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	Ranges 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)	Total Returns (pre-fee)	Benchmark Return
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

Global equity markets capped off the worst quarterly performance in more than two years for the March quarter, where investors experienced a definitive break in the buoyant market conditions that have shaped sentiment over the past few years. Volatility made a return as 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 correction in February, the S&P500 recovered its losses before reversing again to close the quarter with a return of -0.8%, which the NASDAQ delivered a positive return of 2.3%.

The major European equity markets were not immune to the US-led global correction, which saw the German DAX (-6.5%), the French CAC (-2.7%) and the UK FTSE100 (-8.2%) 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 early in February before retracing some of the losses, only to reverse on trade war fears with implications for around US$50 billion worth of imports from China. Korea, Malaysia, Thailand and Taiwan were among the better performing equity markets while Australia and Japan were among the weakest.

The domestic equity market finished the first quarter of 2018 on a soft tone, with the S&P/ASX 300 Accumulation Index losing 3.8% over the period. Stock market performance was relatively benign over the first two months, even though some volatility was evident in February. But it was the market's performance during March that really caught the market off guard. President Trump sparked fears of a trade war after announcing the intention to impose tariffs on both aluminium and steel imports into the US and threatened to increase tariffs of up to 25% on the US$60 billion worth of goods currently imported from China. Whilst the response from China has to date been on a minor scale, 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 March, which the Australian market took leads from to a certain degree.

Both the Resources (-4.2%) and Industrials (-3.7%) finished the quarter lower, with negative returns recorded within most sectors. The exceptions include Health Care (+6.6%), Consumer Staples (+0.9%) and Information Technology (+1.9%). Within Health Care, a number of sector heavyweight companies saw their share price advance following the latest reporting season. The largest two sectors of the domestic market, Materials (-3.4%) and Financials (-5.9%) recorded losses over the quarter.

The Australian bond market realised another positive return during the first quarter of 2018. After a notable curve steepening in January and February the curve flattened in March as long-end yields followed offshore peers lower. Meanwhile, short-end money market yields increased substantially on the back of the BBSW-OIS spread widening, which was led by US money market developments. Meanwhile, the Reserve Bank of Australia (RBA) left rates on hold during the quarter, with upbeat commentary on the labour market moderated by expectations for a gradual improvement. The Board's overall message suggested a bias to remain firmly on hold for the near-term. Fourth quarter GDP rose by a lower-than-expected 0.4% quarterly growth rate, although weakness was more in exports which should bounce back. Jobs growth was constructive but marred by weak wage growth and a rising participation rate. Leading indicators were mixed, with business confidence falling but the current conditions index improving (to a record 21) and consumer confidence roughly flat. In terms of market movements, the Australian 10 year yield fell to 2.61% and the three-year yield receded by 3 basis points (bp) to 2.11%, while 90 day BBSW added 23bp to 2.03%. The Australian dollar was dragged 1.4% lower, reflective of a fall in bulk commodity prices and trade war concerns.

Global bond curves flattened in March after steepening earlier in the quarter. US short-end money market yields increased sharply in March 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 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 US Federal Reserve (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 rising to 60.8. Wage growth was also strong, which stoked higher inflation and rates expectations and in turn, sparked a surge in broader market volatility. These US-centric developments largely overshadowed news elsewhere, including a hung parliament in Italy and the European Central Bank's (ECB) decision to leave policy unchanged. By quarter-end, US 10-year yields rose by 33bp to 2.74% and the two-year maturity added 38bp to 2.27%.

The Australian dollar weakened on currency markets in February, reversing its prior month advance against the US dollar and then weakening as commodity prices declined to close the quarter down by 1.9% against the US dollar, 4.3% against the euro, 5.4% against the British pound and a sizeable 7.4% against the Japanese yen.

Fund performance

The Fund underperformed its benchmark over the March quarter. The Fund's underperformance over the March quarter was impacted by negative returns from equity markets, although a weaker Australian dollar, particularly against the US dollar, euro and British pound, reversed some of the negative return impact from overseas equities for Australian investors. 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 distributed between asset allocation and manager selection outcomes. Exposure to alternatives delivered a negative return this quarter.

The key factors influencing our active management returns were strong stock selection outcomes within the active Australian equities component. Within this segment, significant contributions were sourced from overweight positions in Qantas, Nine Entertainment, Resmed together with exposure to small caps which outperformed the broader market. Partially offsetting these contributions was an overweight position in Telstra.

Our Alternatives portfolio detracted from returns this quarter, whereby with three 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 -1.94% vs a cash return of 0.43%. 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 Dedicated Short Bias strategy, a minor loss came from the directional short equities component of the strategy in falling equity markets, although the bulk of the underperformance was attributable to the market-neutral stock portfolio, where investor sentiment and management underperformed over the quarter. 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, while a small short volatility position detracted from returns, which has now moved to a long position. 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 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.