Investment Management

Fact sheet

Diversified Strategies
March 2018

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	-0.81	-0.74	-0.60
3 months	-1.09	-0.88	-0.74
6 months	2.89	3.32	2.93
1 year (pa)	5.57	6.45	4.52
Since Inception (pa)	6.17	7.07	5.53

Asset Allocation (as at 31 March 2018)

Australian shares	22.9%
International shares	18.4%
Australian fixed interest	15.9%
International fixed interest	11.9%
Australian property securities	4.5%
International property securities	0.9%
Alternative investments	15.8%
Cash	9.7%

Other Information

Fund size (as at 31 Mar 2018)	$123 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 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 wanned 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 a 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.

Fund performance

The Fund underperformed its benchmark over the month of March. 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 detraction 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.

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.