# BT Wholesale Moderate Fund

ARSN: 610 997 709

## About the Fund

The BT Wholesale Moderate Fund (**Fund**) is an actively managed diversified portfolio that invests in Australian and international shares, Australian and international listed property securities, Australian and international fixed interest, cash and alternative investments. The Fund has a similar weighting towards defensive assets as it does towards growth assets.

### Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Fund's benchmark over the medium to long term. The suggested investment timeframe is five years or more.

### Benchmark

The benchmark for the Fund is created from a range of published indices. The benchmark is based on the asset allocation neutral position and the index returns for each asset class. Details of the particular market indices used for the Fund's benchmark can be found at www.btim.com.au/BT-Wholesale-Moderate-Fund

### Investment Process

At BTIM, we actively manage our portfolios to meet their investment objectives by diversifying investments across both asset classes *and* strategies. We employ three main approaches to do this:

1. **Strategic asset allocation** – weighted asset class exposures designed to meet the investment objectives over the long term investment horizon
2. **Active management** – exploitation of market inefficiencies within asset classes
3. **Tactical asset allocation** – exploitation of market directionality across asset classes

The underlying investments in the Fund are managed by BTIM together with a number of external partners. BTIM manages investments in the asset classes of Australian shares, Australian fixed interest and cash, global fixed interest, Australian property securities and alternative investments. These investments are augmented by our arrangements with leading global investment managers who have a competitive advantage in the management of global asset classes.

The BTIM Diversified team also manages an active tactical asset allocation process designed to increase portfolio returns within a defined risk budget.

### Investment Guidelines

| Asset allocation ranges (%) | Neutral Position | Ranges | |
|---|---|---|---|
| | | Min | Max |
| Australian shares | 24 | 10 | 30 |
| International shares | 17 | 0 | 20 |
| Australian fixed interest | 20 | 10 | 45 |
| International fixed interest | 15 | 5 | 40 |
| Australian property securities | 4 | 0 | 15 |
| International property securities | 1 | 0 | 15 |
| Alternative investments | 14 | 0 | 20 |
| Cash | 5 | 3 | 30 |

### Investment Team

The Fund is managed by Stuart Eliot who has more than 26 year's industry experience. The team has a diverse skill set; combining a range of global and domestic market experience and drawing on the resources of BTIM's other specialist teams: Income & Fixed Interest Strategies and Equity Strategies.

### Performance

| (%) | Total Returns | | Benchmark Return |
|---|---|---|---|
| | (post-fee) | (pre-fee) | |
| 1 month | 1.13 | 1.20 | 1.35 |
| 3 months | 4.08 | 4.30 | 3.88 |
| 6 months | 4.92 | 5.36 | 3.79 |
| 1 year (pa) | 10.15 | 11.06 | 9.02 |
| Since Inception (pa) | 8.08 | 9.00 | 7.25 |

### Asset Allocation (as at 30 November 2017)

| | |
|---|---|
| Australian shares | 23.1% |
| International shares | 17.9% |
| Australian fixed interest | 16.6% |
| International fixed interest | 13.4% |
| Australian property securities | 4.7% |
| International property securities | 1.0% |
| Alternative investments | 13.8% |
| Cash | 9.5% |

### Other Information

| | |
|---|---|
| Fund size (as at 30 Nov 2017) | $97 million |
| Date of inception | June 2016 |
| Minimum investment | $25,000 |
| Buy-sell spread[1] | 0.24% (0.12%/0.12%) |
| Distribution frequency | Quarterly |
| APIR code | BTA0487AU |

[1] The buy-sell spread represents transaction costs incurred whenever you invest or withdraw funds, and may vary from time to time without notice.

### Management Costs[2]

| | |
|---|---|
| Issuer fee[3] | 0.85% pa |
| Estimated indirect costs[4] | 0.06% pa |

[2] You should refer to the latest Product Disclosure Statement 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.

[4] This is an estimate of the last financial year's indirect costs. These are reflected in the unit price of the Fund and are not charged to you as a fee or retained by us.

**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.
- **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.
- **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.
- **Counterparty risk -** The risk of another party to a transaction failing to meet its obligations.

Please read the Fund's Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

**Market review**

The domestic equity market, as measured by the S&P/ASX 300 Accumulation Index advanced 1.7% in November, with the price index surpassing the 6000 mark (albeit briefly) for the first time since 2007. Most of the heavy lifting was done by Resources (+3.2%) while Industrials (+1.4%) slightly detracted. In terms of sector performance, ten out of eleven GICS sectors finished the month in the black, with the exception of Telecoms (-1.6%) as underperformance from sector heavyweight Telstra (TLS, -3.1%) more than offset positive returns from TPG (TPM, +10.2%) and Vocus (VOC, +9.0%).

The Telecommunications sector lagged after Telstra held its investor day at the beginning of the month. Management announced a decline in its 1Q18 mobile services revenue, as lower average revenue per user (ARPU) more than offset increasing post-paid subscriptions. Pressure on NBN pricing also continues to weigh on growth prospects. Near the end of the month NBN Co announced the decision to halt the rollout of the Hybrid Fibre Coaxial (HFC) network over the next six to nine months, which will delay the one-off payments Telstra receives from it. Already under pressure due to its recent cut to dividends, Telstra's share price was dragged down over the month by these updates.

Outside Telecoms, index heavyweight Financials (+0.0%) finished the month flat, with Banks (-1.4%) largely to blame. Three of the Big Four, except for Commonwealth Bank (CBA, +2.3%), finished the month lower. Over the course of the month, expectations grew that the Federal government would be forced to capitulate to pressure for a Royal Commission into financial services, and was officially sealed by the announcement made by the Turnbull government at month's end.

On the other side of the spectrum, A-REITs (+4.7%) finished the month strongly, with the rotation towards rate-sensitive stocks due to the decline in bond yields helping support the sector. A number of companies also provided some trading updates, including US/UK mall operator Westfield (WFD, +7.9%) which reported stable quarter on quarter (QoQ) rents with their occupancy rate declining to 93.4%. Scentre Group (SCG, +5.2%) also maintained its FY guidance in their Q3 trading update.

The majority of large miners all advanced higher which helped Materials (+2.0%) to be the second largest contributor to index growth over the month. Diversified mining duo BHP (BHP, + 2.9%) and Rio Tinto (RIO, +2.2%) were lifted higher by stronger oil and iron ore prices, whereas concentrated lower-grade iron ore miner Fortescue (FMG, -0.9%) dropped.

Global Equity markets delivered another month of solid gains in November, 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.

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. 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%.

Australian bonds were well-bid in November on the back of several weak local data points and fading RBA rate hike expectations. The central bank left the cash rate unchanged during the month with few alterations in Governor Lowe's accompanying statement. Continued strength in business conditions and an improvement in labour market metrics were again noted, but moderated by anticipation over ongoing soft inflation. This was reflected in the more detailed quarterly Statement on Monetary Policy, which revealed a downward revision to the bank's core inflation forecast. The Australian curve flattened during the month with the 3 and 10 year yields falling 7bp and 16bp to 1.89% and 2.51% respectively. Meanwhile at the front-end, 90 day BBSW added 5bp to 1.74%.

### Fund performance

The Fund underperformed its benchmark over the month of November. The Fund's performance for November was largely driven by strong performance within equity and listed property markets, which again outperformed defensive asset classes. Positioning within Australian and global fixed interest had a neutral impact on performance, while exposure to alternatives contributed to returns, particularly from a manager contribution perspective.

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

The key factors influencing our active management returns were our Australian and global equity strategies. Within the Australian equity strategy, stock selection outcomes weighed on active returns, particularly through high conviction positions in Qantas and Aristrocrat Leisure. Contributions were sourced from overweight positions in Westfield and Santos, as well as holding no exposure to Orica.

Our global equities portfolio delivered a return of 2.5% which was below the Index for the month (before fees), largely due to underperformance within our core manager.

Our Alternatives strategy delivered a positive return for November, with a significant contribution from the tactical decision to increase exposure to risk parity strategy. The strategy delivered a total return (before fees) of 0.26% vs a cash return of 0.13%, with a material contribution from the managed futures, Risk Parity and Equity Income strategies, while our global macro component detracted.

Our tactical positioning within alternatives delivered a neutral return for the month, driven by the Fund's copper and gold trades, while the volatility trade contributed to returns.

### Strategy and Outlook

Indications on the prospects for the Australian economy suggest that it is on a path of returning to trend growth, albeit with a degree of uncertainty. Inflation remains subdued and households remain sensitive to economic conditions, such that the Reserve Bank is not expected to raise rates in the near term, and beyond that only in a gradual and measured manner. The US economy is likely to progress further in its recovery, while Europe ex-UK also shows signs of strength. In the prevailing environment of still accommodative monetary policy and corporates in reasonably strong positions, it remains prudent to be exposed to equities with limited exposure to fixed income and defensive assets, while maintaining exposure to Alternatives as a diversifying and alpha generating component of the portfolio. We remain cognisant of the potential for periodic market dislocation, where careful management and adherence to a disciplined investment strategy can deliver long term outperformance and limit the impact of any market downturns on returns for the Fund.