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 (post-fee)	(pre-fee)	Benchmark Return
1 month	0.41	0.48	0.03
3 months	2.08	2.30	1.61
6 months	5.94	6.39	4.77
1 year (pa)	9.75	10.67	7.79
Since Inception (pa)	7.84	8.76	6.64

Asset Allocation (as at 31 January 2018)

Australian shares	22.9%
International shares	18.7%
Australian fixed interest	15.4%
International fixed interest	12.0%
Australian property securities	4.6%
International property securities	1.0%
Alternative investments	16.2%
Cash	9.2%

Other Information

Fund size (as at 31 Jan 2018)	$110 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 started 2018 on a downbeat note, with the S&P/ASX 300 Accumulation Index finishing January down 0.39%. While Resources (+0.8%) recorded a small gain amid strong commodity prices, it was more than offset by the weak performance from Industrials (-0.7%).

The major macro themes over the month include a weakening US dollar, which has led to rising commodity prices; and rising global bond yields against the backdrop of synchronised global economic growth. As such, miners were generally supported in January with Metals & Mining edging 1.2% higher. The major miners finish the month in the black, supported by well-received market updates and iron ore remaining above US$70 per tonne. Partially helped by the miners, Materials (+0.5) was one of the few sectors which finished the month with a positive return.

Also residing within the winner's group, Health Care (+3.1%) was the largest contributor to index performance. Sector heavyweight CSL (CLS, +3.6%) recorded a positive month in January. While there was no company-specific news attached, investor sentiment was helped by the two acquisition deals announced by French pharmaceutical giant Sanofi, totalling US$17 billion over the month. Also adding to the sector's positive performance was strong return from Resmed (RMD, +13.5%) and Sirtex Medical (SRX, +66.2%). The former reported a good set of Q2 results across the board: sales growth of the flowgen machines did not decelerate as some had feared; while sales of the high-margin masks also grew at double digit rates globally. For Sirtex, an all-cash acquisition offer from Varian Medical, which represents a 19x multiple for SRX's FY1 EBITDA, was well received by the market.

On the other side of the ledger, Utilities (-4.3%) was the worst performing sector over the period. The pickup in bond yields continued on the back of synchronised global economic growth and was evident both overseas (US 10-year Treasuries added 31bps over the month to yield 2.72%) and back at home (the Australian counterpart added 16bps to yield 2.79%), which weighed on bond sensitive sectors. For similar reasons the Real Estate (-3.2%) sector got dragged into the red as did infrastructure companies including Transurban (TCL, -3.3%), Sydney Airport (SYD, -3.4%) as well as Macquarie Atlas (MQA, -8.7%). Last but not least, all the Big Four banks slid moderately over the month, from -1.8% (CBA) to -0.6% (ANZ), driving the broader Financials (-0.7%) sector into negative territory. The banks are due to provide trading updates in February.

Global equity markets commenced the year with strong returns in January, although further strength in the Australian dollar reduced the local currency gains, with the MSCI World ex Australia Total Return (A$) Index returning 1.8%. Markets were buoyed by reports of positive earnings momentum in US economies, strengthening indicators of economic growth in the major economies and the positive impact of tax cuts and concessions for US Corporations. Prices for key commodities were aligned with the pro-growth market sentiment, which saw oil break through the US$60/bbl level and iron ore remain above US$70/mt. Base metals were also generally higher. Bullish conditions in capital markets have pushed the MSCI World ex Australia (A$) Index to its sixth consecutive year of strong positive returns.

Stock prices in the US reflected the combined effect of good earnings growth, strong labour and consumer markets, and strong economic growth to register its strongest start to the year since 1987. Investors looked passed the temporary Government shutdown that ensued following an impasse at Congress to approve budgetary measures. The greatest source of optimism seemed to come from Trump's corporate tax cuts which are expected to result in higher corporate earnings. At a sector level, Consumer, Technology and Health Care sector were among the best performers, while Utilities and Real Estate sectors were the weakest, given their quasi status as bond proxies. The S&P500 rallied strongly to record a 5.7% return while the Nasdaq was up 7.4%.

Most major European equity markets delivered healthy gains to commence the year, with the German DAX (+2.1%) and the French CAC (+3.2%) benefitting from growing optimism for the euro area. The region recorded further GDP expansion, with a 0.6% growth rate for the fourth quarter of 2017 marking 19 quarters straight of expansion. Private sector surveys across the region also supported the positive reading, although inflation indicators remain muted which is likely to limit progress for the European Central Bank in normalising monetary policy.

By contrast, the UK market weakened, losing value for the month in response to upward revisions to US interest rate expectations and a corresponding increase in government bond yields. Despite strong commodity prices, market sentiment was focused on the prospect of a hard Brexit scenario and signs of weakness in consumer-related sectors. The FTSE Index declined by 2.0% for the month.

The performance of Asian markets was more varied, with Hong Kong's Hang Seng rising by 9.9% and in significant contrast to Japan's Nikkei return of 1.5%. Chinese equities were beneficiaries of higher economic growth expectations and a weaker US dollar,

The Australian dollar had a mixed month on currency markets, finishing 3.5% stronger against the US dollar and 3.6% higher against the Hong Kong dollar, but weaker against the British pound (-1.5%) and euro (-0.2%). The local currency was a direct beneficiary of stronger commodity prices and stabilising demand from China.

Within the fixed interest sector, Global bond markets suffered in January, while risk assets enjoyed a strong start to the year. Sentiment was supported by the passage of US tax reform, a strong US corporate earnings season and an absence of major geopolitical disruptions. The US Federal Reserve left rates unchanged at their January gathering, but offered a more upbeat outlook for inflation. Meanwhile, US economic data was mixed with weaker-than-expected payrolls and fourth quarter GDP. In contrast, leading indicators like the ISM manufacturing survey ticked higher as did the Conference Board gauge of consumer confidence. In Europe, the ECB left its policy settings unchanged and noted that while broader economic data continued to improve a stronger inflation pulse remained absent. President Draghi also added that a rate hike would be unlikely over 2018 and that the Euro's recent appreciation could complicate the outlook. Economic data was stronger across the board with a 1.5% jump in retail sales, 0.5 point increase in the Composite PMI, a 17 year high for sentiment and a 0.10% fall in the unemployment rate. Meanwhile in Asia, China recorded a healthy 6.8% GDP growth rate for 2017. Finally in terms of market movements, US yields experienced a significant increase with the 2 year adding 26bps to 2.14% and the 10 year by 30bps to 2.71%.

Australian bonds suffered alongside a broader global sell-off in January. However, the local market was supported to some extent as expectations for an RBA rate hike were pushed back to early 2019. As the central bank did not meet during the month this was shaped in part by the fourth quarter CPI report released at the end of the month. The Board's preferred measure of inflation, the trimmed mean, rose a softer-than-expected 0.40% over the quarter. The headline rate increased 0.6% quarter-on-quarter with strong gains in fresh food, fuel and tobacco. Other economic releases like retail sales as well as consumer and business confidence were more constructive. Employment data was reasonable with 34.7K jobs added (mostly in part-time). Finally in terms of market movements, the Australian curve steepened with the 3 year yield increasing 2bps to 2.16%, while the 10 year yield rose 16bps to 2.81%. Meanwhile at the front-end, 90 day BBSW fell 2bps to 1.78%. At the same time, the Australian dollar strengthened by +3.7% against its US counterpart, which was due in part to broad US dollar weakness and a more upbeat Australian outlook.

Fund performance

The Fund's performance in January was driven primarily by the strong performance of global equities, while some of these gains were offset by negative returns from fixed interest assets. Exposure to alternatives contributed to returns, as did the Fund's exposure to listed property which declined in value.

Tactical asset allocation contributions were driven by the Fund's overweight exposure to 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 JB Hifi, Qantas, BHP and Resmed. Partially offsetting these contributions were overweight positions in Macquarie Atlas, Santos and Amcor.

Active returns from our global equities portfolio were sourced from stock selection by both our core and concentrated managers, however, a strengthening Australian dollar and underperformance of our emerging markets manager detracted returns within this asset class.

Our Alternatives portfolio delivered another positive return for January, with contributions from six of the eight underlying strategies within the core component of the sector. The Alternatives strategy delivered a total return (before fees) of 1.59% vs a cash return of 0.16%, with contributions from Managed Futures, with profitable trend following in all four asset classes over the month, most notably within equities and currencies; Long/Short Equity, driven by stock positioning within the US and European markets, while the Japanese portfolio detracted somewhat. The strategy also benefitted from its directionally long equity beta component over the month. The Global Macro strategy benefitted from contributions from Developed Equities Relative Value strategy and Equity and Bond Timing strategies. The sole detracting sub-strategy over the month was Dedicated Short Bias, which was impacted both by its directionally short equity tilt, and its stock positioning with the US and Japan. Offsetting losses somewhat was positive results to stock positioning within Japan.

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

Strategy and Outlook

Recent market volatility has illustrated the importance diversification. While equities are a critical component in delivering long term growth to a portfolio, this exposure needs to be balanced by assets that are diversifying – bonds, foreign exchange exposure, and alternatives can all help to stabilise returns. Looking forward, the Fund remains overweight equities as we believe that equities will continue to be attractive on a shorter to medium term horizon. However, we recognise the inherent uncertainty of financial markets and continue to hold a broad range of diversifying exposures to seek to smooth out the inevitable bumps in the road.

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