Fund Manager Commentary

December 2017

BT Investment Management

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Market review

The domestic equity market finished the calendar year on an upbeat note in December, with the S&P/ASX 300 Accumulation Index gaining 1.9% over the month, and 11.9% over CY17. Performance has been particularly strong from **Resources (+7.1%/+25.7%)**, with the help of rising commodity prices over the period; whereas **Industrials (+0.7%/+9.2%)** also achieved a good return over the 12-month period.

Sector performance was positive in general for December, with the exception of **Utilities (-4.5%), Industrials (-0.9%)** and **Health Care (-0.5%)**. Energy infrastructure operator, **APA Group (APA, -8.6%)** gave back all the gains it made in November, and was the largest detractor within Utilities. Its share price has been somewhat range-bound since 2015. Within Industrials, **Qantas (QAN, -11.1%)** was the worst performer. The national airliner saw its share price retreat amid the soaring oil price over the month. The commodity touched its two-year high as demand continued to firm alongside supply disruptions in Libya and the North Sea. Nevertheless, Qantas' stock performance has been strong at 56.1% over the past 12 months. Finally, the Health Care duo, **Cochlear (COH, -5.3%)** and **CSL (CSL, -1.4%)** both declined over the month and weighed on the sector. However, performance has been strong for both companies over the 12-month period, with returns of approximately 42%.

On the other side of the spectrum, **Materials (+6.1%)** was the best performing sector, as miners continue to benefit from rising commodity prices over the month, with iron ore and copper finishing December at higher levels. As a result, major miners including **BHP Billiton (BHP, +8.3%), Rio Tinto (RIO, 6.8%)**, **South 32 (S32, +7.1%)** and **Fortescue Group (FMG, +6.1%)** all recorded solid returns. Outside of these, steel manufacturer **Bluescope (BSL, +12.9%)** also contributed to sector performance after the company upgraded its earnings guidance for the current fiscal year due to higher steel prices and domestic volumes. It will also benefit from the latest US tax reform, being a partial US dollar earner. Following Materials in terms of index performance contribution was **Energy (+6.5%)**, which benefited from the rising oil price over the month. **Woodside Petroleum (WPL, +6.7%)**, **Oil Search (OSH, +11%)** and **Santos (STO, +7.3%)** all managed to record strong gains. Outside of Energy, there were a few notable standout performers including gaming operator **Tabcorp (TAH, +15.1%)**, **Tatts Group (TTS, +7.0%)** within **Consumer Discretionary (+3.7%)**; as well as **Telstra (TLS, +5.8%)** and **TPG Telecom (TPM, +10.4%)** within **Telecoms (+5.5%).** Tabcorp and Tatts Group made strong gains after the ACCC decided not to review their proposed merger. Tatts Group shareholders approved the proposed merger during the month, which is expected to deliver at least $130 million in earnings synergies. Meanwhile, the Telecoms duo rebounded and recovered some of the losses suffered over the past 12 months.

Finally on global macro developments, investor attention was primarily focused on US developments during the month. This included a 25 basis point interest rate hike by the US Federal Reserve.

Committee members also raised their forecast for 2018 Gross Domestic Product (GDP) growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228,000 increase in non-farm payrolls data for November. A long-awaited tax reform proposal also passed both chambers of Congress, which supported global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year.

Meanwhile in Europe, the European Central Bank (ECB) maintained its policy settings and President Draghi emphasised the need to keep interest rates at present levels for an extended period, given persistent subdued inflation. On the political front, some uncertainties were felt as the Catalan independence bid in Spain regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets.

Portfolio performance

The BT Wholesale Core Australian Share Fund returned 2.34% (post-fee, pre-tax) in December 2017, outperforming its benchmark by 0.48%.

Contributors

Overweight Metcash

Metcash (MTS, +13.5%) reported its first-half results early in the month, which saw EPS over the period increase by 14.8% compared to the prior corresponding period, as the benefits of its latest Home Timber & Hardware acquisition from Woolworths started to flow through. The Food & Grocery business also performed better than expected on the back of continuous cost reduction benefits from its Working Smarter program, in spite of the negative ex-tobacco sales growth over the prior period. Metcash remains one of our highest conviction stocks. From its half-yearly results, cash flow was evidently strong, whilst the release of inventory from the hardware acquisition demonstrates improved business efficiency. Debts were also brought down meaningfully, reflecting a business with much lower risks when compared to just a few years ago. The fact that the stock is still trading at 13-14x means that the market is yet to fully appreciate the quality of Metcash. With Aldi now approaching the end of its store rollout in WA and SA, and the weak WA economy stabilising, MTS's negative ex-tobacco sales growth is expected to improve from here. That said, we are cognisant that the supermarket industry remains highly competitive.

Overweight BHP

Diversified miner, BHP (BHP, +8.3%) finished December with a strong gain. The outlook for domestic miners remains sanguine for now, with China's supply side discipline continuing to lift commodity prices – both iron ore and copper finished the month higher. The former has now broken through the US$70/mt mark. Going forward, we retain conviction in our BHP position. Considering the strong discipline of capital deployment as well as an asset portfolio with significant scope for further

improvement in terms of capital returns, we believe the miner is going to deliver more value to its shareholders in the foreseeable future.

Overweight Westfield

The share price of UK/US mall operator, Westfield (WFD, +13.2%), rose materially after it received a cash and scrip offer from Europe's commercial property giant, Unibail-Rodamco to acquire all outstanding WFD shares. Once executed, the acquisition would see the creation of a global shopping centre conglomerate spanning the US and Europe, with a gross market value of US$US72 billion. A running synergy of €100 million per annum in cost savings is also expected from the transaction, which has been unanimously recommended by Westfield's board.

Overweight Santos

The oil price touched a two-year high during December, with West Texas Intermediate crude oil fetching above the $US60 mark. The synchronised global growth thematic helped to support the demand side of the equation, whilst production disruptions in Libya and the North Sea also created a tailwind for the commodity price. As a result, all oil producers enjoyed some buying support during the month, which saw Santos (STO, +7.3%) advance. We remain of the view that the company's FY18 guidance is somewhat conservative, taking into account good projects like the PNG LNG and the Darwin LNG backfill Santos has on hand.

Detractors

Overweight Qantas Airways

National airliner Qantas Airways (QAN, -11.1%) extended its losses in December, finishing the month 11.1% lower amid the surging global oil price. As previously communicated, we remain mindful that if oil prices remain elevated for a sustained period, it can begin to feed through to increased costs and remove some of the expected upside for QAN from here. However, we are not currently at that point and QAN's hedging immunises it against a significant surge in fuel costs in the near term. We believe the recent underperformance was no more than short-term noise, and Qantas remains a key position in our portfolio.

Underweight Woodside Petroleum

As noted above, oil producers enjoyed some buying support during the month, which saw Woodside Petroleum (WPL, +6.7%) advance in December. Our preferred exposures within the space are obtained via Santos (STO, +7.3%) and Oil Search (OSH, +11.0%), both of which also benefited from the rising oil price over the month.

Overweight Resmed

Respiratory expert/mask manufacturer, Resmed (RMD, -2.1%), gave back some of its previous gains in December. The stock had performed well during October and November after the company released its Q1 FY18 earnings, where revenue was 4% ahead of consensus driven by a 14% rise in mask sales, gross margin increasing by 53 basis points over the previous corresponding period due to greater procurement efficiencies, better product mix (masks have higher margins) as well as some tailwinds from currency movement. We believe the December pullback is largely attributed to some profit taking rather than anything related to the business fundamentals.

South 32 - not held

Diversified miner, South 32 (S32, +7.1%) held its investor day early in the month, where it reaffirmed FY18 production guidance for Illawarra Metallurgical Coal. Management also lowered expectations for sustaining capital expenditure to $470 million for FY18, compared to the prior figure of $500 million. It was well received by the market, and lifted the miner's share price by 7.1%.

Strategy & outlook

The portfolio's strong performance in December capped a strong 2017 in terms of both absolute and relative returns. Several of the more non-consensus positions such as Metcash, Santos and JB Hi-Fi drove December's outperformance, while the exposure to resources – primarily via BHP – also made a strong contribution. Qantas and Nine Entertainment detracted, but both remain key drivers of the portfolio's outperformance over the year.

Looking into 2018, there are several key issues which we believe should remain at the forefront of investor focus. The first is liquidity, which is no longer providing a tailwind to markets as central banks around the world tighten policy and start to shrink balance sheets. At this point the pace of tightening remains moderate and should allow the market to retain the prevailing valuation rating, however we remain mindful of the risk of over-tightening and keep a watchful eye on this space. We also maintain a close eye on bond yields, given the sensitivity which a large swathe of the Australian market has to changes here. At this point we expect small increases, but not a 'bond bust'. We are underweight bond sensitives as a result, but not heavily so, and have taken advantage of individual opportunities in this sector.

China remains crucial to equity market fundamentals and sentiment and more specifically, for the health of Australia's resource sector. The economic outlook remains stable at this point, with GDP growth expected to continue on its multi-year path of moderate deceleration. The Government remains focused on corporate profitability to help address the country's debt problem and relieve stress on the financial system. The supply-side discipline this entails should continue to support commodity producers.

The most recent Australian reporting season saw a modest tick-up in business capital expenditure which, in combination with population growth and a bulging pipeline of infrastructure projects, should

continue to support modest economic growth. This benign environment should continue to underpin corporate earnings.

Perhaps the most significant market factor is the scale and pace of disruption facing a broad swathe of local industries. Whether it is driven by new technology, global competition, or greater political or regulatory intervention, the challenges to incumbent business models and industry structures provides both threats and opportunities for investors. The ability to differentiate between companies within an industry, in terms of their ability to respond to disruption, has been a key driver of our outperformance over the last few years.

BT Wholesale Smaller Companies Fund

Market review

It was another solid month for the Australian small cap equities market, with the S&P/ASX Small Ordinaries Accumulation Index advancing 3.2% in December. The Index has comfortably outperformed the large cap S&P/ASX 100 Accumulation index for three consecutive months now. Similar to its large cap counterpart, gains within the Small Ords largely came from **Resources (+8.9%)**, whereas **Industrials (+1.6%)** experienced a material lag.

Most sectors delivered positive returns, while **Real Estate (-1.1%)** and **Consumer Discretionary (-1.8%)** were the exceptions. Within Real Estate, **Iron Mountain (INM, -8.3%)** was the major detractor. The storage and information management solutions provider announced its acquisition of the US operations of IO Data Centres, a leading colocation data centre services provider for $US1.3 billion. The deal will be funded via an additional equity raising and new senior unsecured debt. Within the Consumer Discretionary sector, it was the underwhelming performance from **Retail Food Group (RFG, -45.2%)**, and **G8 Education (GEM, -23.1%)** that weighed heavily on sector performance. RFG - a food chain operator - came in as the latest victim of retail industry stress, posting a profit warning which would see its net profit to drop by as much as 35% for the current fiscal year. Negative media coverage on the company's outlook also weighed on investor sentiment. It was a similar situation for G8 Education, a care and education facilities provider, where management lowered their profit guidance from the previous range of $170-180 million down to $160 million, quoting sluggish centre occupancy growth and wages growth as the cause.

On the other side of the spectrum, the performance of **Materials (+8.3%)** and **Information Technology (+9.2%)** was strong and contributed the most to the index return. The outlook for domestic miners has been improving as commodity prices continue to increase on the back of domestic production curbs imposed by China. The iron ore price is now fetching above $US70/mt, compared to the prices of around US$50/mt in October; whereas the copper price has also been advancing lately. Turning to the IT sector, it was **Aconex's (ACX)** 49.5% return in December that drove the sector's performance over the month. The company received an acquisition offer from US IT giant, Oracle, which valued the company at $1.6 billion. The offer represents a circa 47% premium to the company's previous closing

price and was unanimously recommended by ACX's Board. Other transactions announced during the month include the acquisition offer for **Tox Free (TOX, +32.1%)** from **Cleanaway Waste Management (CWY, +3.5%)**. TOX has a national network including 29 licensed facilities and a fleet of ~900 collection vehicles, and is likely to give CWY more operating leverage to achieve its 2025 strategy. These developments supported the **Industrials (+2.4%)** sector to finish the month higher.

Finally on global macro developments, investor attention was primarily focused on US developments during the month. This included a 25 basis point interest rate hike by the US Federal Reserve. Committee members also raised their forecast for 2018 Gross Domestic Product (GDP) growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228,000 increase in non-farm payrolls data for November. A long-awaited tax reform proposal also passed both chambers of Congress, which supported global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year.

Meanwhile in Europe, the European Central Bank (ECB) maintained its policy settings and President Draghi emphasised the need to keep interest rates at present levels for an extended period, given persistent subdued inflation. On the political front, some uncertainties were felt as the Catalan independence bid in Spain regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets.

Portfolio performance

The BT Wholesale Smaller Companies Fund returned 2.41% (post-fee, pre-tax) in December 2017, underperforming the S&P/ASX Small Ordinaries Accumulation Index by 0.79%.

Contributors

Overweight Webjet

Webjet (WEB, +10.1%) is an online travel services company and the world's second largest business-to-business online travel provider following its acquisition of Thomas Cook. The stock sold off early in December following a disappointing profit forecast, however the share price bounced back after a broking analyst upgraded the company to a "buy", citing its ability to leverage its scale to develop a greater market share of the business-to-business market.

Retail Food Group - not held

Retail Food Group (RFG, -45.2%) owns a range of international food and beverage chains including Donut King and Gloria Jean's Coffees. The stock plunged in December following a profit warning, as management guided to $22 million net profit after tax, versus the $33.5 million in delivered in the same period last year.

Detractors

Overweight G8 Education

G8 Education's (GEM, -23.1%) price fell in December after management warned that underlying earnings are likely to come in at $160 million, versus the mid-$170 million that it had guided to in August. While the new management team has implemented a number of initiatives which should deliver improved earnings in the medium term, the short term earnings have been impacted by lower than expected centre occupancy. While this doesn't necessarily detract from the favourable thematic, it does push out the timeframe of realising the benefits of the changes. We continue to monitor industry demand / supply dynamics and how GEM is positioned.

Underweight Aconex

Aconex (ACX, +49.5%) makes specialised software for construction project management. The share price surged in December following a bid by global IT company, Oracle, which was at a 47% premium to its last close price. It is a stock that we have held in the past, however we sold down earlier in the year following a series of earnings downgrades and on concerns that management were having issues in digesting recent acquisitions. Nevertheless, the stock has been a good contributor to the Fund's performance over three years.

Review and outlook

The portfolio made good gains in December, helped by strong gains from Metcash – which owns the IGA and Mitre 10 brands among others, as well as from assorted positions in resources as commodity prices strengthened. However, it lagged the Index on weakness in one of our key holdings - auto-parts distributor Bapcor - as well as in G8 Education. Our avoidance of Aconex, with surged almost 50% on a takeover bid from Oracle, also dragged on relative performance. Overall, the fund has posted strong absolute gains for 2017, albeit slightly lagging the Index.

Looking into 2018, we believe stock selection remains a crucial factor in small cap investing. The tide of liquidity which has supported the sector as a whole over previous years is no longer a supportive factor. Central banks around the world are generally tightening policy setting via higher rates, reduced quantitative easing, shrinking balance sheets, or some combination of these. While the pace is slow and, at this point, does not appear to present an imminent threat to the market's valuation rating, it does pose a risk to those mid-cap stocks which have been pushed to high valuation ratings. In the absence of liquidity support, even a slight disappointment in earnings can see a stock plummet, as we have seen several times in the past year as previous market darlings across a range of sectors have found themselves under pressure. As a result, it is just as important to avoid these traps as it is identifying the winners in the small cap space.

The small cap sector continues to see self-help by companies as a key driver of growth and value, with corporate actions such as acquisitions and divestments providing some of the largest share price reactions in recent times. That said, there are pockets of organic growth available in small caps which

cannot be accessed at the larger end of the market cap spectrum, in areas such as tourism, specialised technology, renewable energy, and stocks with exposure to the uptick in mining capital expenditure.

At the same time, large segments of the universe are facing – or are perceived to be facing – significant industrial disruption in the form of new technologies, competition, or policy and regulation. This is particularly so in the retail space, where the arrival of Amazon's expanded offering on Australian shores will see increased scrutiny over the ability of incumbent bricks-and-mortar franchises to deal with the challenge. This disruption is leading to significant mispricing of stocks in some instances, where investors are unable or unwilling to differentiate between the ability of two companies in the same sector to respond to the environment. This, in turn, is leading to some of the most attractive opportunities in the small cap sector for those who are able to distinguish between companies which will be able to successfully navigate the challenges – and those which will not.

International Shares

BT Concentrated Global Share Fund

Market review

Global equity markets finished the year with strong returns in December, although a strengthening Australian dollar reversed the local currency gains, with the MSCI World ex Australia Total Return (A$) Index returning -1.7%. Market sentiment continued to be favourable towards shares, reflecting continued improvement in economic conditions in the US and Europe, together with signs of stability in China. Expectations of continued global growth into 2018 were accompanied by rises in key commodity prices, with crude oil (West Texas Intermediate) trading above the US$60/bbl mark, iron ore rising above US$75/mt and copper rallying to well above US$3/lb on supportive demand from China. The red metal has risen by over 30% for the year, while crude oil has risen to its highest level since June 2015. Bullish conditions in capital markets have pushed the MSCI World ex Australia (A$) Index to its sixth consecutive year of strong positive returns.

The US equity market was buoyed by continuing strong economic momentum and policy developments. The Trump agenda for tax cuts reached completion following passage of the US Tax Reform Bill through both houses of Congress to be signed into law. The policy will see the corporate tax rate fall to 21% from its current 35%, together with measures to improve interest on debt and spending deductions for companies. The US Federal Reserve also followed through with its well-flagged intention to raise interest rates, with the policy setting board passing a unanimous decision to raise the Fed Funds Rate by 25 basis points. At a sector level, Telecommunications, Energy and Consumer Staples were among the best performing sectors, while Utilities was the weakest. The S&P500 delivered a 1.1% return while the Nasdaq was up 0.4%.

Returns from major European equity markets were mixed for December, with the German DAX (-0.8%) and the French CAC (-1.1%) weighing on returns from the region. Companies within the base metals

and consumer sectors were among the best performers, while utility stocks were generally weak. However, economic data signalled continued improvement in the region's economy, with the euro zone Purchasing Managers (Composite) Index (PMI), a private sector activity survey and leading economic indicator, rose to an 82-month high, driven by strong conditions within the manufacturing sector and a robust services sector. The Consumer Confidence indicator, as measured by the European commission, also rose to its highest level in more than a decade.

The UK market delivered strong gains, aided by the broad representation of resource companies that enjoyed strengthening commodity prices. The FTSE Index rose by 4.9% for the month, while the Bank of England decided unanimously to maintain interest rates at 0.5%, but confirmed it expects 'further modest increases' as the economy moves towards the 2% inflation target.

Asian markets benefitted from the positive developments offshore and strong conditions domestically to deliver gains for the month. Hong Kong (+2.5%) led the region's gains, as did India, while returns from Japan (+0.2%) were more muted, albeit positive.

The Australian dollar finished the month 3% higher against the US dollar, 3.1% stronger against the British pound and 2.3% higher against the euro. The local currency was a direct beneficiary of stronger commodity prices and stabilising demand from China, and rose in spite of the hike in US interest rates.

Portfolio performance

The BT Concentrated Global Share Fund returned -0.52% (post fee, pre-tax) in December 2017, outperforming its benchmark by 1.19%.

We sold our holding in 21st Century Fox (FOX) this month following Walt Disney Company's (DIS) US$52.4 billion takeover offer to acquire most of their assets, including Fox's film and TV studio, FX Networks, National Geographic, Fox Sports Region Networks, Star India and Fox's interests in Hulu, Sky, Tata Sky and Endemol Shine. Fox will spin out its remaining assets including the Fox Broadcast Networks and TV stations Fox News and FS1 to shareholders, with each FOX shareholder also receiving .2745 shares of DIS for the remaining assets.

Regular readers would know that our initial investment in US media companies was predicated on a view that valuations were compelling and that the headwinds facing the sector (cord-cutting) would be the catalyst for sector consolidation. We saw this play out with our holding in Time Warner which we sold following a bid by AT&T to acquire the company in October 2016. The proceeds of that sale were used to increase our weighting elsewhere in the sector in companies we believe have premium assets that are difficult to replicate. Since this time we have seen another of our holdings, Discovery Communications, agree to acquire rival Scripps Networks Interactive. The announcement by DIS and FOX further reinforces our view that share prices are not reflecting the pricing power and synergies that sector consolidation will bring to the acquirer. The Disney/Fox deal faces numerous regulatory hurdles and as we believe the bid fully values the business, our preference was to redeploy funds elsewhere in the sector, namely Discovery Communications.

Our bank holdings recorded a mixed performance this month. However, we did receive clarity from the Basel Committee on Banking Supervision who unveiled the latest round of its regulatory capital framework, known as Basel IV. We believe the uncertainty regarding the outcome of Basel IV has been one of the factors capping the performance of European banks in particular this year. The latest round makes changes to the capital framework first introduced in 2010 under Basel III. The Committee are targeting an implementation date of 2022-27, with an agreement reached on credit risk, operational risk, leverage risk and a revised market risk approach with regulators. While capital requirements are set to increase (as expected), it is important to note that the outcome of the announcement was better than the market feared, with lower standardised risk weights and National discretion given to enforce operational risk multipliers. The additional regulatory clarity coupled with improved capital positions and earnings bodes well for our European bank holdings in 2018.

On the other side of the Atlantic, our holding in Wells Fargo (WFC) returned +4% this month. Whilst the Board and management have been dogged with legacy governance issues this past year, importantly they have taken action to remediate past sales practises and install new branch managers. The CEO presented at a conference in early in December where he reiterated a US$4 billion cost saving target and appeared more constructive on loan growth. He also suggested that management viewed the 61% efficiency ratio as “unacceptable”. We expect further clarity on the cost reduction progress, the de-risking of specific loan books and an update on productivity initiatives at the January 2018 investor call. Our view is that WFC is approaching an inflection point in earnings, and in 2018 the company should reap the benefits of various ‘self help’initiatives and a more favourable US tax policy. In the interim we are receiving a prospective 7% yield (dividend plus buyback) this year on our investment.

Strategy & outlook

As we close the year, it appears that Trump is close to scoring his first major legislative victory with the Senate approving a US$1.5 trillion tax bill, which includes permanent tax breaks for corporations and temporary tax cuts for individuals. The legislation represents the most significant change to the US tax code seen since 1986, with the corporate tax rate going from 35% to 21%. Another significant change for corporations will be the ability to expense capital expenditure up front, rather than depreciate the assets over a number of years. Whilst the BT Concentrated Global Fund steers away from judgement calls on macro and political events and prefers to focus on company fundamentals, we are cognisant of the implications of such developments. It has been acknowledged by both sides of politics that the US corporate tax policy needed to be restructured. The current tax rate is globally uncompetitive and has encouraged US firms to park earnings offshore or seek mergers with offshore companies solely for the purpose of leaving the US. There is little argument that the new tax rate will result in a broad increase in US corporate profits and encourage US companies with offshore operations to relocate back to the US.

We remain comfortable with our positioning in US equities and continue to believe we have entered into a period for equity markets which is best suited to selective stock picking rather than broader market exposure. We have positioned our portfolio in leading businesses with robust balance sheets, strong management teams and a transparent strategy for the future.

BT Wholesale Core Global Share Fund, managed by AQR

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Portfolio performance

The BT Wholesale Core Global Share Fund returned -1.51% (post-fee, pre-tax) in December 2017, outperforming its benchmark by 0.20%.

The Fund's outperformance was sourced from North America, while Europe and developed Asia performed in line with regional benchmarks over the month.

Thematically, the outperformance in North America was driven by strong performance of relative value and business quality signals. Offsetting was weakness in momentum signals for industry selection within Canada and US markets. Active returns were flat within Europe over the month, with strength in earnings quality measures the notable positive contributor and relative valuation, for both stock and industry selection the notable detractor. Developed Asia also produced flat results over the month, with management signals the strongest performer, most notably offset by weakness in business quality measures.

From a stock and industry attribution perspective, active industry tilts detracted but losses were outweighed by the outperformance of active stock positioning within industry groups over the month. At a sector level, the underweight to Energy was the largest detractor and overweight to Materials to largest contributor over the month. Stock selection within industry groups was the driver of outperformance over the period, notably within Materials and Industrials.

At a stock level, the strongest positive contributors came from overweight positions in Freeport McMoRan Inc., a US headquartered copper mining company; Husky Energy Inc., a Canadian oil and natural gas production and refining company; and Southwest Airlines Co., a major US discount airline. Largest detractors from active returns were overweight positions in Edison International, a US electricity utility; RWE AG, a German electricity utility; and NTT, a Japanese telecommunications company.

Strategy & outlook

Entering January, the largest sector tilts are overweights in Industrials and Materials and underweights in Consumer Staples and Energy. Relative to long-term allocations, we remain mildly tilted towards higher quality companies with positive momentum and away from cheaper industry peers in the US and Europe and Japan.

Australian Fixed Income

BT Wholesale Fixed Interest Fund

Market review

Australian bonds experienced a negative return during the month as yields rose in sympathy with global peers and due to supportive local economic data. Market pricing for an RBA hike was also brought forward to December 2018 from early 2019, while near-term expectations for the cash rate remained steady. Governor Lowe's statement was in keeping with prior months and noted strength in leading indicators like business conditions, as well as employment growth, which has stood in contrast to subdued inflation and retail activity. Top-tier economic releases during the month included third quarter GDP data, which revealed modest 0.6% quarter-on-quarter growth. Employment growth was more encouraging with 61,600 jobs added, which was skewed to full-time positions. Retail sales also surprised to the upside with a 0.5% gain. In contrast, the NAB Business Conditions gauge retreated from its record high. Finally, in terms of market movements, the Australian yield curve rose and flattened as 3 year yields increased by 25 basis points (bps) to 2.14% and 10 year yields added 14bps to 2.65%. At the front-end, 90 day BBSW rose a more modest 5bps to 1.80%. In the FX space, the Australian dollar recovered 3.2% versus its US counterpart, helped in part by firmer iron ore prices.

Portfolio performance

The BT Wholesale Fixed Interest Fund returned -0.78% in December 2017 (post-fees, pre-tax), underperforming its benchmark by 0.26%.

The Fund's alpha overlay, the Macro, Yield Curve, Duration and FX strategies detracted, while the Relative Value strategy was slightly positive. The Government bond component outperformed its benchmark with the Yield Curve and Cross-Market strategies being the main contributors. Finally, the Credit component underperformed its benchmark. Negative performance from underlying swap curve movement and index basis offset positive credit performance.

Strategy & outlook

The key economic release in January will be the 4th quarter inflation data. Inflation data has continued to disappoint recently and has provided little near term impetus for the Reserve Bank to tighten monetary policy. There are positive signs for the Australian economy however. The labour market over the past year has seen 380,000 jobs created, the bulk of which are in full time employment. The unemployment rate would be lower than its current 5.4% but for the pick-up in the participation rate. That wage inflation remains subdued indicates that some slack does remain in the labour market and is also weighing on household consumption expenditure. Higher household debt levels are also weighing on consumption. Business conditions, despite the fall in the NAB business survey last month, are well above average levels and global economic conditions are supportive for the Australian economy. We

expect no change from the Reserve Bank until at least mid-2018 - the inflation data will however be the key determinant for monetary policy expectations going forward.

International Fixed Income

BT Wholesale Global Fixed Interest Fund

Market review

Investor attention was primarily focused on US developments during the month. This included a 25bps hike by the US Federal Reserve. Committee members also raised their forecast for 2018 GDP growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228, 000 non-farm payrolls print. A long-awaited tax reform proposal also passed both chambers of Congress, which helped support global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year. Meanwhile in Europe, the ECB maintained its policy settings and President Draghi emphasised a need to keep interest rates at present levels for an extended period, given persistent subdued inflation. Meanwhile on the political front, some uncertainties were felt as the Catalan independence bid regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets. Finally regarding market movements, US 2 year yields climbed 10bps to 1.89% while the 10 year finished unchanged at 2.41%.

Portfolio performance

The BT Wholesale Global Fixed Interest Fund returned -0.10% in December 2017 (post-fees, pre-tax), underperforming its benchmark by 0.23%.

Over the month, the Macro, Yield Curve, Duration and FX strategies detracted, while the Relative Value strategy was slightly positive. The portfolio began the month at seven risk units and declined to five risk units at the end of the month.

The Duration strategy detracted to performance over the month. Losses were from long duration positions in New Zealand front-end as yields rose in response to a strong GDP print, despite a dovish bias from the Reserve Bank of New Zealand. We expect this to reverse in the new year as liquidity comes back to the market. Our short Australian front-end position in swaps added to performance, but was offset by tactical long duration positions in Australian 3y futures. In the US, we closed the long duration position in the long-end with flat performance.

The FX strategy detracted over the month. Losses were mainly contributed by long USD against TWD and CNH, as the USD returned to a weakening trend mid-month, these trades are part of our high conviction ‘China disappointment’ theme and we have sized these trades accordingly. As we opened

the TWD and CNH trades we closed our other emerging market positions to accommodate. Similarly we reduced our DM exposures over the month. Losses in EUR and GBP were offset by gains from USD and JPY. We closed all our positions in FX Vol early in the month before time decay became too punitive. As of the month end we hold long USD against short TWD and CNH positions in EM, and long EUR and JPY against short GBP and USD in developed markets.

Strategy & outlook

The global economic recovery appears to be continuing with leading indicators in developed economies remaining in an uptrend. This is also reflected in the China Caixin PMI, where external demand is the main source of strength. We expect the global momentum to continue in the near future. On the back of these signs, central banks are more confident to end their unconventional monetary policy measures. However, the conundrum of a flatter Phillips Curve remains unsolved. Unemployment rates are near pre-GFC levels in many countries, while inflation persists at low levels. The extent of consumer optimism during the year end sales will be revealed soon in upcoming retail sales data. Uncertainties in the year ahead include US tax reform, China reform agenda and geopolitical conflicts in Asia and the Middle East.

Credit

BT Wholesale Enhanced Credit Fund

Market review

The local credit market posted a negative return for the month as underlying yields rose. However, the credit outperformed its government counterpart as spread to swap contracted. Yields, particularly at the front-end were lifted in sympathy with global peers and encouraging Australian economic data. The former was driven in part by a 25bp hike by the Federal Reserve with Committee members also raising their 2018 inflation and GDP growth projections. The latter included another robust increase in employment by 61, 600 and an upside surprise to retail sales (+0.5%). At the same, time third quarter Australian GDP growth was a reasonable 0.6% quarter-on-quarter, taking the year-on-year print to 2.8%. Other noteworthy developments during December included the passage of a long-awaited US tax reform proposal through both chambers of Congress and the ECB emphasising a need to maintain its current low policy rates.

Turning to local credit market activity, issuances of $3.1 billion were significantly lighter than the previous month's $9.2 billion, owing to the holiday season. It was however, the largest December in eight years. General corporates accounted for the bulk of volumes at $1.8 billion, led by Vodafone Group which issued $450 million of 10 year paper (165bps over swap) and $700 million of 5 year (split between fixed and floating at 105bps over swap). In the utilities area, Victorian gas distributor Multinet Gas issued a $265 million 7 year fixed note at 125bps over swap. ETSA Utilities also tapped the market

with a $100 million 6 year issue at 104bps over swap. Meanwhile Financials accounted for $1.3 billion of issuance with Macquarie raising $500m through a fixed note and $325m via a floating 5 year issue priced at 115bps over swap.

Over the year, two themes were particularly evident; a growth in issuance versus prior years and a rise in the capital raised by infrastructure and utilities names, particularly in the 7 and 10 year maturities. In the December quarter, this included NSW utility providers, Ausgrid and Endeavour Energy. In general the additional issuance was well-absorbed, reflected by a prevalent trend lower in physical spreads during 2017. This continued (albeit to a smaller extent) in December. The best performing sectors during the month were Resources, Infrastructure and Real Estate which tightened 5bps, 3bps and 2bps respectively. At the other end of the spectrum, Domestic Banks and Telcos underperformed with a 1bp widening in the former and no change in spread for the latter. Finally, the Australian iTraxx index (Series 28 contract) traded in a tight 7bps range finishing the month 7bps tighter to +58bps.

Portfolio performance

The BT Wholesale Enhanced Credit Fund returned -0.30% in December 2017 (post-fees, pre-tax), slightly underperforming its benchmark by 0.07%.

The Fund experienced a negative return from underlying swap curve movements. Positive performance was again experienced from positions in infrastructure and utilities, which was partly offset by small negative returns on short supra-nationals versus the benchmark.

Activity over the month involved participating in the primary issuance of financial services provider, Macquarie Group, which was partly funded by the sale of one of its earlier issues.

Strategy & outlook

Our macro credit view remains neutral. While there remains the potential for event risk and associated volatility in the near term, it has diminished since early 2017. We acknowledge the recent progress on US tax reform, but note question marks remain over its potential impact and further fiscal policy changes remain absent. This in turn could impair a continued improvement for the US outlook. While on the monetary policy front, the Federal Reserve delivered three rate hikes in 2017 and their projections suggest another three over 2018 in addition to continued balance sheet normalisation.

While European growth has picked up, there remain pockets of regional event risk like the Catalonia secession struggle and the surprise dissolution of Merkel's coalition, which could cause further EU problems. We also note the ECB's tapering announcement in Q4 2017 was taken positively by markets, however there is doubt over whether sufficient supply will exist to meet required purchases of 30 billion euros a month.

There is also growing uncertainty over the impact of Chinese economic reforms in 2018. While these are likely to stimulate certain areas of the economy, like tech, they may have a more negative effect on construction and infrastructure. At the same time, an emphasis on the quality of growth should be more sustainable and beneficial over the longer term.

Accordingly while the near term market tone is positive, we remain cautious with many unknowns in 2018. Domestically we see soft growth persisting and an improvement largely dependent on commodity price stability and housing. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as utilities and infrastructure that provide a higher yield to index returns.

Cash

BT Wholesale Managed Cash and BT Wholesale Enhanced Cash Funds

Market review

Australian bonds experienced a negative return during the month as yields rose in sympathy with global peers and due to supportive local economic data. Market pricing for an RBA hike was also brought forward to December 2018 from early 2019. Near-term expectations for the cash rate however held steadfast, alongside little indication from the Board that a change in policy is needed for the time being. Governor Lowe's statement was in keeping with prior months and noted strength in leading indicators like business activity, as well as employment growth. However, this has stood in contrast to soft retail activity and persistently subdued inflation, including wage increases.

One of the top-tier economic releases during the month was third quarter GDP data, which was lower than expected with a 0.6% quarter-on-quarter increase resulting in annual growth of 2.8%. The monthly Labour Force report was more encouraging and beat expectations with a healthy 61,600 jobs added during November. Most of the growth was also skewed to full-time positions. The unemployment rate remained unchanged at 5.4% due to a rise in the participation rate. In contrast the NAB Business Conditions survey retreated from its record high achieved in the prior month. In other local economic developments, the Treasury released its Mid-Year Economic and Fiscal Outlook, which revealed a $5.8 billion improvement in this year's Federal deficit forecast versus the prior estimate. Forecasts for individual states also improved, but by a smaller margin.

Looking abroad, the Federal Reserve raised rates by 25bps as widely-anticipated. Committee members also raised their forecast for 2018 GDP growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228,000 NFP print. A long-awaited tax reform proposal also passed both chambers of Congress, which helped support global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year.

In Europe, the ECB maintained its policy settings and President Draghi emphasised a need to keep interest rates at present levels for an extended period, given persistent subdued inflation. Meanwhile on the political front, some uncertainties were felt as the Catalan independence bid regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets.

In terms of market movements, the Australian yield curve rose and flattened as 3 year yields increased by 25bps to 2.14% and 10 year yields added 14bps to 2.65%. At the front-end, 90 day BBSW rose a more modest 5bps to 1.80%. In the US, 2 year yields climbed 10bps to 1.89% while the 10 year finished unchanged at 2.41%. In the FX space, the Australian Dollar recovered 3.2% versus its US counterpart, helped in part by firmer iron ore prices. More broadly, metals were generally stronger over the period with copper rising to a 4 year high, bolstered by strong Chinese import data.

Credit spreads contracted further during the month, which reflected ongoing healthy risk appetite. This was spurred by the passage of a long-awaited US tax reform proposal and the ECB emphasising a need to maintain its current low policy rates.

In turn, the Australian iTraxx index (Series 28 contract) traded in a tight 7bps range finishing the month 7bps tighter to +58bps. Physical credit spreads were generally a touch stronger with the best performing sectors being resources, infrastructure and real estate narrowing 5, 3 and 2bps respectively, whilst domestic banks underperformed widening 1bp. Semi-government bond spreads performed well tightening 4bps to government bonds over the month.

Portfolio performance

Managed Cash

The BT Wholesale Managed Cash Fund returned 0.15% in December 2017 (post-fee, pre-tax), outperforming the benchmark return by 0.01%.

With a higher running yield than the index remains well positioned to outperform. Themes and credit exposure remain consistent with prior months, with excess spread from A-1 rated issuers and yield curve positioning likely to be the main driver of outperformance. The fund ended the month with a weighted average maturity of 66 days (maximum limit of 70 days). Yields further out the curve continue to offer better relative value and the weighted average maturity has consistently been longer than benchmark due to this. With longer dated yields offering better value and with Reserve Bank monetary policy tightening a distant prospect we will remain longer than benchmark. The fund is well positioned to continue to outperform its benchmark.

Enhanced Cash

The BT Wholesale Enhanced Cash Fund returned 0.26% in December 2017 (post-fee, pre-tax), outperforming its benchmark by 0.12%.

Positive performance came from financials, industrials and infrastructure sectors. The portfolio has outperformed its benchmark by 1.46% over the past 12 months.

Activity during the month included increasing exposure to the industrial sector funded out of cash.

As at the end of the month, the portfolio had a credit spread of 69bps over bank bills, interest rate duration of 0.13 years and credit spread duration of 2.18 years.

Strategy & outlook

The key economic release in January will be the 4th quarter inflation data. Inflation data has continued to disappoint recently and has provided little near term impetus for the Reserve Bank to tighten monetary policy. There are positive signs for the Australian economy however. The labour market over the past year has seen 380,000 jobs created, the bulk of which are in full time employment. The unemployment rate would be lower than its current 5.4% but for the pickup in the participation rate. That wage inflation remains subdued indicates that some slack does remain in the labour market and is also weighing on household consumption expenditure. Higher household debt levels are also weighing on consumption. Business conditions, despite the fall in the NAB business survey last month, are well above average levels and global economic conditions are supportive for the Australian economy. We expect no change from the Reserve Bank until at least mid-2018 - the inflation data will however be the key determinant for monetary policy expectations going forward.

Australian Property

BT Wholesale Property Securities Fund

Market review

The ASX AREIT index was up 0.2% in December, underperforming the broader market, which was up 1.8%. In 2017 AREITs provided a total return of 5.7%, underperforming the broader market by 6.1%. Global REITs were up 11.4% in 2017, with Singaporean REITs the strongest performers, up 43% (in USD terms) and Japan the worst performers, down 1.6%. The best performing AREIT of the month was Westfield Group (+13.2%) as Unibail entered into an agreement to buy the Group with a combination of cash and scrip. The combined vehicle will own 104 assets, have a gross market value of €61.1B and market cap of €31B – to trade on the Dutch, French and Australian stock markets. Underperformers included Iron Mountain (-8.7% - did an equity raising), National Storage REIT (-4.1% - also completed an equity raising) and Dexus Group (-3.6%).

The Fed lifted interest rates by 25bps for the third time in 2017 to 1.25-1.5%, which saw the US Bond rate tick up 13bps to close at 2.63%. The US unemployment rate was steady at 4.1%, a 17 year low, however non-farm payrolls grew at 148,000 in December, slightly below consensus. US retail sales were strong +0.8% (vs expectations of +0.3%), although inflation was up only 0.1%, +1.7% on the previous year.

The RBA held rates steady in December in Australia, the 16th consecutive month of rates on hold. Retail sales (+0.5%) rebounded to record the largest increase since May 2017. The unemployment rate was steady at 5.4%, a four year low, with 61,600 jobs added over the month, although this was offset by

a small increase in the participation rate (to 65.5%). The 10 year bond yield was up 13bps and closed the month at 2.63%. The Australian dollar was stronger against the US dollar, +3.1% to close at 78c.

The major news of the month surrounded global mall REIT M&A with the abovementioned Unibail offer for Westfield and also the UK's Hammerson's offer for Intu properties, both significant mall owners. The UK merger, recommended by both Boards, will catapult the combined group to become the UK's largest listed company. The mall REIT M&A has been precipitated by depressed share prices and lacklustre trading conditions. It could be described as a meeting of minds/skill sets or a joining of armies against the challenges of e-commerce.

Portfolio performance

The BT Wholesale Property Securities Fund returned 0.42% in December 2017 (post-fee, pre-tax), outperforming its benchmark by 0.30%.

The Fund's outperformance was driven by overweight positions in Westfield Group and Lifestyle Communities and underweights in Dexus Property Group, National Storage REIT and Goodman Group assisted performance. Overweights in Arena REIT, Iron Mountain Inc, Charter Hall Group, GPT Group and Mirvac Group detracted from performance.

Over the month we increased our overweight positions in Charter Hall Group, reduced our underweight position in Vicinity Centres and participated in the Charter Long WALE capital raising. This was funded by reducing our overweight positions in Scentre Group, Stockland Group and Mirvac Group, and reducing our overweight in Viva Energy Group to underweight and increasing our underweight position Dexus Property Group.

Strategy & outlook

The sector is now priced on an FY18 dividend yield of 4.8%, a PE ratio of 17.4 times and a 23% premium to NTA, above its long-term average of 15%. Cap rates will likely compress further in the next reporting period (on the back of recent transaction evidence), but asset valuation uplift thereafter will depend on income growth and tenancy retention. Balance sheets are stable with sector gearing at 28%.

International Property

BT Wholesale Global Property Securities Fund, managed by AEW

Market Review (in USD)

Performance of the global property securities market (on an ex-Australia basis) as measured by the FTSE EPRA/NAREIT Developed Index rose in December, posting a total return of 1.3%. Europe

(+4.9%), Asia Pacific (+1.0%) and North America (+0.3%) were all positive performers. Within Asia Pacific, results were mostly positive across the region. New Zealand (+9.0%) posted the largest gain, followed by Singapore (+3.0%) and Hong Kong (+2.6%), while Japan (down 0.8%) was the only country in negative territory. In Europe, results were largely positive as well: Austria (+13.1%) posted the largest gain, followed by the United Kingdom (+8.2%) and France (+7.3%). The only negative performers within the region were Italy (down 2.6%) and Netherlands (down 0.7%). Within North America, the US and Canada returned 0.0% and 4.4%, respectively.

Portfolio performance

The BT Wholesale Global Property Securities Fund returned 1.25% in December 2017 (post-fee, pre-tax) outperforming the benchmark return by 0.16%.

North America

The North America portfolio returned 0.39% in December before fees and taxes, beating the FTSE EPRA/NAREIT North America Index by 13 basis points. Outperformance relative to the benchmark was driven by both positive stock selection and positive sector allocation results. In terms of stock selection, results were strongest in the regional mall, hotel and office sectors and were weakest in the health care, diversified and triple net lease sectors. Regarding sector allocation, positive results were attributable to the portfolio's overweight to the outperforming regional mall sector and an underweight to the underperforming health care sector. Among the portfolio's holdings, top individual contributors to relative performance included overweight positions in outperforming Simon Property Group (SPG), Extended Stay America (STAY) and Taubman Centers (TCO). Detractors most notably included overweight positions in underperforming Rexford Industrial Realty (REXR), Welltower (HCN) and Gramercy Property Trust (GPT).

Europe

The European portfolio returned 4.99% in December before fees and taxes, slightly outperforming the regional EPRA benchmark by eight basis points. Modest outperformance relative to the benchmark was driven by positive stock selection results, which were partially offset by negative country allocation results. In terms of stock selection, results were strongest in the United Kingdom, France and Switzerland and were weakest in Germany, Sweden and Spain. Regarding country allocation, negative results were attributable to the portfolio's lack of exposure to the outperforming Austria. Moreover, the portfolio's small cash position was a detractor to relative performance in light of the regional benchmark's positive absolute performance for the month. Among the portfolio's holdings, top contributors to relative performance included overweight positions in outperforming Gecina SA (France), Unite Group PLC (United Kingdom), and British Land Co. PLC (United Kingdom). Detractors most notably included an overweight position in outperforming Deutsche Wohnen SE (Germany), lack of exposure to outperforming Buwog AG (Austria) and an underweight position in outperforming Capital and Counties Properties PLC (United Kingdom).

Asia

The Asia portfolio returned 1.18% in December before fees and taxes, beating the regional EPRA benchmark by 14 basis points. Outperformance relative to the benchmark was attributable to positive stock selection results in Japan and, to a lesser extent, Singapore, while results in Hong Kong were neutral. Country allocation results were also largely neutral. Among the portfolio's holdings, top contributors to relative performance included overweight positions in outperforming Daiwa Office Investment (Japan) and Wharf REIC (Hong Kong), and a lack of exposure to underperforming Swire Properties (Hong Kong). Detractors included an overweight position in underperforming Hong Kong Land Holdings (Hong Kong), an underweight position in outperforming Wharf Holdings (Hong Kong), and a lack of exposure to outperforming Aeon Mall (Japan).

Active Balanced

BT Wholesale Active Balanced Fund

The domestic equity market finished the calendar year on an upbeat note in December, with the S&P/ASX 300 Accumulation Index gaining 1.9% over the month, and 11.9% over CY17. Performance has been particularly strong from **Resources (+7.1%/+25.7%)**, with the help of rising commodity prices over the period; whereas **Industrials (+0.7%/+9.2%)** also achieved a good return over the 12-month period.

Sector performance was positive in general for December, with the exception of **Utilities (-4.5%), Industrials (-0.9%)** and **Health Care (-0.5%)**. Energy infrastructure operator, **APA Group (APA, -8.6%)** gave back all the gains it made in November, and was the largest detractor within Utilities. Its share price has been somewhat range-bound since 2015. Within Industrials, **Qantas (QAN, -11.1%)** was the worst performer. The national airliner saw its share price retreat amid the soaring oil price over the month. The commodity touched its two-year high as demand continued to firm alongside supply disruptions in Libya and the North Sea. Nevertheless, Qantas' stock performance has been strong at 56.1% over the past 12 months. Finally, the Health Care duo, **Cochlear (COH, -5.3%)** and **CSL (CSL, -1.4%)** both declined over the month and weighed on the sector. However, performance has been strong for both companies over the 12-month period, with returns of approximately 42%.

On the other side of the spectrum, **Materials (+6.1%)** was the best performing sector, as miners continue to benefit from rising commodity prices over the month, with iron ore and copper finishing December at higher levels. As a result, major miners including **BHP Billiton (BHP, +8.3%), Rio Tinto (RIO, 6.8%)**, **South 32 (S32, +7.1%)** and **Fortescue Group (FMG, +6.1%)** all recorded solid returns. Following Materials in terms of index performance contribution was **Energy (+6.5%)**, which benefited from the rising oil price over the month. **Woodside Petroleum (WPL, +6.7%)**, **Oil Search (OSH, +11%)** and **Santos (STO, +7.3%)** all managed to record strong gains. Outside of Energy, there were a few notable standout performers including gaming operator **Tabcorp (TAH, +15.1%)**, **Tatts Group (TTS, +7.0%)** within **Consumer Discretionary (+3.7%)**; as well as **Telstra (TLS, +5.8%)** and **TPG Telecom (TPM, +10.4%)** within **Telecoms (+5.5%).** Tabcorp and Tatts Group made strong gains after the ACCC

decided not to review their proposed merger. Tatts Group shareholders approved the proposed merger during the month, which is expected to deliver at least $130 million in earnings synergies. Meanwhile, the Telecoms duo rebounded and recovered some of the losses suffered over the past 12 months.

Global Equity markets delivered another month of solid gains in December, with the MSCI World ex Australia Total Return Index returning 3.2%. Positive sentiment continued as investor confidence was reaffirmed on the back of favourable earnings results from major corporations, positive economic data and the Bank of England's decision to raise interest rates for the first time in a decade. The oil price continued to advance towards the US$60 mark while non-energy commodities prices were more subdued.

US equities registered another strong month in record high territory. The market was broadly supported on account of prospective US tax reform after Senator John McCain backed the Senate Tax Bill that had undergone extensive debate during the month. The increasing likelihood of cuts to corporate tax rates spurred a rotation away from the technology sector towards financials. Strong early indications of consumer demand from Black Friday sales also boosted consumer stocks. The S&P500 delivered a 3.1% return whilst the Nasdaq was up 2.2%.

Major European equity markets weakened during the month, with the German DAX (-1.6%) and the French CAC (-2.4%) weighing on returns from the region. Falling bond yields and muted inflation indications led to a risk-off environment, while positive signals on the Eurozone economy such as unemployment falling to 8.8% - the lowest level in nine years – together with generally strong private sector surveys failed to placate markets. The UK market also declined, with the FTSE Index declining by 2.2% as uncertainty on the political arena and the Bank of England hiking interest rates by 0.5% weighed on sentiment.

Asian markets delivered a mixed set of results, with Hong Kong, China and Japan yielding from some strong earnings results, despite weaker economic data from China. South Korea and Taiwan lost ground due to weak sentiment towards technology companies as investors globally took profits on the sector. Japan (+3.2%) and Hong Kong (+3.3%) were the standout performers for the region.

The Australian dollar finished the month 1% lower against the US dollar, -2.9% weaker against the British pound and down 3.3% against the euro. The local currency was weaker on lower than anticipated trade data and signs of weak consumption data.

Within the fixed interest sector, investor attention was primarily focused on US developments during the month. This included a 25bp hike by the Federal Reserve. Committee members also raised their forecast for 2018 GDP growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228,000 non-farm payrolls print. A long-awaited tax reform proposal also passed both chambers of Congress, which helped support global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year. Meanwhile in Europe, the ECB maintained its policy settings and President Draghi emphasised a need to keep interest rates at present levels for an extended period, given persistent subdued inflation.

Meanwhile on the political front, some uncertainties were felt as the Catalan independence bid regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets. Finally regarding market movements, US 2 year yields climbed 10bps to 1.89% while the 10 year finished unchanged at 2.41%.

Australian bonds experienced a negative return during the month as yields rose in sympathy with global peers and due to supportive local economic data. Market pricing for an RBA hike was also brought forward to December 2018 from early 2019, while near-term expectations for the cash rate remained steady. Governor Lowe's statement was in keeping with prior months and noted strength in leading indicators like business conditions, as well as employment growth, which has stood in contrast to subdued inflation and retail activity. Top-tier economic releases during the month included third quarter GDP data, which revealed modest 0.6% quarter-on-quarter growth. Employment growth was more encouraging with 61,600 jobs added, which was skewed to full-time positions. Retail sales also surprised to the upside with a 0.5% gain. In contrast, the NAB Business Conditions gauge retreated from its record high. Finally, in terms of market movements, the Australian yield curve rose and flattened as 3 year yields increased by 25bps to 2.14% and 10 year yields added 14bps to 2.65%. At the front-end, 90 day BBSW rose a more modest 5bps to 1.80%. In the FX space, the Australian dollar recovered 3.2% versus its US counterpart, helped in part by firmer iron ore prices.

Portfolio performance

The BT Wholesale Active Balanced Fund returned 0.79% (post-fee, pre-tax) for the month of December 2017, outperforming its benchmark by 0.40%.

The Fund's performance for December was once again driven by the strong performance of growth assets, while exposure to fixed interest assets detracted from returns. Exposure to alternatives contributed to returns, as did the Fund's limited exposure to cash.

Tactical asset allocation contributions were driven by the Fund's overweight exposure to domestic equities and an underweight to Australian fixed income.

The key factors influencing our active management returns were our material exposure to Australian and global equity strategies. Within the Australian equity strategy, stock selection outcomes were the primary driver of active returns, particularly through overweight positions in Santos and Westfield. Contributions were also sourced from holding no exposure to Orica.

Our global equities portfolio delivered a positive return from stock selection by both our core and concentrated managers, however, a strengthening Australian dollar had a negative impact on returns from this asset class.

Our Alternatives strategy delivered a positive return for December, with contributions across the suite of strategies. The Alternatives strategy delivered a total return (before fees) of 0.55% vs a cash return of 0.14%, with contributions from the managed futures, market neutral, stock selection, asset allocation,

and risk parity and Equity Income strategies, while our Australian fixed interest component detracted from returns.

Our tactical positioning within alternatives made a further contribution to returns. A long position in commodities together with the Fund's short volatility position contributed to returns, while long positions in equities more than offset a small detraction from long positions in Australian and German bonds.

Strategy and Outlook

Looking into 2018, there are several key issues which we believe should remain at the forefront of investor focus. The first is liquidity, which is no longer providing a tailwind to markets as central banks around the world tighten policy and start to shrink balance sheets. At this point the pace of tightening remains moderate and should allow the market to retain the prevailing valuation rating, however we remain mindful of the risk of over-tightening and keep a watchful eye on this space. We also maintain a close eye on bond yields, given the sensitivity which a large swathe of the Australian market has to changes here.

China remains crucial to equity market fundamentals and sentiment. The economic outlook remains stable at this point, with GDP growth expected to continue on its multi-year path of moderate deceleration. The Government remains focused on corporate profitability to help address the country's debt problem and relieve stress on the financial system.

The US economy has received significant impetus for further gains. While the market is not considered cheap based on valuations, many corporates are in strong positions supported by buoyant economic conditions, strong balance sheets and policy support through still low interest rates and forthcoming tax cuts.

While the conditions for equities are positive, we remain mindful of valuation indicators and continue to see prudence in maintaining some exposure to defensive and alternatives assets to preserve capital and diversify the asset base.

Performance as at 31 December 2017

(%)	1 Month	3 Months	6 Months	FYTD	1 year (pa)	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Incp. (pa)
Australian Shares - All Cap									
BT Wholesale Core Australian Share Fund								APIR -	RFA0818AU
Total Return (post-fee, pre-tax)	2.34	7.64	9.56	9.56	15.04	10.29	8.89	11.27	10.09
Total Return (pre-fee, pre-tax)	2.40	7.87	10.01	10.01	15.96	11.16	9.75	12.15	11.1
Benchmark	1.86	7.74	8.60	8.60	11.94	11.86	8.76	10.15	10.05
BT Wholesale Imputation Fund								APIR -	RFA0103AU
Total Return (post-fee, pre-tax)	1.73	6.22	7.47	7.47	11.52	9.00	6.91	9.16	9.61
Total Return (pre-fee, pre-tax)	1.81	6.46	7.96	7.96	12.53	9.98	7.87	10.15	10.63
Benchmark	1.86	7.74	8.60	8.60	11.94	11.86	8.76	10.15	8.82
BT Wholesale Focus Australian Share Fund								APIR -	RFA0059AU
Total Return (post-fee, pre-tax)	2.30	7.78	9.39	9.39	16.36	12.09	10.69	13.21	9.45
Total Return (pre-fee, pre-tax)	2.41	7.99	9.93	9.93	18.03	13.02	11.89	14.29	10.56
Benchmark	1.86	7.74	8.60	8.60	11.94	11.86	8.76	10.15	7.64
BT Wholesale Ethical Share Fund								APIR -	RFA0025AU
Total Return (post-fee, pre-tax)	2.40	7.73	9.61	9.61	14.88	10.38	9.10	11.34	8.73
Total Return (pre-fee, pre-tax)	2.49	7.99	10.13	10.13	15.98	11.42	10.14	12.40	9.79
Benchmark	1.86	7.74	8.60	8.60	11.94	11.86	8.76	10.15	8.19
Australian Shares - Mid Cap									
BT Wholesale MidCap Fund								APIR -	BTA0313AU
Total Return (post-fee, pre-tax)	3.27	12.20	16.07	16.07	24.79	18.27	16.82	16.59	11.1
Total Return (pre-fee, pre-tax)	3.48	12.36	16.78	16.78	26.12	19.20	18.11	18.29	13.35
Benchmark	2.79	12.60	13.74	13.74	22.33	19.37	16.22	14.25	6.20
Australian Shares - Small Cap									
BT Wholesale Smaller Companies Fund								APIR -	RFA0819AU
Total Return (post-fee, pre-tax)	2.41	10.24	16.11	16.11	17.01	10.00	14.90	12.31	13.39
Total Return (pre-fee, pre-tax)	2.51	10.59	16.85	16.85	18.46	11.37	16.33	13.72	14.68
Benchmark	3.20	13.69	18.70	18.70	20.02	16.55	14.38	7.39	7.96
Australian Shares - Micro Cap									
BT Wholesale MicroCap Opportunities Fund								APIR -	RFA0061AU
Total Return (post-fee, pre-tax)	5.91	10.87	18.75	18.75	23.85	18.80	23.05	20.94	19.32
Total Return (pre-fee, pre-tax)	6.01	10.59	19.50	19.50	26.26	20.76	26.67	25.97	24.71
Benchmark	3.20	13.69	18.70	18.70	20.02	16.55	14.38	7.39	3.36
International Shares									
BT Wholesale Core Global Share Fund								APIR -	RFA0821AU
Total Return (post-fee, pre-tax)	-1.51	5.73	9.12	9.12	14.06	9.42	10.48	18.30	5.86
Total Return (pre-fee, pre-tax)	-1.44	5.99	9.65	9.65	15.14	10.45	11.53	19.44	7.02
Benchmark	-1.71	5.81	8.49	8.49	13.38	10.61	11.01	18.42	7.30
BT Global Emerging Markets Opportunities Fund - Wholesale								APIR -	BTA0419AU
Total Return (post-fee, pre-tax)	-0.26	7.17	12.39	12.39	29.39	16.27	10.93	12.55	12.52
Total Return (pre-fee, pre-tax)	-0.15	7.53	13.14	13.14	31.15	17.88	12.46	14.29	14.77
Benchmark	0.54	7.78	13.68	13.68	27.09	19.16	10.76	10.43	11.87
BT Concentrated Global Share Fund								APIR -	BTA0503AU
Total Return (post-fee, pre-tax)	-0.52	6.29	9.39	9.39	15.70	N/A	N/A	N/A	17.26
Total Return (pre-fee, pre-tax)	-0.41	6.62	10.08	10.08	17.15	N/A	N/A	N/A	18.73
Benchmark	-1.71	5.81	8.49	8.49	13.38	N/A	N/A	N/A	15.12
Property									
BT Wholesale Property Securities Fund								APIR -	BTA0061AU
Total Return (post-fee, pre-tax)	0.42	7.94	9.50	9.50	6.70	9.81	10.93	12.82	7.65
Total Return (pre-fee, pre-tax)	0.48	8.11	9.86	9.86	7.40	10.53	11.65	13.55	8.46
Benchmark	0.12	7.79	9.88	9.88	6.44	9.76	11.28	13.38	7.51
BT Wholesale Global Property Securities Fund								APIR -	RFA0051AU
Total Return (post-fee, pre-tax)	1.25	3.29	4.81	4.81	8.52	6.60	5.66	9.72	9.47
Total Return (pre-fee, pre-tax)	1.33	3.54	5.30	5.30	9.53	7.58	6.64	10.74	10.47
Benchmark	1.09	3.42	4.47	4.47	8.47	7.02	5.96	10.08	9.19
Fixed Interest									
BT Wholesale Fixed Interest Fund								APIR -	RFA0813AU
Total Return (post-fee, pre-tax)	-0.78	0.97	0.93	0.93	3.08	2.24	2.02	3.62	6.44
Total Return (pre-fee, pre-tax)	-0.74	1.10	1.19	1.19	3.59	2.76	2.53	4.13	6.99
Benchmark	-0.52	1.44	1.37	1.37	3.66	3.29	3.05	4.15	6.67
BT Wholesale Global Fixed Interest Fund								APIR -	RFA0032AU
Total Return (post-fee, pre-tax)	-0.10	0.38	0.93	0.93	1.90	3.02	2.51	4.04	6.12
Total Return (pre-fee, pre-tax)	-0.06	0.52	1.19	1.19	2.44	3.57	3.06	4.59	6.70
Benchmark	0.13	0.85	1.50	1.50	2.86	3.89	3.80	4.88	7.05
BT Wholesale Enhanced Credit Fund								APIR -	RFA0100AU
Total Return (post-fee, pre-tax)	-0.30	1.31	1.90	1.90	4.50	3.91	3.51	4.52	5.79
Total Return (pre-fee, pre-tax)	-0.26	1.42	2.13	2.13	4.97	4.38	3.97	5.00	6.32
Benchmark	-0.23	1.29	1.84	1.84	4.45	3.92	3.57	4.49	5.90
Cash & Income									
BT Wholesale Enhanced Cash Fund								APIR -	WFS0377AU
Total Return (post-fee, pre-tax)	0.26	0.74	1.58	1.58	3.21	2.94	2.72	3.05	4.98
Total Return (pre-fee, pre-tax)	0.29	0.80	1.71	1.71	3.47	3.20	2.98	3.31	5.32
Benchmark	0.14	0.42	0.86	0.86	1.75	1.91	2.05	2.34	4.92
BT Wholesale Managed Cash Fund								APIR -	WFS0245AU
Total Return (post-fee, pre-tax)	0.15	0.44	0.89	0.89	1.79	1.95	2.06	2.33	6.50
Total Return (pre-fee, pre-tax)	0.17	0.50	1.00	1.00	2.01	2.17	2.28	2.55	6.80
Benchmark	0.14	0.42	0.86	0.86	1.75	1.91	2.05	2.34	6.57
BT Wholesale Monthly Income Plus Fund								APIR -	BTA0318AU
Total Return (post-fee, pre-tax)	0.37	2.87	3.80	3.80	6.50	4.81	4.18	5.11	5.68
Total Return (pre-fee, pre-tax)	0.43	3.04	4.14	4.14	7.20	5.49	4.86	5.80	6.34
Benchmark	0.13	0.38	0.76	0.76	1.51	1.63	1.80	2.14	2.98
Diversified									
BT Wholesale Active Balanced Fund								APIR -	RFA0815AU
Total Return (post-fee, pre-tax)	0.79	5.38	7.62	7.62	12.05	8.02	7.30	9.98	7.77
Total Return (pre-fee, pre-tax)	0.88	5.64	8.15	8.15	13.11	9.04	8.31	11.02	8.84
Benchmark	0.39	4.90	6.25	6.25	9.35	8.92	7.58	9.35	7.55

For more information
Please call 1800 813 886, contact your Business Development Representative or visit btim.com.au

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