Fund update
Income & Fixed Interest Strategies
November 2017

BT Sustainable Australian Fixed Interest Fund

ARSN: 612 664 730

About the Fund

The BT Sustainable Australian Fixed Interest Fund (**Fund**) is an actively managed portfolio of Australian fixed interest securities. Investments are selected based on a range of sustainable, ethical and financial criteria.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the Bloomberg AusBond Composite 0+ Yr Index by 0.75% p.a. over rolling 3 year periods.

Description of Fund

The Fund offers investors access to a diversified portfolio of fixed interest securities and seeks exposure to issuers that demonstrate leading environmental, social and corporate governance (ESG) and ethical practices while avoiding exposure to issuers with activities that we consider to negatively impact the environment or society.

The Fund will not invest in issuers with material business involvement in the following activities:

- production of tobacco or alcohol,
- manufacture or provision of gaming facilities,
- manufacture of weapons or armaments,
- manufacture or distribution of pornography,
- directly mine uranium for the purpose of weapons manufacturing,
- extraction of thermal coal and oil sands production.

We consider that an issuer has a material business involvement in an activity if 10% or more of its total revenue is derived from that activity.

The Fund uses a security selection process that combines sustainable and ethical criteria with BTIM's credit analysis. BTIM's investment process for fixed interest aims to add value through multiple strategies and investment research. BTIM seeks to generate excess returns through strategies including active security (including Green, Social and Sustainable Bonds) and sector selection, duration, yield curve and credit management.

We believe our strategy is unique in the Australian marketplace due to our top down process which combines a large number of quantitative models, our qualitative overlay and technical analysis giving us a greater understanding of global forces that affect the domestic market and the opportunities it presents. This is a more robust process than focussing primarily on domestic economic factors when evaluating the opportunity set.

Our investment approach for credit management seeks to identify opportunities on a sector, issuer and security basis by incorporating top-down and bottom-up research. Top-down research includes analysis of economic and market data, along with macro credit fundamentals such as company earnings, balance sheet health, default rates and equity volatility. The bottom up research includes analysis of earnings and cashflow volatility, balance sheet, business diversity, industry and valuation.

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 portfolio manager of the Fund is Tim Hext, assisted by George Bishay, who have a combined 48 years of industry experience.

CERTIFIED BY RIAA

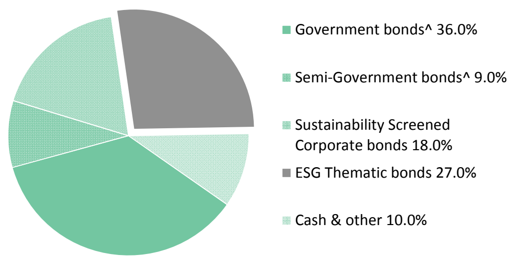
The BT Sustainable Australian Fixed Interest Fund has been certified by RIAA according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsibleinvestment.org for details.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.79	0.83	0.87
3 months	1.62	1.73	1.66
6 months	1.02	1.23	0.99
1 year (pa)	4.27	4.69	4.02
Since Inception (pa)	0.89	1.29	0.82

Sector Allocation (as at 30 November 2017)



^ Ex Green, Social & Sustainable Bonds

Green, Sustainable & Social Bonds Holdings

ANZ Climate Bond
Aust. Catholic Uni. Sustainability Bond
CBA Climate Bond
KFW Green Bond
NAB Climate Bond
QTC Semi-Gov. Green Bond
TCV Semi-Gov. Green Bond
WBC Climate Bond

Other Information

Fund size (as at 30 Nov 2017)	$157 million
Date of inception	August 2016
Minimum investment	$500,000
Buy-sell spread[1]	0.09% (0.05%/0.04%)
Distribution frequency	Quarterly
APIR Code	BTA0507AU

[1] The buy-sell spread represents a contribution to the transaction costs incurred by the Fund, when the Fund is purchasing and selling assets. The buy-sell spread is generally incurred whenever you invest in the Fund, and may vary from time to time without notice.

Management Costs[2]

Issuer fee[3]	0.40% pa

[2] You should refer to the latest Information Memorandum 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 security.
- **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.

Please read the Fund's Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Australian bonds performed well 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 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.

Domestic data during the month proved relatively mixed. At the weaker end, quarterly wage data was softer than expected with a sluggish 0.5% increase over the period, despite a rise in the minimum wage. The fastest pace of growth was witnessed in health care, while mining continued to drag. Retail sales data also missed expectations with zero growth for the month. This was echoed in a fall in consumer confidence from 101.4 to 99.7. At the stronger end, business conditions pushed to a new high of +21 while confidence held steady at +8. Labour market figures were also encouraging with a drop in the unemployment rate from 5.5% to 5.4%, the lowest level in 4 years. Jobs growth also remained skewed to full-time positions.

Looking abroad, the US Federal Reserve kept rates unchanged at their policy meeting and rhetoric suggested the central bank remained on course for a December hike. Meeting minutes released later in the month revealed some members were becoming wary that ongoing accommodative policy could fuel further financial imbalances. The next Fed Chair was announced with Jerome Powell taking over after Janet Yellen's term finishes next year, although had little market impact. Meanwhile, US data during the month was reasonable with a drop in the unemployment rate to 4.1% and third quarter annualised GDP growth revised higher by 0.3% to 3.3%. On the fiscal front, progress on US tax reform helped bolster investor sentiment.

In Europe, political uncertainties weighed on risk appetite. This included the ongoing Brexit negotiation uncertainty as well as the surprise dissolution of the Merkel-led coalition in Germany. Over the same period, the ECB noted upside risks for growth but acknowledged a need to remain patient with monetary normalisation in light of subdued inflation. Data reflected this sentiment with Euro area growth revised higher to 2.5%, another push higher for the Composite PMI to 57.5, a gain in consumer confidence to a 16 year high and a fall in the unemployment rate to 8.8%.

In Asia, the Nikkei (+3.2%) continued its run higher in the wake of Abe's re-election. While in neighbouring China, economic data was positive with the Caixin and Services PMIs at 51 and 51.2 respectively and a reasonable 6.7% year-on-year growth in industrial profits.

Finally 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. In contrast, at the front-end 90 day BBSW added 5bp to 1.74%. The US curve also flattened during the month with a significant 18bp increase in the 2 year yield to 1.78% on the back of firm December rate rise anticipation. This took the Australian-US 2 year yield differential into negative territory for the first time in 17 years. At the long-end, 10 year Treasury yields rose a more modest 3bp to 2.41%. In FX markets, the AUD/USD slipped 1.20% while in commodities WTI gained 5.6% and iron ore jumped 16% over the month.

The Australian iTraxx index (Series 28 contract) traded in a tight 5bp range finishing the month unchanged at +65bps. Physical credit spreads were generally a touch stronger with the best performing sectors being real estate, utilities and industrials tightening 4, 4 and 3bps respectively, whilst supranationals underperformed widening 1bp. Semi-government bond spreads widened 2bps to government bonds over the month.

Fund performance and activity

The Fund returned 0.83% (pre-fee) over the month and underperformed the Bloomberg AusBond Composite Bond index return of 0.87% by -0.04%.

In the alpha component, the Duration strategy had a marginally negative month with small losses on Australian front-end positions. The Yield Curve strategy also detracted with losses from the Australian front-end steepener.

The physical portfolio slightly underperformed the benchmark in November. The government sector positioning added to performance whilst the non-government sustainably screened portion of the portfolio detracted from performance. Utilities, industrials and real estate sector positioning detracted from performance.

In terms of portfolio activity, we increased our exposure to utilities, which was funded out of cash. We maintained our Green bonds exposure through the period, including the following issues from the local banks: ANZ, CBA, Westpac and NAB. Our largest single-issuer Green bond holding at the end of the period was Queensland Treasury Corp. Also in the semi-government space we maintained our Treasury Corporation of Victoria holding. Other Green bond investments included KFW and Australian Catholic University.

Outlook

The weaker than expected inflation data released in late October will see the Reserve Bank leaving monetary policy unchanged in the nearer term. There are positive signs for the Australian economy - the labour market has continued to strengthen and business conditions continue to remain at elevated levels. Public infrastructure investment is also supporting the economy and global economic growth has also picked up. Inflationary pressures remain benign however. 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 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.

We remain constructive on the outlook for investment grade credit. From a macroeconomic standpoint, the backdrop remains supportive with central banks maintaining dovish communication. This suggests intended policy normalisation will be gradual and not significantly disruptive for risk appetite. The global growth picture also continues to improve, as reflected by leading indicators like manufacturing surveys. More microeconomic factors are also encouraging with healthy balance sheets and earnings growth. Defaults for high yield issuers globally also remain low and demand for credit is strong given the low yield environment.

Noteworthy risks to the outlook include if central bank communication turns overtly hawkish and yields increase sharply and quickly. This in turn could cause market volatility to increase and credit spreads to widen. We are also cognisant of more country-specific risks like a high degree of corporate leverage in China and slowing credit growth in the region.