

Fund update

Income & Fixed Interest
Strategies
December 2017

→ BT Sustainable International Fixed Interest Fund

ARSN: 612 664 945

About the Fund

The BT Sustainable International Fixed Interest Fund (**Fund**) is an actively managed portfolio of international fixed interest securities. Investments are selected 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 Barclays Global Aggregate Index AUD hedged by 1% p.a. over rolling 3 year periods.

Description of the Fund

The Fund offers investors access to a diversified portfolio of international 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. This process takes advantage of investment opportunities based on an assessment of major economic themes and/or financial markets which are considered to be mispriced.

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 Strategies who has more than 23 years industry experience.



CERTIFIED BY RIAA

The BT Sustainable International 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.

Performance¹

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	-0.10	-0.06	0.24
3 months	0.21	0.33	0.90
6 months	0.81	1.06	1.77
1 year (pa)	2.08	2.59	3.42
Since Inception (pa)	-0.87	-0.37	0.97

Other Information

Fund size (as at 31 Dec 2017)	\$89 million
Date of inception	August 2016
Minimum investment	\$500,000
Buy-sell spread ¹	0.14% (0.07%/0.07%)
Distribution frequency	Quarterly
APIR Code	BTA0509AU

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 Costs²

Issuer fee ³	0.50% pa
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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.
- **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.
- **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.
- **Derivatives risk** – The risks 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 Information Memorandum (**IM**) for a detailed explanation of each of these risks.

Market review

Investor attention was primarily focused on US developments during the month. This included a 25bps hike by the US Federal Reserve. Committee members also raised their forecast for 2018 GDP growth from 2.1% to 2.5% and their inflation estimate from 1.6% to 1.7%. Most major US data during the period was relatively robust including GDP growth of 3.2%, a 0.8% jump in retail sales and a sound 228, 000 non-farm payrolls print. A long-awaited tax reform proposal also passed both chambers of Congress, which helped support global investor sentiment. This was in addition to stopgap measures being passed to keep the government funded into the New Year. Meanwhile in Europe, the ECB maintained its policy settings and President Draghi emphasised a need to keep interest rates at present levels for an extended period, given persistent subdued inflation. Meanwhile on the political front, some uncertainties were felt as the Catalan independence bid regained its footing and the Italian election date came into sight. In contrast, progress on Brexit negotiations were perceived positively by markets. Finally regarding market movements, US 2 year yields climbed 10bps to 1.89% while the 10 year finished unchanged at 2.41%.

Fund performance

The Fund underperformed its benchmark over the month of December.

Over the month, the Macro, Yield Curve, Duration and FX strategies detracted, while the Relative Value strategy was slightly positive. The portfolio began the month at seven risk units and declined to five risk units at the end of the month.

The Duration strategy detracted to performance over the month. Losses were from long duration positions in New Zealand front-end as yields rose in response to a strong GDP print, despite a dovish bias from the Reserve Bank of New Zealand. We expect this to reverse in the new year as liquidity comes back to the market. Our short Australian front-end position in swaps added to performance, but was offset by tactical long duration positions in Australian 3y futures. In the US, we closed the long duration position in the long-end with flat performance.

The FX strategy detracted over the month. Losses were mainly contributed by long USD against TWD and CNH, as the USD returned to a weakening trend mid-month, these trades are part of our high conviction 'China disappointment' theme and we have sized these trades accordingly. As we opened the TWD and CNH trades we closed our other emerging market positions to accommodate. Similarly we reduced our DM exposures over the month. Losses in EUR and GBP were offset by gains from USD and JPY. We closed all our positions in FX Vol early in the month before time decay became too punitive. As of the month end we hold long USD against short TWD and CNH positions in EM, and long EUR and JPY against short GBP and USD in developed markets.

Strategy & outlook

The global economic recovery appears to be continuing with leading indicators in developed economies remaining in an uptrend. This is also reflected in the China Caixin PMI, where external demand is the main source of strength. We expect the global momentum to continue in the near future. On the back of these signs, central banks are more confident to end their unconventional monetary policy measures. However, the conundrum of a flatter Phillips Curve remains unsolved. Unemployment rates are near pre-GFC levels in many countries, while inflation persists at low levels. The extent of consumer optimism during the year end sales will be revealed soon in upcoming retail sales data. Uncertainties in the year ahead include US tax reform, China reform agenda and geopolitical conflicts in Asia and the Middle East.

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BTIM is the responsible entity and issuer of units in the BT Sustainable International Fixed Interest Fund (**Fund**) ARSN: 612 664 945. An Information Memorandum (**IM**) is available for the Fund and can be obtained by calling 1800 813 886 or visiting www.btim.com.au. You should obtain and consider the IM before deciding whether to acquire, continue to hold or dispose of units in the Fund. An investment in the Fund is subject to investment risk, including possible delays in repayment of withdrawal proceeds and loss of income and principal invested.

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If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits specified, this will be rectified by BTIM as soon as reasonably practicable after becoming aware of it. If BTIM does so, it will have no other obligations in relation to these circumstances. The procedures, investment ranges, benchmarks and limits specified are accurate as at the date of this report and BTIM reserves the right to vary these from time to time.

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