recording a ninth consecutive positive quarter. The fund's active positioning at the start of Q3 was a little less "risk-on" than in Q2, positioned with overweights in a range of under-valued equity markets, underweights in the most expensive equity markets, long equity volatility carry and overweight markets exhibiting strong upward trends. Fixed income positions were underweight, particularly in European and UK bonds. In commodities the fund held long positions in copper, gold and Brent crude oil.

In equities, 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 overweights to both global and Australian listed property, all of which screened amongst the most attractive markets in the universe monitored by the fund. The portfolio earned strong returns all year from equity volatility carry through VIX futures, maintaining the increased risk allocation with conditions particularly favourable for the strategy at this time. On the defensive side the fund held short positions in the French CAC 40 and US S&P-500 indices, as these markets are considered expensive within the fund's valuation framework. Early in the quarter the remainder of the overweight to Australian listed property was closed as this investment had reached the fund's measure of fair value.

The trend-following overlay continues to hold overweights to S&P-500, offsetting the abovementioned valuation underweight, Australia's S&P/ASX-200 and Germany's Dax indices.

In fixed income, the portfolio maintained underweight positions of varying degrees to the 10-year bond markets in the active asset allocation overlay. Valuation signals continued to highlight that bonds are expensive, but shorter-term trend following briefly turned positive in some markets, reducing the magnitude of the net underweight before being re-established late in the quarter. An underweight to Europe is expressed via Italian bonds as this implementation offers better potential to hedge against rising inflation.

In commodities the portfolio remained long copper and Brent crude oil, with both trend and commodity basis signals pointing to higher prices. In addition to an expectation of delivering positive returns, these positions offer potential protection against rising inflation. Overweights to gold and European carbon credits were held at various times, both of which contributed positively.

Active positioning at the start of Q4 is a little more "risk-on" than Q3. The portfolio is positioned with overweights in a range of under-valued equity markets, underweights in the most expensive equity markets, long equity volatility carry and overweight markets exhibiting strong upward trends. Fixed income positions are underweight in most markets. In commodities the fund holds long positions in copper and Brent crude oil.

## Market Commentary

The Australian equity market gained 1.79% for the third quarter (S&P/ASX 300) despite the pull back in September. There were multiple factors at play during this period. It began with the resurgence in the Covid Delta variant – both domestically and internationally – which saw restrictions dialled back up and a negative impact upon economic activity.

Domestic reporting season proved reasonable. It was notable that many of the sectors and companies hit hardest by Covid disruptions delivered well-received updates. A key element in this was the strength of the second quarter of CY2021, which was largely unencumbered by Covid restrictions and where activity and demand were both strong. This speaks to the strength of underlying demand once restrictions are rolled back.

Global markets had a mixed Q3 with the MSCI ACWI (ex-Aus) returning 2.87% to Australian investors. In AUD terms, DM (3.99%) largely outperformed EM (-4.48%) as China dragged on the market with the foreign academic tutoring ban earlier in the quarter followed by the slashing of steel production and enforcement of decarbonisation targets. The AUD depreciated 3.78% relative to the USD providing the main return to investors in foreign developed markets with the MSCI World USD returning a flat 0.06% for the quarter.

US markets were largely flat over the quarter with the S&P 500 (0.23%) outperforming the NASDAQ (-0.38%) and Dow Jones (-1.91%) in US dollar terms. Europe had a similarly mixed result with the German DAX (-1.74%) underperforming the UK FT 100 (0.70%) and French CAC 40 (0.19%) in local currency terms. In Asia, investors benefitted from Japanese exposure with the Topix (4.46%) and Nikkei (2.30%) both providing positive returns while the HK Hang Seng felt the impact of new China regulations and plummeted -14.75% in local currency terms.

## Outlook

The outlook is for continued economic recovery as re-opening continues. Markets have already priced in much of this growth and so equities are unlikely to repeat their very strong returns of the past year. The manager expects continued positive returns but with higher realised volatility and more frequent corrections. Central banks will soon begin to remove stimulus and may bring forward guidance of rate hikes if inflation remains stubbornly high. Commodities are expected to remain strong, underpinned by a combination of re-opening demand, businesses re-stocking and on-shoring in response to the supply chain difficulties currently being experienced, and demand caused by the buildout of renewable energy infrastructure.

## Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP9479AU
AMP Flexible Super - Retirement	AMP2121AU
CustomSuper	AMP5329AU
Flexible Lifetime - Super	AMP5329AU
Flexible Lifetime - Allocated Pension	AMP5423AU
Flexible Lifetime - Term Pension	AMP5423AU
SignatureSuper	AMP9559AU
SignatureSuper - Allocated Pension	AMP5144AU
SuperLeader	AMP9952AU

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