BT Investment Management

Fact sheet

Income & Fixed Interest Strategies

November 2017

→ BT Wholesale Monthly Income Plus Fund

ARSN: 137 707 996

About the Fund

The BT Wholesale Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

Investment Process

BTIM's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

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 & Fixed Interest Strategies who has more than 22 years industry experience.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.73	0.78	0.12
3 months	2.51	2.68	0.37
FYTD	3.41	3.69	0.63
6 months	3.29	3.63	0.75
1 year (pa)	6.28	6.98	1.51
3 years (pa)	4.57	5.25	1.83
5 years (pa)	5.20	5.89	2.17

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/12/2016	0.26	30/06/2017	*1.3903
31/01/2017	0.20	31/07/2017	0.21
28/02/2017	0.20	31/08/2017	0.21
31/03/2017	0.20	30/09/2017	0.21
30/04/2017	0.20	31/10/2017	0.21
31/05/2017	0.35	30/11/2017	0.21

* Distribution is large due to year end distribution.

Sector Allocation (as at 30 November 2017)

Corporate bonds	60.6%
Mortgage backed	0.2%
Asset backed	0.0%
Australian shares	24.3%
Cash & other	14.9%

Other Information

Fund size (as at 30 Nov 2017)	$435 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Monthly
APIR code	BTA0318AU

[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]	0.65% 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.

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 asset.
- **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.
- **Derivative risk –** The risk 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 Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

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.

Data-wise, quarterly wage figures were softer than expected with a sluggish 0.5% increase over the period, despite a rise in the minimum wage. Retail sales data also missed expectations with zero growth for the month and consumer confidence fell from 101.4 to 99.7. In contrast, business conditions pushed to a new high of +21 and the unemployment rate dropped from 5.5% to 5.4%. Jobs growth also remained skewed to full-time positions. In terms of market movements, 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%.

Turning to credit markets, the area enjoyed another positive month as investors looked past geopolitical upsets and sentiment was supported by ongoing accommodative central bank settings. In the US, the Federal Reserve kept rates unchanged and member rhetoric solidified anticipation for a hike in December. Also during the month, Chairwoman Yellen's successor was announced as Jerome Powell, which is expected to represent a smooth transition for policy. Some encouraging progress on US tax reform also helped to support sentiment. Meanwhile in Europe, ECB officials noted a need to remain patient with policy normalisation in light of persistently subdued inflation. Political risks also made headlines as the Catalonia secession debate carried on, Merkel's coalition dissolved and Brexit complications endured.

New issuance was well-absorbed and physical credit spreads were generally tighter again over the month. The best performing sectors were real estate, utilities and industrials which tightened 4, 4 and 3bps respectively, whilst supranationals underperformed and widened 1bp.The Australian iTraxx index (Series 28 contract) traded in a tight 5bp range finishing the month unchanged at +65bps.

Finally, the domestic equity market as measured by the S&P/ASX 300 Accumulation index advanced 1.7% higher in November, with the price index surpassing the 6000 mark, albeit only briefly for the first time since 2007. Most of the heavy lifting was done by Resources (+3.2%) while Industrials (+1.4%) lagged. In terms of sector performance, 10 out of 11 GICS sectors finished the month in the black, with the exception of Telecommunications (-1.6%) which was tied to an underperformance from sector heavyweight Telstra (TLS, -3.1%), which more than offset positive returns from TPG (TPM, +10.2%) and Vocus (VOC, +9.0%).

Fund performance and activity

The Fund returned 0.78% (pre-fees) over the month, an outperformance of 0.66% versus the cash benchmark. On an absolute basis, the credit portion was the largest driver of return and achieved a strong active return versus its benchmark. The equities allocation also made a positive contribution to returns, but underperformed its benchmark. Weights were retained at the same levels as the prior month with equities at 25%.

Outlook

The weaker than expected inflation data released in late October will see the Reserve Bank leave monetary policy unchanged in the near term. There are positive signs for the Australian economy - the labour market has continued to strengthen and business conditions remain at elevated levels. Public infrastructure investment is also supporting the economy and global economic growth has also picked up. However, inflationary pressures remain benign. Wage inflation data released in November was weaker than expected and shows no signs of picking up in the near term despite the fall in the unemployment rate. Household consumption also remains subdued, weighed down by higher debt levels. Macroprudential measures are having the desired effect - financial stability risks have reduced, although still remain. We expect no change from the Reserve Bank until at least mid-2018.

Our macro credit view remains neutral. While there is still the potential for event risk and associated volatility in the near term, it has continued to diminish since earlier in 2017. We acknowledge the recent progress on US tax reform, but note that actual implementation has been lacking for the new Administration's policies, which could impair a continued improvement in the US outlook. Meanwhile in Europe, growth has picked up but pockets of regional event risk persist, like the Catalonia secession attempt and the surprise dissolution of Merkel's coalition, which could cause further EU problems. In Asia, there is also uncertainty over the impact of Chinese economic reforms. Accordingly while the near term market tone is positive, we remain cautious with many unknowns heading into 2018. Domestically we see soft growth persisting and an improvement largely dependent on commodity price stability and housing. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as utilities and infrastructure that provide a higher yield to index returns.