

→ Fund Manager Commentary

March 2018

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Australian Shares

BT Wholesale Core Australian Share Fund

Market review

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index lost 3.7% in March, as President Trump sparked fears of a trade war after announcing the intention to impose tariffs on both aluminium and steel imports into the US, threatening to increase tariffs of up to 25% on \$US60 billion worth of goods currently imported from China. Whilst the response from China has to date has been relatively muted, investor sentiment quickly waned as a result. In addition, President Trump's personal animosity towards Amazon, alongside the ongoing furore over Facebook's data security practices also led to another round of investor jitters in the US towards the end of the month. The Australian share market responded to these developments with a weakening in sentiment to push the market lower.

Both the Resources (-4.3%) and Industrials (-3.6%) sectors finished the month lower, with negative returns within each sector. The bond sensitives, including REITs (-0.1%) and Utilities (-0.8%) suffered minor losses as safe-haven bonds rallied over the month, pulling down long-term bond yields. The infrastructure sector also fared better than the rest of the market as expected, including the likes of **Sydney Airport** (SYD, +1.8%), **Macquarie Atlas** (MQA, +4.3%) and **Transurban** (TCL, -1.4%).

On the other side of the spectrum, Telecommunication Services (-6.2%) was the worst performing sector over the month. Sector heavyweight **Telstra** (TLS, -6.3%) saw its share price drop further – alongside the ongoing concerns around the national carrier's NBN business, the news that Australian Consumer and Competition Commission (ACCC) had commenced proceedings against TLS in regard to its "Premium Direct Billing" also dampened investor sentiment. Also causing a drag on the sector were **TPG** (TPM, -10.1%) and **Vocus** (VOC, -9.4%). TPG's guidance upgrade on the back of the temporary NBN delays and cutting of overheads was apparently not encouraging enough for the market; whilst VOC's removal from the top 100 index also caused some selling as expected.

The other two index heavyweight sectors, Materials (-4.2%) and Financials (-5.8%) also incurred some meaningful losses in March. Commodities prices drifted lower over the month in general, due to the fears of a trade war. This thematic in conjunction with China's steel inventory building up saw the iron ore price (-16.8%) pull back significantly, which weighed on the two large diversified miners, **BHP** (BHP, -5.3%) and **Rio Tinto** (RIO, -7.8%). Also on iron ore miners, low-grade producer, **Fortescue** (FMG, -12.2%), provided an update on the price discount currently being applied to low-grade iron ore. Whilst the market was already on top of the wider-than-usual discount rate currently being applied, it did not help FMG's share price. Elsewhere, uncertainties caused by Trump's steel tariffs also brought some negative impacts on steel stocks, including **Bluescope** (BSL, -7.3%) and **Sims Metal Management** (SGM, -16.0%). The former is a direct steel manufacturer/exporter while SGM recycles scrap metals, part of which is used in electric arc furnaces to produce steel.

Finally, in terms of developments for the banks, the Royal Commission has completed public hearings for the first session. There wasn't anything particularly revealing, although it does continue to reinforce the views that the Australian market is going to face more stringent lending standards, creating a headwind on banks' near-term profits, and potentially causing a drag on the domestic economy. Also weighing on the outlook for banks is the recent increase in the LIBOR spread (the difference between the LIBOR rate at which banks source their funds, and the cash rate at which mortgage rates are based on). Taken together, this saw the 'Big Four' finish the month in negative territory, recording losses from -5.6% (NAB) to -7.5% (ANZ).

Portfolio performance

The BT Wholesale Core Australian Share Fund returned -3.70% (post-fee, pre-tax) in March, outperforming its benchmark by 0.03%.

Contributors

Overweight Qantas Airways

Qantas Airways (QAN, +0.2%) weakened over the last half of 2017 owing to the combination of some technical selling related to its exclusion from the MSCI Indices as well as a higher oil price – notwithstanding that the company hedges a substantial portion of its fuel costs. However, the share price bounced back in February, posting strong revenue and profit growth, driven primarily by the domestic business. The momentum extended into March and saw QAN finish the month relatively flat in a down market. The key factor here remains the discipline that both it and rival Virgin Australian (VAH) are exercising in terms of managing capacity in the domestic market. Limited growth in capacity, coupled with moderate growth in demand, is underpinning high yields and profitability for QAN which the company believes will go some way to offsetting the pressure from higher fuel costs as its hedging programme rolls over. Strong free cash flow continues to be returned to the shareholder, with management announcing \$500 million to be returned via buybacks and dividends. Despite a gain of over 53% in the last 12 months, QAN remains among the cheaper stocks compared to both the local market and its global peer group.

Overweight Amcor

Packaging manufacturer, Amcor (AMC, +1.9%), recorded a positive gain during the March sell-off. There was no material news for AMC during the month; however, the company held its earnings update in mid-February where the market reaction was somewhat muted. AMC delivered first half earnings results that were in line with expectations. The company benefited from a lower tax rate; however, it downgraded earnings guidance for the full year. Short term challenges related to raw material cost inflation and soft volumes in its Rigid Plastics business have remained an issue. We continue to favour the company for its relatively defensive earnings profile.

Overweight Macquarie Atlas

Toll road operator, Macquarie Atlas (MQA, +4.3%), delivered its fourth-quarter earnings update in early March. Proportionate revenue grew by 3.9% compared to the previous corresponding period, due to an up-lift in traffic levels and revised toll schedules. This translated into a 4.8% increase in earnings (EBITA), reflecting the strong operating leverage within the business. Alongside this strong set of results, a decrease in long-term bond yields due to the trade war fears also benefited MQA's stock performance. We continue to favour MQA given its quality asset portfolio.

Insurance Group Australia - not held

Insurance Australia Group (IAG, -8.8%) surrendered half of its gains from the previous month as investors took profits in March. The insurer delivered a decent first-half result, with net profit for the half growing by 24% and some key underlying trends turning positive for the first time in a few halves. This resulted in some small upgrades for FY18 earnings in February, which saw share price advance by more than 15%. As previously communicated, we believe the positive result could be largely attributed to a material proportion of one-off factors, such as reserve releases, supporting the result. We suspect this could explain the short-term profit taking that occurred over the month. At this point, we believe that the insurance sector does not look cheap, while there is significant potential for the market's expectations of a turnaround in margins on the back of improved pricing to be disappointed, given trends in claims costs and government scrutiny of premiums.

Detractors

Overweight Caltex

The share price of oil refiner/convenience store operator, Caltex (CTX, -9.1%), retreated during March, as investors digested the company's change in strategy and expressed concerns over pressure on earnings. A report released by the Fair Work Ombudsman found Caltex's franchise network to be an unsustainable operating model and reported non-compliance with workplace laws due to underpayment of wages, which weighed on investor sentiment. From our perspective, we think CTX looks attractive at these levels. Earnings headwinds for the company are primarily one-off in nature and we believe that the company's decisive response to shift away from its franchise model to company owned and operated outlets should prove accretive to earnings over the medium term, although costs are expected to rise in the short term. We continue to view the company favourably.

Underweight Wesfarmers

Business conglomerate, Wesfarmers (WES, +0.6%), announced its intention to demerge Coles from the group over the month, which was well received by market participants. The corporate action is intended to allow WES to release capital and focus on high-growth areas, such as the remaining Bunnings business. At the moment, Coles takes up approximately 60% of the group's capital while delivering 35% of the group's divisional profits. The additional capital from the demerger could see Wesfarmers become more active in business acquisitions that help drive long-term business growth. The proposed

demerger still needs to go through the process for approval, but subject to that, the transaction could be completed as soon as FY19.

Brambles - not held

Supply chain support service /information management solutions provider, Brambles (BXB, +5.6%) advanced higher during March, as the market reacted positively to announcements from its Investor Day. A number of initiatives were released by management at the meeting, mainly aiming to improve operating leverage across all divisions. These include a further push of plant automation across the CHEP American business where a capital expenditure program of US\$150-160 million will be put in place to facilitate an increase in automation levels towards that of its European division. Management expects this to drive improvement in operating margins for the US division, whereas we remain sceptical with the level of investment required on an ongoing basis. As such, we continue to avoid holding the company in our portfolio.

Overweight ANZ

As noted above, the major banks experienced negative investor sentiment during the month in relation to the Royal Commission and risks to funding costs. ANZ's share price lost ground in March, consistent with weakness amongst its peers.

Strategy & outlook

The portfolio fell broadly in line with markets in March, but has performed better than the Index over a relatively volatile quarter. Qantas and Nine Entertainment were key contributors over both the month and quarter, while the exposure to more defensive parts of the market – via Amcor and Macquarie Atlas – served the portfolio well during the bout of risk aversion in March.

The current environment - dominated by the tug-of-war between a strong global growth pulse on one hand and the risk of a destabilising trade war on the other – is driving elevated macro-economic uncertainty and market volatility. At the same time the shift from an era of steadily declining bond yields to a more range-bound regime has removed the relatively stable and predictable thematic tailwind from markets.

As a result, we believe we are in an environment where company-level factors have regained greater significance as drivers of stock returns. Hence, the ability to identify these factors and position the portfolio accordingly is crucial to delivering outperformance. This was well demonstrated in the first quarter, where outperformance was helped by strong returns from Nine, Qantas and JB Hi-Fi. In each case, it was resilience in earnings which has surprised the market and driven positive gains in an otherwise weak market. It is also interesting to note that these stocks are continuing a rebound from a point at which the market was implying their demise due to the emergence of disruptive competition. New technologies and competition poses undoubted challenges to a swathe of Australian industries and we have seen companies fail to adjust and fall by the wayside. However, the extreme swings of sentiment driven by disruption offers the potential to make significant money for investors, as demonstrated by these stocks.

However, exploiting disruption is not the only game in town. We continue to benefit from exposure to growth stocks such as ResMed and Aristocrat, from our resource exposure which is primarily via BHP, and from our more defensive positions in Amcor and Macquarie Atlas. In an environment of such heightened uncertainty, we believe it is important to maintain a balanced portfolio construction and to ensure that stock-level factors drive a much larger proportion of risk and return than any thematic or sector exposures.

At this point we believe that some sort of negotiated outcome is the most likely result of the US-China trade tension. But in the interim, both sides will bluff the other, trying to convince them that they are willing to bear pain, so we are likely to see further provocative statements and further stock market volatility. There is also no timetable – periodic surges of trade-related concern could persist for weeks or even months before we see a conclusion. We remain mindful of the risk that this issue presents. However, at this point we do not believe we are witnessing a significant threat to global trade and as such, would treat bouts of weakness as buying opportunities.

BT Wholesale Smaller Companies Fund

Market review

Risk appetite for equities quickly deteriorated during the month as President Trump sparked fears of a trade war by announcing the intention to impose import tariffs. As a result, the S&P/ASX Small Ordinaries Accumulation Index finished March with a loss of 2.3%. Similar to its large cap counterpart, the majority of the losses in absolute return terms came from Resources (-4.1%), whereas detracting from Industrials (-1.6%) was more contained. The small cap index nevertheless outperformed the broad market S&P/ASX 300 Accumulation Index by 1.4% over the month.

Within Resources, we saw a number of the lithium miners that had rallied recently give back some of their gains. **Pilbara Minerals** (PLS, -10.3%), **Galaxy Resources** (GXY, -15.4%), **Orocobre** (ORE, -18.0%) as well as **Mineral Resources** (MIN, -10.3%) all pulled back in that respect, causing a drag on index performance. Galaxy Resources also announced its FY17 earnings results, which was largely in-line with expectations. Adjusted EBITDA earnings was at \$52 million; however, its EBIT line was impacted by amortisations resulting from the acquisition of General Mining.

Nine out of the 11 GICs sectors finished the month in negative territory, with the exceptions being Real Estate (+2.6%) and Consumer Staples (+0.2%). The majority of companies within the former fared well over the month after the trade war jitters sent long-term bond yields lower which acted to support bond proxies. Infant formula manufacturer, **Bellamy's** (BAL, +9.8%), contributed the most to the Consumer Staples sector gains. BAL was one of the best performers of the month. Its share price momentum has been sustained after its positive results in the reporting season. It was also added to the S&P/ASX 200 Index following the March rebalance.

On the other side of the spectrum, a number of companies within sector heavyweight, Consumer Discretionary (-1.6%), had their trading update over the month. The retail industrial dynamics remain

particularly challenging for some. Embattled **Retail Food Group** (RFG, -54.1%) saw its share price plunge further over the month to a 10 year low, as it announced plans to close up to 200 stores by 2019 due to unsustainable rent and stores within poorly performing shopping centres. **Myer** (MYR, -16.7%) also struggled to take a respite from its recent share price losses. The department store operator announced a A\$0.5 billion after-tax impairment over the month in order to stay within the minimum shareholder's funds covenant. Its net profit plummeted by 63% compared to a year ago, although it was in line with guidance.

Finally, Financials (-5.6%) was the worst performing sector in March, dragged down by **NIB Holdings** (NHF, -8.2%), **Blue Sky Alternative Investments** (BLA, -21.2%) and **Platinum Asset Management** (PTM, -6.2%). US hedge fund, Glaucus, which sent domestic sandalwood company Quintis into administration just within a year of releasing a report questioning the company's intrinsic value, published a similar report over the month targeting BLA. BLA's share price rapidly declined despite management's vocal response, making it one of the worst performing stocks over the month.

Portfolio performance

The BT Wholesale Smaller Companies Fund returned -0.62% (post-fee, pre-tax) in March 2018, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 1.67%.

Contributors

Overweight Austbrokers

Austbrokers (AUB, +10.7%) is an equity-based risk management, advice and solutions provider in Australasia. It holds equity stakes in businesses that provide insurance and risk related services to clients in Australia and New Zealand, whilst the owners of the business remain directly responsible for the day to day operations. The company reported a positive first half result at the end of February, which saw group revenue continue to grow steadily. The update was followed by two clearing block trades from long term strategic holders, QBE and Allianz, which somewhat suppressed the post result share price reaction. However, the resultant improvement in liquidity, which had been an issue for the stock, contributed to a re-rating in late March. We continue to view the growth prospects for the business favourably.

Overweight OFX Group

OFX Group (OFX, +15.0%) is an international payment and foreign exchange service provider, previously known as OzForex. The company released a trading update ahead of an investor strategy day, flagging that momentum in transaction growth from the first half is persisting into the current period, while fee and commission margins have remained stable. In addition, their average transaction value has increased from the first half. This positive trend is broad-based across all countries in which they operate. We believe that management can continue to drive structural changes to improve efficiency, while the company should also benefit from an uptick in currency market volatility following its low levels of last year.

Detractors

Underweight Premier Investment

Premier Investment (PMV, +15.7%) is an apparel retail group which owns brands such as Just Jeans, Peter Alexander, and Portmans. Its half-yearly result, reported in March, revealed almost 7% growth in revenue across the group and a 10% rise in earnings (EBIT). At this point we do not see an opportunity in PMV and prefer to retain exposure to the domestic consumer in companies such as Bapcor, which are less susceptible to the increasing competitive threat of on-line competition.

Underweight Bellamys Australia (BAL)

Bellamys Australia (BAL, +9.8%), the infant formula manufacturer which was almost bankrupt a year ago, has made its way back after resolving the issues relating to their China Food and Drug Administration (CFDA) license application. The company has recently been included in the S&P/ASX 200 Index and is now trading at a hefty valuation multiple of 49 times its one-year forward P/E ratio. We prefer to hold New Zealand-listed Synlait Milk (SML.NZ), which benefits from the same strength in demand from Chinese consumers, but enjoys far greater valuation support than BAL. The drag on performance from not owning the stock was more than offset over the month by our position in SML.NZ.

Review and outlook

The S&P/ASX Small Ordinaries Accumulation Index has held up well relative to the broader market, down -2.29% for March and -2.79% for the March quarter, versus -3.73% and -3.78% respectively for the broad market S&P/ASX 300 Accumulation Index. Small cap outperformance is partly explained by the absence of the 'big four' banks from this market, which have endured a volatile quarter on the commencement of the Royal Commission – and by inclusion of some of the better performing stocks in the market, such as Bellamys Australia and Sirtex Medical.

The BT Wholesale Smaller Companies Fund has held up well amid the market's weakness. The Fund outperformed in March, assisted by positions in Synlait Milk and niche financials such as Austbrokers and OFX Group. The Fund has actually made positive gains over the quarter in a falling market. Synlait was also a key contributor here – as well as the position in A2 Milk, which we sold following its post-reporting surge.

The current environment - dominated by the tug-of-war between a strong global growth pulse on one hand and the risk of a destabilising trade-war on the other – is driving elevated macro-economic uncertainty and market volatility. At this point we believe that some sort of negotiated outcome is the most likely result of the US-China trade spat. But in the interim both sides will bluff the other, trying to convince them that they are willing to bear pain, so we are likely to see further provocative statements - and further stock market volatility. There is also no timetable – periodic surges of trade-related concern could persist for weeks or even months before we see a conclusion. We remain mindful of the risk that this issue presents; however, at this point we do not believe we are witnessing a significant threat to global trade.

The domestic economy remains reasonable, although it has not participated in the broader developed market uptick of recent times. Nevertheless there are pockets of growth which are offering specific opportunities for small cap investors. We are seeing evidence of capital reinvestment into mining to maintain existing output volumes, following a multi-year hiatus, providing opportunities for mining service companies. At the same time, the raft of transport infrastructure on the eastern seaboard is also contributing to the favourable economic activity. Outside of this, tourism, renewable energy, and niche technology are all at an attractive point in the cycle.

We continue to take advantage of these attractive areas, focusing as always on higher quality companies with lower risk of disruption. Our key positions are drawn from a broad range of industries and include Cleanaway Waste Management, Bapcor, Ryman Healthcare, Eclipx Group and Nufarm.

International Shares

BT Concentrated Global Share Fund

Market review

Global equity markets experienced another sell-off in March after uncertainties arose on the back of rising trade tensions between US and China, with investors extrapolating the extent to which twitter-sourced rhetoric could transpire into policy enactment. The implications of protectionist policies rattled both developed and emerging markets, given the underlying set of commodities – steel, aluminium, copper and their derivatives – that are in question. This was beset against interpretations of central bank tightening in the US and Europe, with the implications for global growth raising concerns for equity investors.

Stocks in the US bore the brunt of the sell-off, with stocks that have been the beneficiaries of strength in the global economy experiencing the largest falls. These included the mega-cap technology stocks including **Facebook**, **Apple** and **Alphabet** (parent entity of Google). Facebook fell under particular scrutiny following news the company had breached data security, resulting in the CEO, Mark Zuckerberg, facing up to investors and lawmakers. Commodity-related sectors also weakened on fears of a trade war, sending metals and soft commodity prices into a negative trend. After an initial rebound early in March, the S&P500 declined to close the month with a return of -2.5%, while the NASDAQ declined by 2.9%.

The major European equity markets were not immune to the US-led global correction, which saw the German DAX (-2.7%), the French CAC (-2.9%) and the UK FTSE100 (-2.4%) experience broad based de-rating. The declines were despite more favourable economic indicators for the euro-area suggesting that recovery for the region is firming. Manufacturing and service sector surveys together with labour market data indicated continued expansion, although inflation remains benign. Notwithstanding, the

European Central Bank reaffirmed its intentions to unwind its quantitative easing program later this year, with the caveat being that the unwind will be patient and measured.

The Asian region also followed the path of major developed markets, falling in response to trade war fears with implications for around US\$50 billion worth of imports from China. Korea, Malaysia, Thailand and Malaysia were among the better performing equity markets while Australia, Hong Kong and Japan were among the weakest.

The Australian dollar weakened on currency markets in March, consistent with weakening commodity prices to close the month down by 1.1% against the US dollar, 2.0% against the euro and 2.8% against the British pound.

Portfolio performance

The BT Concentrated Global Share Fund returned -0.43% (post fee, pre-tax) in March 2018, outperforming its benchmark by 0.10%.

March proved to be the most volatile month in markets since the Fund's inception in August 2016. Headlines associated with Facebook, Amazon and global trade were the focus for markets, however we remain focused on valuations and the true long term intrinsic value of the leading businesses we hold.

After reporting a better than expected quarterly report at the end of February, our holding in **Howard Hughes** was up 8.5% for the month. Howard Hughes owns, develops and sells residential and commercial land in their premier masters planned communities (MPCs) in the US. In addition, they operate a portfolio of 54 properties in the US, comprising retail, office and hospitality assets. A subsequent presentation at a property CEO conference in March saw management reiterate a positive outlook for the company. Commentary from management suggested not only a broad-based increase in retail and office leases, but also shared a number of property-specific sales indicators which bodes well for 2018. Net operating income in 2017 increased by around 13% from 2016, with completed construction of five properties in 2017 expected to build on the growth momentum in net operating income in 2018. With a number of projects in development and sufficient cash to fund the pipeline, we believe the company is in a strong position to monetise assets, resulting in a growing stream of cash flows in 2018 and beyond.

Our investment in **Anheuser-Busch InBev** (ABI, +2.1%) outperformed in March after reporting fourth quarter and full year 2017 results at the beginning of the month. ABI is the world's largest brewer and accounts for 30% of global volumes and 50% of the global industry profit pool. Strong margin expansion, coupled with revenue growth led to approximately 15% growth in earnings before income tax in 2017. Management reiterated synergy guidance from the SABMiller acquisition completed in 2016 of US\$3.2 billion. The acquisition of SAB Miller increased the exposure ABI has to emerging markets from around 55% to 60%. We believe that ABI's 'premiumisation' strategy, coupled with synergies will deliver a double -digit compound annual growth rate in earnings per share (EPS) over the next five years. With more than a decade-long history of strong shareholder returns and margins expansion, we are confident that management will continue to drive margin expansion in markets where

they are now the dominant brewer as a result of the SAB Miller acquisition. With a 4% dividend yield, as shareholders we can afford to focus on the long term trajectory for margin expansion and EPS growth which the company represents.

Our holding in **Oracle** (-9.7%) underperformed the market this month after reporting third quarter results. Despite delivering 20% year-on-year EPS growth and an operating margin of 44%, the result represented the low end of guidance on most metrics. The key market debate for Oracle is whether they can successfully transition their business from a licensing model to a cloud subscription model. To that end we believe management have done a poor job at managing expectations in terms of the expected timeline for such a transition. However, license revenues have proven to be more resilient than the market expected. Total cloud revenues were US\$1.57 billion (out of a total US\$9.8 billion in revenues) for the third quarter, which was up over 20% year-on-year. Management provided guidance for a similar growth rate in the fourth quarter. We believe the cloud business will continue to grow over time; however, with large enterprises going through a significant lead time in coming to a decision on moving from an on-premise licence model to a subscription cloud model, we would expect to see volatility in quarterly earnings continue. However, with a lower tax rate in 2019, US\$20 billion in authorised share buy-back capital remaining and a management team which is incentivised by shareholder returns, we believe the current share price represents compelling long term value.

Strategy & outlook

Our view at fund inception was that the next five years would be unlike the previous five years, and that the tailwinds over the last five years which included, falling interest rates, quantitative easing, and compelling valuations post the global financial crisis, would be reversed. To that end, we expect further sector rotation and increased volatility. We have a watching brief on a number of companies and await an opportunity to deploy cash. Our preference is to own a select portfolio of companies, buying them at what we believe to be a significant discount to their intrinsic value, rather than to have indiscriminate broad market exposure.

BT Wholesale Core Global Share Fund, managed by AQR

Market review

Global equity markets experienced another sell-off in March after uncertainties arose on the back of rising trade tensions between US and China, with investors extrapolating the extent to which twitter-sourced rhetoric could transpire into policy enactment. The implications of protectionist policies rattled both developed and emerging markets, given the underlying set of commodities – steel, aluminium, copper and their derivatives – that are in question. This was beset against interpretations of central bank tightening in the US and Europe, with the implications for global growth raising concerns for equity investors.

Stocks in the US bore the brunt of the sell-off, with stocks that have been the beneficiaries of strength in the global economy experiencing the largest falls. These included the mega-cap technology stocks including **Facebook**, **Apple** and **Alphabet** (parent entity of Google). Facebook fell under particular scrutiny following news the company had breached data security, resulting in the CEO, Mark Zuckerberg, facing up to investors and lawmakers. Commodity-related sectors also weakened on fears of a trade war, sending metals and soft commodity prices into a negative trend. After an initial rebound early in March, the S&P500 declined to close the month with a return of -2.5%, while the NASDAQ declined by 2.9%.

The major European equity markets were not immune to the US-led global correction, which saw the German DAX (-2.7%), the French CAC (-2.9%) and the UK FTSE100 (-2.4%) experience broad based de-rating. The declines were despite more favourable economic indicators for the euro-area suggesting that recovery for the region is firming. Manufacturing and service sector surveys together with labour market data indicated continued expansion, although inflation remains benign. Notwithstanding, the European Central Bank reaffirmed its intentions to unwind its quantitative easing program later this year, with the caveat being that the unwind will be patient and measured.

The Asian region also followed the path of major developed markets, falling in response to trade war fears with implications for around US\$50 billion worth of imports from China. Korea, Malaysia, Thailand and Malaysia were among the better performing equity markets while Australia, Hong Kong and Japan were among the weakest.

The Australian dollar weakened on currency markets in March, consistent with weakening commodity prices to close the month down by 1.1% against the US dollar, 2.0% against the euro and 2.8% against the British pound.

Portfolio performance

The BT Wholesale Core Global Share Fund returned -0.70% (post-fee, pre-tax) in March 2018, underperforming its benchmark by 0.17%.

Mild outperformance was sourced from North America and developed Asia, which offset mild underperformance in Europe against the respective regional benchmarks.

Thematically, the outperformance in North America was driven by value considerations, which outweighed weakness in indirect and industry momentum measures. In developed Asia, business quality industry momentum themes offset weakness in stock-level direct and indirect momentum signals. The underperformance in Europe was driven by underperformance of business quality and industry momentum signals, which was offset somewhat by positive returns to stock-level valuation and momentum themes.

From a stock and industry attribution perspective: active industry tilts detracted from returns, offset by the positive contribution from intra-industry stock selection over the month. At a sector level, the underweights to Utilities and Energy were the largest detractors, with the underweight to Financials the

largest offsetting source of profits. Stock selection within industry groups was a positive contributor to active returns, most notably within the Consumer Discretionary and Financials sectors.

At a stock level, the largest contributors to active returns came from overweight positions in: **Micron Technology Inc.**, a US headquartered manufacturer of semi-conductors and data storage devices; **Groupe PSA**, a French multi-national motor vehicle manufacturer which sells the Peugeot, Opel and other automobile brands; and **Marathon Petroleum Corporation**, an American petroleum refining, marketing and transportation company. The largest detractors over the month were overweight positions in **Covestro AG**, a German headquartered developer and manufacturer of advanced plastics and polymers; **The Boeing Company**; an American multi-national aircraft manufacturer and defence contractor; and **The Adecco Group**, a Swiss headquartered multi-national human resources consultant and training services provider.

Strategy & outlook

Moving into April, the largest sector tilts are overweights in Industrials and Consumer Discretionary and underweights in Consumer Staples and Financials. 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, Europe and Japan.

Australian Fixed Income

BT Wholesale Fixed Interest Fund

Market review

The Australian Government bond curve flattened in March as long-end yields followed offshore peers lower. In contrast, short-end money market yields increased substantially on the back of the BBSW-OIS spread widening. This was led largely by US money market developments attributed to the Trump tax reforms, which have resulted in larger US T-Bills supply and repatriation-related US\$ money market fund outflows. Meanwhile, the Reserve Bank of Australia (RBA) left rates on hold during March and its communication was relatively upbeat, including commentary on labour market developments, but it was also noted that improvements will be gradual. The Board's overall message suggested a bias to remain firmly on hold for the near-term. Turning to economic data, fourth quarter GDP rose a softer-than-expected 0.4% quarterly rise, although weakness was more in exports which should bounce back. Employment figures were reasonably constructive with 17,500 jobs added over the month, while leading indicators were more mixed with business confidence falling, but conditions improving (to a record 21) and consumer confidence roughly flat. In terms of market movements, the Australian 10-year yield fell 19bp and 3-year yield by 2 basis points (bp) to 2.61% and 2.11% respectively, while 90 day BBSW added 24bp to 2.03%. The Australian dollar was dragged lower by 1.7% on the back of declines in bulk commodity prices and trade war concerns.

Portfolio performance

The BT Wholesale Fixed Interest Fund returned 0.67% in March 2018 (post-fees, pre-tax), underperforming its benchmark by 0.17%.

The portfolio underperformed its benchmark in March. In the alpha overlay, the Duration and Yield Curve strategies added to performance, while FX, Macro and Relative Value strategies detracted. The Government bond component underperformed its benchmark with the Duration and Relative Value strategies being the contributors. Finally, the Credit component outperformed its benchmark. This came from a long Infrastructure and Utilities exposure, which was partly offset by a short position in Supra-nationals.

Strategy & outlook

The Reserve Bank of Australia's Statement on Monetary Policy, released in February, reflects forecasts that indicate that monetary policy is most likely on hold for the remainder of the year. No economic data released during March is likely to have changed their view, although first quarter inflation data to be released in April will provide a clearer picture of the inflation environment. The Reserve Bank of Australia has left the cash rate unchanged since August 2016. We question whether monetary policy settings need to be as stimulatory now, despite the current lack of inflationary pressures. The Reserve Bank of Australia have however talked down the prospect of any near term policy tightening and appear to be on hold for most, if not all, of 2018.

International Fixed Income

BT Wholesale Global Fixed Interest Fund

Market review

Global bond curves flattened in March led by a decline in long-end yields. In contrast, US short-end money market yields increased sharply on the back of the LIBOR-OIS spread widening. This was attributed to Trump tax reforms and the increased supply of T-Bills as well as repatriation resulting in US dollar money market fund outflows. Trump policies made additional headlines with the announcement of protectionist trade measures, which weighed on investor sentiment. Risk appetite was dampened further by rising diplomatic tensions with Russia and data breaches at social media giant, Facebook. Also in the US, the Fed hiked its target rate by 0.25% with a positive outlook offered by recently-inducted Chair Jerome Powell. This was echoed in economic indicators like the US Institute of Supply Management Manufacturing Survey reaching 60.8 from 59.1 in the prior month. The monthly Non-Farm Payrolls report was also strong with 313,000 jobs added versus expectations of around 205,000. These US-centric developments largely overshadowed other developments elsewhere including a hung parliament in Italy and the European Central Bank's (ECB) decision to leave policy

unchanged. By month-end, US 10-year yields slipped 12bp to 2.74% and the 2-year maturity rose 2bp to 2.27%.

Portfolio performance

The BT Wholesale Global Fixed Interest Fund returned 1.15% in March 2018 (post-fees, pre-tax), underperforming its benchmark by 0.11%.

Over the month, the Duration and Yield Curve strategies added to performance, while the FX, Macro and Relative Value strategies detracted. The portfolio began the month with eight risk units, reduced to five risk units intra-month and closed the month with seven risk units.

The Duration strategy was the largest contributor over the month. The largest gains were from long duration positions along the spectrum of the euro curve, but gains in European nominal bonds were slightly offset by minor losses in the long end of the European real yield curve. In Sweden, Japan and the US our long duration positions continued to perform over the month. We gave back some profits from our long-held long duration positions in the front end of the New Zealand curve and we took profit on the remaining exposure during the month. Australia was the only market where the Duration strategy experienced losses due to a short duration bias in the portfolio.

The Foreign Exchange strategy was the largest detractor over the month. Most of the losses were from long US\$ positions against both the developed and emerging market currencies. In the developed market currencies, long US\$ positions were against euro, NZ\$ and A\$ while in the emerging market currencies long US\$ positions were against Indian rupee, Indonesian rupiah and the renminbi. Most of these developed market US\$ positions were closed over the month. Our long Malaysian ringgit position helped to mitigate the losses. During the month, the Japanese yen crosses were volatile, particularly against the A\$ and NZ\$, which triggered a new NZ\$/JPY volatility position.

The Yield Curve strategy added to performance over the month. Gains were mainly from steepeners in the long end of the Japanese curve. Our US front end steepening positions also contributed to performance and we reset the dates during the month. Toward the end of the month we put on a 5-year to 30-year steepening position with a marginal positive performance. There were no trades in the Cross-Market strategy for the month.

The Macro strategy slightly detracted from performance. March was another volatile month due to the widening in Libor-OIS and the escalating trade conflicts. Our long protection positions in high yield CDX were the main swing factor. Credit spreads widened significantly as volatility picked up but retraced quickly as risk aversion sentiment dissipated.

The Relative Value strategy marginally detracted over the month due to the Australian 3-year EFP widener.

Strategy & outlook

A lot has happened over the last three months, some developments have been obvious (US tax reform) and others less so (LIBOR-OIS), and a lot is still going on (threat of trade wars, another tech wreck). As at month end, equity markets sit uncomfortably on long-term support lines that are turning out to be a lot less supportive than investors have been used to. Those who turn to bonds for shelter are faced with the added challenge of uncertain correlations. We think economic fundamentals are good but not that good, valuations are over their skis, and the technicals are a total mess. A healthy valuation reset for risk assets is in order, one that need not employ any recessionary or crisis-like assumptions. Faced with a new reality where central banks are taking away the punch bowl, one thing is for sure: this is the year that volatility moves higher.

Credit

BT Wholesale Enhanced Credit Fund

Market review

Australian credit posted another positive total return for the month, but underperformed its government counterpart. A small widening in credit spreads was more than offset by a fall in underlying swap rates and accruals. The spread widening was tied to weaker risk appetite on the back of offshore developments. These included geopolitical developments like protectionist US trade policies, as well as the sharp OIS-LIBOR spread increase.

In terms of local credit market activity, March primary issuance was much lower than for February and the historical average for the month. That said, year-to-date volume is still higher than 2017. Financials have accounted for a significant share, with foreign banks dominating March volumes. This included Singapore-based DBS Bank, which issued a A\$750 million, 10-year subordinated floating note at 158bp over the swap. Bank of Tokyo Mitsubishi issued a A\$650 million, 5-year note at 98bps over. In contrast among the local banks, only NAB raised debt capital with a 10-year fixed issue at 105bp over. Meanwhile, corporates issued only \$450 million between Victoria Power Networks and Nissan Financial Services.

Relative to prior months, new supply was met by weaker demand. This reflected soft risk sentiment more broadly which was made apparent in the small widening in credit spreads during the month. The Australian iTraxx Index (Series 28 contract) traded in a wide 11bp range finishing the month 2bps wider to +61bps. The new Series 29 closed the month at +70bps. Physical credit spreads were generally 4 to 5 bps wider with the best performing sectors being offshore banks and Supra-nationals that only widened 2 and 4bps respectively. The worst performing sectors were domestic banks and industrials that widened 9 and 6bps respectively. Semi-government bond spreads also underperformed widening 5bp to government bonds over the month.

Portfolio performance

The BT Wholesale Enhanced Credit Fund returned 0.40% in March 2018 (post-fees, pre-tax) marginally underperforming its benchmark by 0.01%.

The Australian Fixed Interest Credit Fund outperformed the benchmark by 2bp for the month of March. Another strong month of accruals and fall in underlying swap rates helped to drive a positive return. This more than offset a widening in credit spreads. Positions in Infrastructure and Utilities, where the Fund is overweight, continued to perform well. Given the market's risk-off tone with spreads widening, the Fund did not participate in new bond issues and is comfortable in slightly increasing cash levels in the short term.

Strategy & outlook

Our Macro credit view is neutral. Whilst we continue to remain cautiously constructive on a fundamental basis, we acknowledge risks have increased due to increasing volatility across markets. Volatility has risen as expectations have changed on the future US rate outlook as well as geopolitical developments including trade war fears.

During 2018 it is expected there will be further central bank cash rate increases in the US and the reduction of quantitative easing by the European Central Bank (ECB). Market price dislocations will likely occur if expectations of central bank actions and emerging economic growth, inflation and labour data fail to align with market positioning.

Exogenous factors that could impact credit markets include geopolitical risks emanating from the US, Middle East or China.

Balancing these risks are solid corporate fundamentals and hence, we are constructive on investment grade credit. Balance sheets are generally strong and earnings are improving, as evidenced by a solid corporate earnings seasons in Australia, the US and Europe. Further, Australian domestic issuers have not increased balance sheet leverage over many years. The major Australian banks have stronger capital ratios than in previous years and should support domestic financial stability.

Domestically, we expect the Australian economy to exhibit improving growth which has been more balanced in recent years. However, weak wage growth could continue to dampen overall domestic demand and housing appears to be softening. As such, we continue to recommend a defensive approach, with any overweights in operationally resilient sectors such as Utilities and Infrastructure that provide higher yields than index returns.

Cash

BT Wholesale Managed Cash and BT Wholesale Enhanced Cash Funds

Market review

The Australian Government bond curve flattened in March as long-end yields followed offshore peers lower. Meanwhile, short-end money market yields increased substantially on the back of the BBSW-OIS spread widening. This was led largely by US money market developments, rather than changes in RBA expectations. These US changes were driven by the impact of the Trump tax reforms. Increased supply of US T-Bills as the deficit picks up, combined with outflows from offshore USD money market funds due to tax driven repatriation reducing demand, saw funding markets hit hard. This flowed on to Australia as our banks rely on offshore money markets for around 8% of their funding.

The RBA left rates on hold during March, the 17th month in a row. Its communication was relatively upbeat, including commentary on labour market developments, but it was also noted that improvements will be gradual. The Board's overall message suggested a bias to remain firmly on hold for the near-term. The market-implied probability of a November hike fell from roughly 50% to only 25%.

Turning to economic data, fourth quarter GDP rose a softer-than-expected 0.4% quarter-on-quarter and 2.4% over the year, although weakness was more in exports which should bounce back. Employment figures were reasonably constructive with 17.5K jobs added over the month, which was driven by a 64.9K increase in full-time roles. However, the continued trend of a rising participation rate lifted the unemployment rate higher by 0.1% to 5.6%. Leading indicators were mixed with business confidence falling, but conditions improving (to a record 21) and consumer confidence roughly flat.

In overseas developments, the Fed hiked its target rate by 0.25% with a positive outlook offered by recently-inducted Chair Jerome Powell. This was echoed in economic indicators like the US Institute of Supply Management Manufacturing Survey hitting 60.8 from 59.1 in the prior month. The monthly Non-Farm Payrolls report was also strong with 313K jobs added versus 205K expected. However, these developments were overshadowed by another flare-up in geopolitical tensions. Trump's announcement of intended tariffs on steel and aluminium imports sparked fears of a broader global trade war. Later in the month, Australia among others was exempted from the proposal, however additional protectionist measures targeted at Chinese goods were announced. Risk appetite was also dampened by rising diplomatic tensions with Russia and data breaches at social media giant, Facebook.

Political risks were also apparent in Europe with the Italian election resulting in a hung parliament after no major party was able to win an outright majority. Also in the region, the ECB kept policy unchanged and flagged it would be unlikely to purchase additional bonds. Meanwhile developments in Asia received little attention with Chinese economic data affected by the Lunar New Year celebrations.

In terms of market movements, the Australian 10-year yield fell 19bp and 3-year yield by 2bp to 2.61% and 2.11% respectively, while 90 day BBSW added 24bp to 2.03%. US movements were more moderated with the 10-year yield slipping only 12bp to 2.74% and 2-year rising 2bp to 2.27%. The

Australian dollar was dragged lower by 1.7% with a fall in bulk commodity prices and trade war concerns.

Portfolio performance

Managed Cash

The BT Wholesale Managed Cash Fund returned 0.15% in March 2018 (post-fee, pre-tax), outperforming the benchmark return by 0.01%.

With a higher running yield than the Index, the Fund 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 59 days (maximum limit of 70 days). Yields further along the curve continue to offer better relative value and the weighted average maturity has consistently been longer than benchmark for this reason. With longer dated yields offering better value and with RBA 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 0.10% in March 2018 (post-fee, pre-tax), underperforming its benchmark by 0.04%.

Detracting from performance were domestic banks and utility sectors, whilst offshore banks added to performance. The portfolio has outperformed its benchmark by 1.41% over the past 12 months.

Activity during the month included reducing exposure to domestic banks whilst increasing the portfolio's cash weighting.

As at the end of the month, the portfolio had a credit spread of 57bps over bank bills, interest rate duration of 0.16 years and credit spread duration of 1.43 years.

Strategy & outlook

The RBA's Statement on Monetary Policy, released in February, reflects forecasts that indicate that monetary policy is most likely on hold for the remainder of the year. No economic data released during March is likely to have changed their view, although first quarter inflation data to be released in April will provide a clearer picture of the inflation environment. The Reserve Bank of Australia has left the cash rate unchanged since August 2016. We question whether monetary policy settings need to be as stimulatory now, despite the current lack of inflationary pressures. The RBA have however talked down the prospect of any near term policy tightening and appear to be on hold for most, if not all, of 2018.

Having moved from positive to neutral on investment grade credit last month, we maintain this view in the near term. With signs of inflation and wage growth, at least in the US, we believe this will drive

concern over future inflation. This may cause higher volatility in rates and equity markets in the near term. Concerns around levered corporates having to pay higher interest rates in the future will pressure corporate profitability and credit metrics, which will drive credit spreads wider. Investment grade will perform better than high yield but credit spreads should still be pushed wider. This means the risk-reward trade-off that so often favours being overweight investment grade credit is no longer there in the near term. Concerns around a global trade war is another factor driving negative sentiment for credit markets.

However, given the extended period of low inflation in the US, it's difficult to determine when and to what extent inflation will rise and the impact on bond yields and corporate interest expenses/ability to refinance. Given this uncertainty we prefer to be neutral investment grade credit whilst waiting for more economic data for direction. Increasing volatility remains a significant negative for credit. However, strong fundamentals remain in investment grade credit with healthy balance sheets and positive earnings growth, this means for now a neutral stance is warranted.

Australian Property

BT Wholesale Property Securities Fund

Market review

The S&P/ASX 200 A-REIT Index was flat in March (+0.1%), outperforming the broader market (-3.8%) by 390bp. US bonds were more supportive, with the yield declining by 7 basis points (bp) to close at 2.73% and Australian bond yields declined 13bp closing at 2.59%. For the 12-month period, A-REITs (-0.8%) have underperformed the broader market by 330bp. Global REITs returned 2.1% for the month, with European REITs (+4.6%) the best performers and Australian REITs the laggard (+0.1%).

It was a relatively quiet month for A-REITs. Notable announcements included Moody's downgrading Scentre Group's credit rating from A1 to A2 (stable), reflecting its level of debt/EBITDA and financial commitments. **Westfield Group** announced that the proposed acquisition by Unibail had received FIRB approval and would be eligible for inclusion in the CAC (France) and AEX (The Netherlands) indices.

In terms of other deal activity, ARA Asset Management, a private Singaporean property group acquired a 19.5% stake in **Cromwell Property Group** from Redefine Properties. Cromwell also announced that it had refinanced its current convertible bond with a €230 million new convertible bond yielding 2.5%, due in 2025. A number of retail assets were put on the market in March, including a 50% interest in Stockland's Shell Harbour (\$400 million), Vicinity's Gateway Leopold (\$120 million), Abacus' Bacchus Marsh (\$70 million) and Charter Hall Retail's 50% interest in Thornleigh Marketplace (\$40 million).

Global equity markets were very soft in March with only three sectors positive in the MSCI All World Index positive (including REITs). Major news included the US imposing tariffs on at least US\$50 billion of imports from China. The US Federal Reserve also lifted the Fed Funds Rate by 25bp to 1.50-1.75%.

Economic data continued to support the growth trajectory. Non-farm payrolls increased by 313,000 while the unemployment rate was unchanged at 4.1% for the fifth straight month. The core CPI (PCE) Index was +0.2% with the annual rate at 1.63%.

In Australia, the Reserve Bank of Australia (RBA) left interest rates on hold. Economic data was disappointing, highlighted through December 2017 quarter GDP growth (+0.4%), private capital investment (-0.2%) and retail sales (+0.1%). Employment levels increased by around 17,500 in February; however, unemployment increased slightly to 5.6%. Westpac Consumer Confidence improved (+0.2% to 103) and the NAB Business Confidence Index also improved to +21.

Portfolio performance

The BT Wholesale Property Securities Fund returned -0.14% in March 2018 (post-fee, pre-tax), underperforming its benchmark by 0.25%.

The portfolio underperformed over the month with positive contributions to relative returns from underweight positions in Vicinity Centres and overweight positions in Iron Mountain, Charter Hall Long WALE, Investa Office Fund and Mirvac Group. Underweight positions in Cromwell Property Group and Shopping Centres Australia together with overweight positions in Westfield Group, Arena REIT and Charter Hall Group detracted from performance.

Over the month we increased our overweight positions in Charter Hall Group, Westfield Group, Investa Office Fund, Goodman Group and Iron Mountain. This was funded by increasing our underweights in GPT Group and Scentre Group.

Strategy & outlook

The A-REIT sector is now priced on an FY18 dividend yield of 5.5%, a P/E ratio of 15.0 times and an 11% premium to net tangible assets (NTA), slightly below 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 the sector's average gearing level at 29%.

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 March, posting a total return of 2.7%. Europe (+4.5%) and North America (+3.7%) were positive performers, while Asia Pacific (-1.0%) was a negative performer. Within Asia Pacific, results were mixed. Hong Kong (-2.8%) posted the largest decline,

followed by Japan (-0.3%), while New Zealand (+0.6%) and Singapore (+1.5%) were in positive territory for the month. In Europe, results were mixed as well. Germany (+8.2%) posted the largest gain, followed by Spain (+7.4%) and Austria (+7.2%). Notable negative performers within the region included Israel (-3.1%) and Norway (-2.3%). Within North America, the US and Canada returned 3.8% and 1.5%, respectively.

Portfolio performance

The BT Wholesale Global Property Securities Fund returned 2.39% in March 2018 (post-fee, pre-tax) underperforming the benchmark return by 0.12%.

North America

The North America portfolio returned 3.48% for March (before fees and taxes), lagging the FTSE EPRA/NAREIT North America Index by 24 basis points. Underperformance relative to the benchmark was driven by both negative stock selection and negative sector allocation results. In terms of stock selection, results were weakest in the Hotel, Office, and Health Care sectors and were strongest in the Industrial, Diversified, and Apartment sectors. Regarding sector allocation, negative results were attributable to the portfolio's overweight in the underperforming regional mall sector. Conversely, the portfolio's overweight to the outperforming data centre sector was a notable contributor to relative performance. Among the portfolio's holdings, top individual contributors to relative performance included an overweight position in outperforming Equity Residential (EQR) and a lack of exposure to underperforming GGP, Inc. (GGP) and Macerich Co. (MAC). Detractors most notably included overweight positions in underperforming Piedmont Office Realty Trust (PDM) and Penn REIT (PEI), and a lack of exposure to outperforming Essex Property Trust (ESS).

Europe

The Europe portfolio returned 5.27% in March (before fees and taxes), outperforming the regional EPRA benchmark by 69 basis points. 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, Germany, and Ireland and were weakest in Sweden, France, and Spain. Regarding country allocation, negative results were attributable to the portfolio's overweight to the underperforming markets of Norway and Sweden. 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 the outperforming Hammerson PLC (United Kingdom), Segro PLC (United Kingdom), and Deutsche Wohnen SE (Germany). Detractors most notably included overweight positions in the underperforming Fabeg AB (Sweden), Wihlborgs Fastigheter AB (Sweden), and Entra ASA (Norway).

Asia

The Asia portfolio returned -0.90% in March (before fees and taxes), exceeding the regional EPRA benchmark return by 13 basis points. Outperformance relative to the benchmark was attributable to

positive stock selection results in Hong Kong and, to a lesser extent, Japan, which were partially offset by negative results in Singapore. Country allocation results were largely neutral. Among the portfolio's holdings, top contributors to relative performance included underweight positions in the underperforming New World Development (Hong Kong) and Sino Land (Hong Kong), and no exposure to underperforming Hysan Development (Hong Kong). Detractors included an overweight position in underperforming Sun Hung Kai Properties (Hong Kong) and a lack of exposure to the outperforming City Developments (Singapore) and CapitaLand Mall Trust (Singapore).

Active Balanced

BT Wholesale Active Balanced Fund

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index lost 3.7% in March, as President Trump sparked fears of a trade war after announcing the intention to impose tariffs on both aluminium and steel imports into the US, threatening to increase tariffs of up to 25% on \$US60 billion worth of goods currently imported from China. Whilst the response from China has to date has been relatively muted, investor sentiment quickly waned as a result. In addition, President Trump's personal animosity towards Amazon, alongside the ongoing furore over Facebook's data security practices also led to another round of investor jitters in the US towards the end of the month. The Australian share market responded to these developments with a weakening in sentiment to push the market lower.

Both the Resources (-4.3%) and Industrials (-3.6%) sectors finished the month lower, with negative returns within each sector. The bond sensitives, including REITs (-0.1%) and Utilities (-0.8%) suffered minor losses as safe-haven bonds rallied over the month, pulling down long-term bond yields. The infrastructure sector also fared better than the rest of the market as expected, including the likes of **Sydney Airport** (SYD, +1.8%), **Macquarie Atlas** (MQA, +4.3%) and **Transurban** (TCL, -1.4%).

On the other side of the spectrum, Telecommunication Services (-6.2%) was the worst performing sector over the month. The other two index heavyweight sectors, Materials (-4.2%) and Financials (-5.8%) also incurred some meaningful losses in March. Commodities prices drifted lower over the month in general, due to the fears of a trade war. This thematic in conjunction with China's steel inventory building up saw the iron ore price (-16.8%) pull back significantly, which weighed on the two large diversified miners, BHP and Rio Tinto.

Global equity markets experienced another sell-off in March after uncertainties arose on the back of rising trade tensions between US and China, with investors extrapolating the extent to which twitter-sourced rhetoric could transpire into policy enactment. The implications of protectionist policies rattled both developed and emerging markets, given the underlying set of commodities – steel, aluminium, copper and their derivatives – that are in question. This was beset against interpretations of central bank tightening in the US and Europe, with the implications for global growth raising concerns for equity investors.

Stocks in the US bore the brunt of the sell-off, with stocks that have been the beneficiaries of strength in the global economy experiencing the largest falls. These included the mega-cap technology stocks including **Facebook**, **Apple** and **Alphabet** (parent entity of Google). Facebook fell under particular scrutiny following news the company had breached data security, resulting in the CEO, Mark Zuckerberg, facing up to investors and lawmakers. Commodity-related sectors also weakened on fears of a trade war, sending metals and soft commodity prices into a negative trend. After an initial rebound early in March, the S&P500 declined to close the month with a return of -2.5%, while the NASDAQ declined by 2.9%.

The major European equity markets were not immune to the US-led global correction, which saw the German DAX (-2.7%), the French CAC (-2.9%) and the UK FTSE100 (-2.4%) experience broad based de-rating. The declines were despite more favourable economic indicators for the euro-area suggesting that recovery for the region is firming. Manufacturing and service sector surveys together with labour market data indicated continued expansion, although inflation remains benign. Notwithstanding, the European Central Bank reaffirmed its intentions to unwind its quantitative easing program later this year, with the caveat being that the unwind will be patient and measured.

The Asian region also followed the path of major developed markets, falling in response to trade war fears with implications for around US\$50 billion worth of imports from China. Korea, Malaysia, Thailand and Malaysia were among the better performing equity markets while Australia, Hong Kong and Japan were among the weakest.

The Australian dollar weakened on currency markets in March, consistent with weakening commodity prices to close the month down by 1.1% against the US dollar, 2.0% against the euro and 2.8% against the British pound.

Within the fixed interest sector, global bond curves flattened in March led by a decline in long-end yields. In contrast, US short-end money market yields increased sharply on the back of the LIBOR-OIS spread widening. This was attributed to Trump tax reforms and the increased supply of T-Bills as well as repatriation resulting in US dollar money market fund outflows. Trump policies made additional headlines with the announcement of protectionist trade measures, which weighed on investor sentiment. Risk appetite was dampened further by rising diplomatic tensions with Russia and data breaches at social media giant, Facebook. Also in the US, the Fed hiked its target rate by 0.25% with a positive outlook offered by recently-inducted Chair Jerome Powell. This was echoed in economic indicators like the US Institute of Supply Management Manufacturing Survey reaching 60.8 from 59.1 in the prior month. The monthly Non-Farm Payrolls report was also strong with 313,000 jobs added versus expectations of around 205,000. These US-centric developments largely overshadowed other developments elsewhere including a hung parliament in Italy and the European Central Bank's (ECB) decision to leave policy unchanged. By month-end, US 10-year yields slipped 12bp to 2.74% and the 2-year maturity rose 2bp to 2.27%.

The Australian Government bond curve flattened in March as long-end yields followed offshore peers lower. In contrast, short-end money market yields increased substantially on the back of the BBSW-OIS

spread widening. This was led largely by US money market developments attributed to the Trump tax reforms, which have resulted in larger US T-Bills supply and repatriation-related US\$ money market fund outflows. Meanwhile, the Reserve Bank of Australia (RBA) left rates on hold during March and its communication was relatively upbeat, including commentary on labour market developments, but it was also noted that improvements will be gradual. The Board's overall message suggested a bias to remain firmly on hold for the near-term. Turning to economic data, fourth quarter GDP rose a softer-than-expected 0.4% quarterly rise, although weakness was more in exports which should bounce back. Employment figures were reasonably constructive with 17,500 jobs added over the month, while leading indicators were more mixed with business confidence falling, but conditions improving (to a record 21) and consumer confidence roughly flat. In terms of market movements, the Australian 10-year yield fell 19bp and 3-year yield by 2 basis points (bp) to 2.61% and 2.11% respectively, while 90 day BBSW added 24bp to 2.03%. The Australian dollar was dragged lower by 1.7% on the back of declines in bulk commodity prices and trade war concerns.

Portfolio performance

The BT Wholesale Active Balanced Fund returned -1.50% (post-fee, pre-tax) for the month of March, underperforming its benchmark by 0.20%.

The Fund's performance in March was impacted by negative returns from equity markets, although a weaker Australian dollar limited the return impact from overseas equities. Most of the detractor came from Australian equities, consistent with the Fund's large weighting to this asset class. At a Fund level, the performance impacts were fairly evenly distributed between asset allocation and manager selection outcomes. Exposure to alternatives delivered a relatively neutral outcome this month.

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

The key factors influencing our active management returns were strong stock selection outcomes within Australian equities and the concentrated global equity component. Within the Australian equity strategy, overweight positions in Qantas, Amcor and exposure to small caps which outperformed the broader market. Partially offsetting these contributions were overweight positions in Caltex, ANZ Banking Group and BHP.

Active returns from our global equities portfolio were sourced primarily from stock selection by concentrated manager, with contributions from positions in Anheuser-Busch InBev, Japan Exchange Group and Howard Hughes, while our holding in Wells Fargo and Hong Kong Exchanges & Clearing detracted from returns.

Our Alternatives portfolio detracted from returns this month, whereby with one of the eight sub-strategies contributed positively to active returns, while four detracted from returns. The Alternatives strategy delivered a total return (before fees) of -0.29% vs a cash return of 0.14%. The Global Macro strategy made a positive contribution with good performance from the equity and commodity based

Relative Value strategies, while detractions were registered from the Equity Market Neutral, Managed Futures and Dedicated Short bias strategies. Within the Equity Market Neutral strategy, losses were largely centred on the US portfolio, with Europe generating offsetting profits and Japan flat. Losses were predominantly due to weakness in Value measures during the month. Within Managed Futures, trend-following underperformed due to losses within equity and fixed income markets, which outweighed gains from positioning with currency and commodity markets.

In relation to our tactical positioning within alternatives, our long position in managed futures detracted from returns, while within commodities the main contribution came from a long position in crude oil. During March we closed long bond positions in Australia, the US and Germany.

Strategy and Outlook

The current environment - dominated by the tug-of-war between a strong global growth pulse on one hand and the risk of a destabilising trade-war upon the other – is driving elevated macro-economic uncertainty and market volatility. At the same time the shift from an era of steadily declining bond yields to a more range-bound regime has removed the relatively stable and predictable thematic tailwind from markets.

At this point we believe that some sort of negotiated outcome is the most likely result of the US-China trade tension. But in the interim, both sides will bluff the other, trying to convince them that they are willing to bear pain, so we are likely to see further provocative statements and further stock market volatility. There is also no timetable – periodic surges of trade-related concern could persist for weeks or even months before we see a conclusion. We remain mindful of the risk that this issue presents. However, at this point we do not believe we are witnessing a significant threat to global trade and as such, would treat bouts of weakness as buying opportunities.

We are maintaining a bias towards growth assets and have reduced exposure to fixed income in March. We recognise the inherent uncertainty of financial markets and continue to hold a broad range of diversifying exposures to defensive and alternatives assets to preserve capital and diversify the asset base.

Performance as at 31 March 2018

(%)	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)	-3.70	-2.04	5.44	7.33	7.47	12.25	4.70	8.89	9.90
Total Return (pre-fee, pre-tax)	-3.63	-1.85	5.88	7.98	8.33	13.14	5.53	9.76	10.91
Benchmark	-3.73	-3.78	3.67	4.50	2.86	11.21	3.92	7.62	9.78
BT Wholesale Imputation Fund									
								APIR - RFA0103AU	
Total Return (post-fee, pre-tax)	-3.69	-2.69	3.37	4.58	3.64	10.49	2.59	6.99	9.31
Total Return (pre-fee, pre-tax)	-3.62	-2.47	3.83	5.29	4.58	11.48	3.51	7.95	10.33
Benchmark	-3.73	-3.78	3.67	4.50	2.86	11.21	3.92	7.62	8.47
BT Wholesale Focus Australian Share Fund									
								APIR - RFA0059AU	
Total Return (post-fee, pre-tax)	-3.55	-0.98	6.72	8.31	9.46	14.41	6.60	11.06	9.18
Total Return (pre-fee, pre-tax)	-3.45	-0.31	7.66	9.59	11.49	15.90	7.90	12.24	10.32
Benchmark	-3.73	-3.78	3.67	4.50	2.86	11.21	3.92	7.62	7.17
BT Wholesale Ethical Share Fund									
								APIR - RFA0025AU	
Total Return (post-fee, pre-tax)	-3.85	-2.25	5.31	7.14	7.08	12.15	4.70	9.05	8.45
Total Return (pre-fee, pre-tax)	-3.78	-2.02	5.81	7.91	8.10	13.21	5.69	10.09	9.51
Benchmark	-3.73	-3.78	3.67	4.50	2.86	11.21	3.92	7.62	7.82
Australian Shares - Mid Cap									
BT Wholesale MidCap Fund									
								APIR - BTA0313AU	
Total Return (post-fee, pre-tax)	-1.91	0.51	12.78	16.67	20.74	18.10	12.90	14.92	10.86
Total Return (pre-fee, pre-tax)	-1.60	1.55	14.09	18.58	23.00	19.74	14.41	16.73	13.17
Benchmark	-2.83	-2.69	9.57	10.68	14.00	16.06	11.34	12.09	5.74
Australian Shares - Small Cap									
BT Wholesale Smaller Companies Fund									
								APIR - RFA0819AU	
Total Return (post-fee, pre-tax)	-0.62	1.69	12.10	18.07	18.46	14.05	12.15	10.51	13.32
Total Return (pre-fee, pre-tax)	-0.52	1.99	12.80	19.17	19.93	15.46	13.55	11.89	14.61
Benchmark	-2.29	-2.79	10.52	15.39	14.99	14.33	10.67	6.45	7.76
Australian Shares - Micro Cap									
BT Wholesale MicroCap Opportunities Fund									
								APIR - RFA0061AU	
Total Return (post-fee, pre-tax)	-1.90	-2.24	8.39	16.10	18.89	19.43	16.36	13.33	18.66
Total Return (pre-fee, pre-tax)	-1.81	-1.95	8.43	17.17	21.24	21.98	19.05	22.86	23.94
Benchmark	-2.29	-2.79	10.52	15.39	14.99	14.33	10.67	6.45	3.04
International Shares									
BT Wholesale Core Global Share Fund									
								APIR - RFA0821AU	
Total Return (post-fee, pre-tax)	-0.70	0.99	6.77	10.20	14.34	14.00	7.37	16.84	5.84
Total Return (pre-fee, pre-tax)	-0.62	1.23	7.29	11.00	15.43	15.08	8.39	17.96	7.00
Benchmark	-0.53	0.79	6.65	9.35	13.31	14.43	7.96	16.96	7.26
BT Global Emerging Markets Opportunities Fund - Wholesale									
								APIR - BTA0419AU	
Total Return (post-fee, pre-tax)	0.13	-0.85	6.26	11.44	19.68	19.23	7.04	12.86	11.74
Total Return (pre-fee, pre-tax)	0.23	-0.49	7.00	12.58	21.31	20.88	8.54	14.59	13.96
Benchmark	-0.30	3.41	11.46	17.56	24.25	21.18	8.66	11.63	11.98
BT Concentrated Global Share Fund									
								APIR - BTA0503AU	
Total Return (post-fee, pre-tax)	-0.43	2.44	8.88	12.06	17.71	N/A	N/A	N/A	16.16
Total Return (pre-fee, pre-tax)	-0.32	2.76	9.56	13.11	19.18	N/A	N/A	N/A	17.61
Benchmark	-0.53	0.79	6.65	9.35	13.31	N/A	N/A	N/A	13.24
Property									
BT Wholesale Property Securities Fund									
								APIR - BTA0061AU	
Total Return (post-fee, pre-tax)	-0.14	-6.57	0.85	2.30	-0.78	3.24	5.36	10.26	7.19
Total Return (pre-fee, pre-tax)	-0.08	-6.42	1.18	2.81	-0.12	3.92	6.04	10.98	8.00
Benchmark	0.11	-6.19	1.12	3.08	-0.07	3.07	5.78	10.79	7.08
BT Wholesale Global Property Securities Fund									
								APIR - RFA0051AU	
Total Return (post-fee, pre-tax)	2.39	-5.19	-2.07	-0.63	2.12	2.25	1.62	6.86	8.86
Total Return (pre-fee, pre-tax)	2.47	-4.98	-1.61	0.06	3.07	3.19	2.56	7.85	9.85
Benchmark	2.51	-5.24	-2.00	-1.00	1.43	2.60	1.77	7.04	8.59
Fixed Interest									
BT Wholesale Fixed Interest Fund									
								APIR - RFA0813AU	
Total Return (post-fee, pre-tax)	0.67	0.98	1.96	1.92	2.91	2.16	1.26	3.83	6.41
Total Return (pre-fee, pre-tax)	0.71	1.10	2.21	2.30	3.43	2.67	1.76	4.35	6.97
Benchmark	0.84	0.87	2.32	2.25	3.28	2.69	2.45	4.30	6.64
BT Wholesale Global Fixed Interest Fund									
								APIR - RFA0032AU	
Total Return (post-fee, pre-tax)	1.15	0.31	0.70	1.24	2.11	1.24	1.48	3.81	6.04
Total Return (pre-fee, pre-tax)	1.19	0.45	0.96	1.65	2.65	1.78	2.02	4.36	6.62
Benchmark	1.26	0.43	1.28	1.94	2.97	1.92	3.01	4.68	6.96
BT Wholesale Enhanced Credit Fund									
								APIR - RFA0100AU	
Total Return (post-fee, pre-tax)	0.40	0.79	2.11	2.70	3.67	3.58	3.02	4.56	5.76
Total Return (pre-fee, pre-tax)	0.43	0.90	2.33	3.05	4.13	4.05	3.49	5.03	6.28
Benchmark	0.41	0.72	2.02	2.57	3.64	3.51	3.01	4.54	5.86
Cash & Income									
BT Wholesale Enhanced Cash Fund									
								APIR - WFS0377AU	
Total Return (post-fee, pre-tax)	0.10	0.57	1.31	2.16	2.89	2.98	2.68	2.91	4.95
Total Return (pre-fee, pre-tax)	0.12	0.63	1.44	2.35	3.15	3.24	2.93	3.17	5.29
Benchmark	0.14	0.43	0.85	1.29	1.73	1.83	1.97	2.28	4.89
BT Wholesale Managed Cash Fund									
								APIR - WFS0245AU	
Total Return (post-fee, pre-tax)	0.15	0.44	0.88	1.33	1.78	1.89	2.00	2.26	6.46
Total Return (pre-fee, pre-tax)	0.17	0.49	0.99	1.50	2.01	2.11	2.22	2.49	6.76
Benchmark	0.14	0.43	0.85	1.29	1.73	1.83	1.97	2.28	6.53
BT Wholesale Monthly Income Plus Fund									
								APIR - BTA0318AU	
Total Return (post-fee, pre-tax)	-0.02	0.05	2.92	3.85	4.69	4.34	3.27	4.75	5.52
Total Return (pre-fee, pre-tax)	0.04	0.21	3.26	4.35	5.37	5.02	3.95	5.44	6.18
Benchmark	0.13	0.37	0.75	1.13	1.51	1.57	1.73	2.06	2.94
Diversified									
BT Wholesale Active Balanced Fund									
								APIR - RFA0815AU	
Total Return (post-fee, pre-tax)	-1.50	-1.58	3.72	5.93	7.06	8.68	4.15	8.53	7.64
Total Return (pre-fee, pre-tax)	-1.43	-1.35	4.22	6.69	8.08	9.71	5.14	9.56	8.71
Benchmark	-1.30	-1.26	3.59	4.92	5.41	8.63	4.85	8.10	7.44

All returns calculated by BT Investment Management (Fund Services) Limited, A BILLION 13 161 249 332, AFSL 431426 (BTIM). No part of this Fund Manager Commentary (Commentary) is to be circulated without this page attached.

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