BT Sustainable International Fixed Interest Fund

ARSN: 612 664 945

About the Fund

The BT Sustainable International Fixed Interest Fund (**Fund**) is an actively managed portfolio of international fixed interest securities. Investments are selected on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg Barclays Global Aggregate Index AUD hedged by 1% p.a. over rolling 3 year periods.

Description of the Fund

The Fund offers investors access to a diversified portfolio of international fixed interest securities and seeks exposure to issuers that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to issuers with activities that we consider to negatively impact the environment or society.

The Fund will not invest in issuers with material business involvement in the following activities:

- production of tobacco or alcohol,
- manufacture or provision of gaming facilities,
- manufacture of weapons or armaments,
- manufacture or distribution of pornography,
- directly mine uranium for the purpose of weapons manufacturing,
- extraction of thermal coal and oil sands production.

We consider that an issuer has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

The Fund uses a security selection process that combines sustainable and ethical criteria with BTIM's credit analysis. This process takes advantage of investment opportunities based on an assessment of major economic themes and/or financial markets which are considered to be mispriced.

Investment Team

BTIM's Income and Fixed Interest team includes thirteen dedicated investment professionals. The team also draws on a wide range of knowledge resources including BTIM's other specialist investment teams: Equity Strategies and Diversified Strategies. The Fund is managed by Vimal Gor, Head of Income Strategies who has more than 23 years industry experience.

The BT Sustainable International Fixed Interest Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Performance[1]

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.02	0.06	0.19
3 months	-0.30	-0.17	0.22
6 months	0.47	0.72	1.25
1 year (pa)	2.06	2.57	3.50
Since Inception (pa)	-0.84	-0.35	0.84

Other Information

Fund size (as at 30 Nov 2017)	$89 million
Date of inception	August 2016
Minimum investment	$500,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Quarterly
APIR Code	BTA0509AU

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest in the Fund, and may vary from time to time without notice.

Management Costs[2]

Issuer fee[3]	0.50% pa

[2] You should refer to the latest Information Memorandum for full details of fees and other costs you may be charged.

[3] This is the fee we charge for overseeing the operations of the Fund and managing the assets of the Fund. The Issuer fee is paid from the assets of the Fund and is reflected in the unit price of your investment.

Risks

An investment in the Fund involves risk, including:

- **Market risk -** The risk associated with factors that can influence the direction and volatility of an overall market, as opposed to security-specific risks. These factors can affect one country or a number of countries.
- **Security specific risk –** The risk associated with an individual security.
- **International investments risk** – The risk arising from political and economic uncertainties, interest rate movements and differences in regulatory supervision associated with international investments.
- **Currency risk -** Currency exchange rate fluctuation risk arising from investing across multiple countries.
- **Interest rate risk -** The risk associated with adverse changes in asset prices as a result of interest rate movements.
- **Credit risk -** The risk of an issuing entity defaulting on its obligation to pay interest/principal when due.
- **Liquidity risk -** The risk that an asset may not be converted to cash in a timely manner.
- **Valuation risk -** The risk that the value of an investment in a less active or liquid market is lower than what is reflected in the Fund's unit price.
- **Derivatives risk** – The risks arising from use of derivatives to manage exposures to investment markets.
- **Counterparty risk -** The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Broad thematics offered less guidance to global markets in November as region-specific factors played a greater role. In the US, the Federal Reserve kept rates on hold as anticipated and rhetoric during the period firmed expectations for a December hike. Jerome Powell's nomination as Fed Chair had little impact on markets and suggested a smooth transition for monetary policy. Progress on US tax reform had a more material impact in bolstering market sentiment. Meanwhile in Europe, ECB communication indicated upside risks to growth, but reinforced the need for patience with policy normalisation in light of subdued inflation. Data in the region reflected this sentiment with continued strength in leading indicators and a revision higher to euro-area GDP growth. However, political uncertainties weighed on risk appetite as the Catalonia secession debate carried on, Merkel's coalition dissolved and Brexit complications endured. In contrast, there were few disruptive developments in Asia, which left the post-Abe re-election run for Japanese equities to continue. Chinese data was also reasonable with the Caixin and Services PMIs printing at 51 and 51.2 respectively. In terms of market movements, the US curve flattened considerably during the month with an 18bp rally in the 2 year yield to 1.78% and a more modest 3bp gain in 10 year Treasuries to 2.41%.

Fund performance

The Fund underperformed its benchmark over the month of November.

Over the month the Yield Curve and Cross-Market strategies detracted from performance, while the FX, Macro and Relative Value strategies added to performance. The Duration strategy was flat. The portfolio began the month at six risk units and ended the month slightly higher at seven risk units.

Within the Duration strategy, gains were largely from long duration positions in the New Zealand and Australian front-ends. These were offset by losses from duration positions in US and Europe which were closed during the month. As of the month end we hold long duration positions in Australian and New Zealand front-ends and US long end.

The FX strategy was the largest contributor for the month. The largest gains were from short AUD positions against EUR and JPY. We took profit on EURAUD and partially on AUDJPY later in the month. In the emerging market currencies, USD weakness continued into this month. We took profit on our short USD against MYR which contributed significantly to performance. We also took profit on our long SGD against the DM basket and replaced the trade with long SGD against USD, which performed strongly in the month. Towards the end of the month we opened a long USD short PHP position. Among currency vol trades, we opened long vol positions in AUDJPY, EURAUD and NZDJPY, all of which were roughly flat to performance.

The Cross-Market strategy was slightly negative over the month. We closed out of the long Germany against short Italy position earlier in the month. During the month we opened a tactical Eurodollar versus Bankbill position and closed with a minor loss. As of month-end we have no trades in Cross-Market strategy.

The Macro strategy added to performance over the month. Our CDX HY vs iTraxx Main decompression trade performed well as credit spreads widened in the middle of the month, but retraced from its peak toward the end of the month. Gains were partially offset by losses from newly opened buy protection positions in iTraxx Aus and CDX HY.

The Relative Value strategy continued to add to performance over the month. Profits were made from the tightening spreads of our US 2 year invoice spread position.

Strategy & outlook

After much speculation, the nomination of Jerome Powell as the new Fed Chair resulted in a lacklustre market reaction. It is widely expected that the FOMC will raise rates in their December meeting. The latest set of Fed minutes showed that doubt is creeping into their inflation conviction, although oil and lags may yet have parts to play in Yellen's conundrum. US tax reform is gaining progress, however the government debt ceiling problem will emerge again as a topic for debate. Risk assets continue to shrug off everything from political witch-hunts to sovereign defaults. The high yield credit market, however, has lagged the recovery of equities, and we think this is symptomatic of deeper concerns than just the tax bill uncertainty. In China, with the reform agenda gathering pace, we expect further softening of activity data to extend into next year.