

Pendal Sustainable Balanced

Quarterly Investment Option Update

31 March 2024

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 range of published indices. The benchmark is based on the asset allocation, neutral position and the index returns for each asset class.

The option is designed for investors who want the potential for long term capital growth and income, diversification across a broad range of asset classes and exposure to companies and issuers (within the Australian and international shares, Australian and international fixed interest and the alternative investments components of the option) that demonstrate environmental, social and corporate governance (ESG) and ethical practices, while managing exposure to companies and issuers with involvement in activities Pendal considers to negatively impact the environment or society and are prepared to accept some variability of returns.

The option invests in Australian and international shares, Australian and international property securities, unlisted property (including unlisted infrastructure and private equity), Australian and international fixed interest, cash and alternative investments. The option may also use derivatives to achieve its investment objective and to gain exposure to assets and markets. Derivatives may also be used to reduce risk and can act as a hedge against adverse movements in a particular market and/or in the underlying assets. The option has a higher weighting towards growth assets than defensive assets.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

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

Asset Allocation	Benchmark (%)	Actual (%)
Australian shares	27	25.9
Global shares	34	34.2
Australian property securities	2	2.3
Global property securities	0	0.0
Unlisted property and infrastructure	2	7.2
Growth alternatives	14	9.3
Australian fixed interest	8	7.7
Global fixed interest	9	8.7
Cash	4	4.7

Investment Option Commentary

The portfolio's allocation to global and Australian equities contributed strongly to absolute return as equities extended their rally through the first quarter of 2024. Australian equity stock selection was constructive while global equity stock selection detracted. The Fund's explicit downside protection detracted slightly as equities rose. The portfolio entered the March quarter with neutral overall equity positioning which was pared back late in the quarter. The fund is slightly underweight equities (Australian and Global) which includes some put option protection in the US. The portfolio's small overweight position in Australian property (AREITS) added value as AREITS rallied strongly, before the position was reduced mid-month.

The portfolio pulled back its overall fixed interest exposure in the final leg of the quarter, selling both Australian & international fixed income. A lower sensitivity to higher interest rates should provide resilience if persistent inflation extends the current monetary policy tightening cycle. The final mile of inflation reduction will be the most challenging for central banks and futures markets are now adjusting their pricing for short term rates in the US to reflect the likelihood of less rate cuts than was previously expected. Pulling back the fixed interest exposures proved astute as fixed income markets underperformed the portfolio's composite benchmark.

From a stock selection perspective, the Pandal Sustainable Australian Equities portfolio added to active performance. The largest positive contributions came from the underweight in BHP (BHP) on concerns over the Chinese economy and a weaker iron ore price. Overweights in QBE Insurance (QBE), NextDC (NXT) and Goodman Group (GMG) also did well. The portfolio's international equities stock selection however detracted from returns. Barrow Hanley faced challenging stock selection in Communication Services and Consumer Discretionary sectors while an under allocation to the Information Technology sector also detracted from performance. Driving underperformance within Alternatives was the sustainable listed investment companies, which sold off in line with interest rate uncertainties given their longer dated bond like cashflows.

Positioning at the start of April reflects our latest views on markets. The consensus view today is for the US to experience a soft landing in 2024 but markets pulled a lot of the good news from 2024 into last year's return. This leaves the market with elevated valuations, expected 12-month earnings growth close to double the historic average supported by dovish interest rate expectations. With so much good news already priced in, we remain cautious on the outlook.

Market Commentary

Global equities rallied strongly over the first quarter of 2024, supported by resilient economic indicators, robust corporate earnings results, and anticipation of easing monetary policy.

- US Equities (+10.6%) rallied strongly, led by long duration growth stocks, while value stocks continued to trail.
- Australian equities (+5.4%) rallied but lagged behind the broader global market. Similar to the US, growth sectors such as Technology outperformed but, of course, the weight to such growth stocks is much lower in Australia.
- European equities (12.9%) performed very well supported by economic data confirming that a recession was narrowly avoided in the fourth quarter of 2023. Meanwhile, UK equities (+4.0%) trailed, weighed down by their recession confirmation.
- Japanese equities (+21.5%) were the standout over the quarter supported by a resilient corporate sector. Chinese equities (-1.8%) fell on economic concerns despite a number of policy announcements intended to prop up the equity market.
- US 10-year government bond yields (+32bps) rose over the March quarter, rising back above 4% as underlying inflation reaccelerated. The Australian yield curve ended the quarter in line with December 2023 despite ongoing volatility as investors attempt to anticipate the path of central bank policy.
- The Australian dollar depreciated -4.4% against the Greenback, reflecting the ongoing resilience of the US economy and rising US long term yields.

Outlook

While the US economy and markets proved more resilient than we expected in 2023 and into 2024, we remain cautious on the market outlook. The consensus view today is for the US to experience a soft landing in 2024 as growth moderated down to a trend-like pace and markets pulled a lot of the returns from 2024 into last year. This leaves the market with elevated valuations, expected 12-month earnings growth close to double the historic average and interest rate expectations aligned to what the US Fed had guided for 2024 with some doubts about the rate cuts they highlighted in 2025 and 26. With so much good news already priced in, we remain cautious and our equity exposure remains focused on high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise sharply once the economy finds a strong base.

Availability

Product Name	APIR Code
SignatureSuper	AMP9559AU
SignatureSuper – Allocated Pension	AMP5144AU
SignatureSuper – Term Pension	AMP5144AU

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