Pendal Sustainable Balanced

Quarterly Investment Option Update

30 June 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 weighted composite of market indices with reference to the option's neutral asset allocation. 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 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.

Asset Allocation	Benchmark (%)	Actual (%)
Australian shares	27	25.8
Global shares	34	35.1
Australian property securities	2	2.2
Global property securities	0	0.0
Unlisted property and infrastructure	2	7.3
Growth alternatives	14	9.5
Australian fixed interest	8	7.8
Global fixed interest	9	8.9
Cash	4	3.4

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

Investment Option Commentary

The portfolio underperformed the benchmark over the June quarter. The key driver of underperformance for the quarter was stock selection within Global equities. Asset allocation was flat for the quarter, as our underweight Australian equities contributed positively which offset some of our protection in global equities.

From a stock selection perspective, the increasing concentration of share market performance around a handful of high growth mega cap US tech stocks continues to contribute to underperformance of the Fund's equity exposures which maintain a value and quality focus. In our Global equity impact strategy, the fund's exposure to mid- cap health care and industrials detracted as the market was focused on the potential for less rate cuts than first anticipated and saw these companies PE's deteriorate.

Market Commentary

Markets faltered in April before resuming their steady climb over the remainder of the quarter.

- Developed market equities (+3.2%) generated positive returns, shaking off a down month during April to end the quarter higher. Performance was led by the US (+4.3%) where large cap tech companies continued to drive performance, benefitting from strong corporate earnings results. The Magnificent 7 (+14.2%) collectively, and Nvidia (+36.7%) especially continue to substantially outperform the broader market.
- The ASX 300 (-1.2%) trailed the broader market, reflecting increasingly hawkish expectations for RBA policy.
- European equities (-1.6%) saw mixed performance with France (-6.6%) the notable laggard. Sharemarket returns reflected the increased political uncertainty against a backdrop of improving economic growth data. Meanwhile, the UK (+3.8%) market rose, with investors responding well to increased share buybacks.
- Emerging markets (+6.6%) rose, led by strong quarters from Taiwan (+14.1%) given their AI chip exposures and China (+7.2%) where supportive government policy provided a floor to the market which investors were able to take advantage of.
- US 10-year Bond yields (+17bps) ended the quarter higher, masking a sharp rise in April followed by a steady decline over May and June. Domestic 10-year yields (+35bps) also rose over the quarter as higher than expected monthly inflation print raised the possibility of further policy tightening from the RBA.
- Lastly, commodity markets were mixed with base metals and Gold (+5.3%) performing well while coal (-12.9%) sold off.

The key factor driving markets throughout the quarter remained near-term expectations for the path of monetary policy. In April, expectations of near-term central bank rate cuts were unwound as robust US growth data were interpreted as markers of an overheating economy. Over the remaining months, these concerns eased in the face of softening economic data and the expectation of soft-landing was resurgent. While equity valuations recommenced their rally during May and June, there remains uncertainty with consensus rate expectations oscillating throughout this year as initial central bank optimism was persistently watered down by resilient monthly core inflation results which sparked expectations of higher-for-longer rates.

Although expectations for monetary policy easing have been scaled back over the year to date, some central banks have commenced rate cutting as inflation pressures have dissipated. The ECB cut rates in June in a move that was widely expected following doveish guidance. Inflation and wages growth remain well outside of target however and the ECB flagged that the level and duration of their restrictive stance would remain data dependent. In Australia, inflation is proving far tougher to contain with successive monthly CPI releases above consensus expectations. The upcoming quarterly print will be crucial to understanding the path of RBA policy with futures markets pricing in an even chance of a rate increase at the August meeting by quarter end.

Outlook

The global growth outlook has broadened somewhat with US growth moderating from a high base, whereas regional growth outside the US is accelerating from a low level. Some of the tail risks highlighted at the start of the year around inflation and economic growth have subsided somewhat and what is left is more mundane cycle of trend growth around 3% with persistent and above-target inflation also around 3%.

Despite recent improvements in Europe and resilient US data, it remains hard to see a significant global growth acceleration this year, as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, employment growth is slowing, and the global credit impulse is at a post-GFC low. While resilient growth is supportive for equities, the soft-landing scenario and some rate cuts have already been priced in which increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets or central bank expectation.

Despite an improving growth outlook, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging environment for markets to negotiate. As always, our focus remains on identifying investments that can generate returns of CPI plus 5% per annum over a five-year horizon while maintaining an asset allocation that ensures that no individual position or cluster of positions will risk the medium-term investment objective.

Availability

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

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