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	0.53	0.60	0.23
3 months	4.02	4.24	3.70
6 months	5.80	6.24	4.74
1 year (pa)	8.91	9.82	7.20
Since Inception (pa)	8.00	8.91	7.00

Asset Allocation (as at 31 December 2017)

Australian shares	23.1%
International shares	18.9%
Australian fixed interest	16.4%
International fixed interest	13.0%
Australian property securities	4.5%
International property securities	0.9%
Alternative investments	15.3%
Cash	7.9%

Other Information

Fund size (as at 31 Dec 2017)	$105 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 finished the calendar year on an upbeat note in December, with the S&P/ASX 300 Accumulation Index gaining 1.9% over the month, and 11.9% over CY17. Performance has been particularly strong from Resources (+7.1%/+25.7%), with the help of rising commodity prices over the period; whereas Industrials (+0.7%/+9.2%) also achieved a good return over the 12-month period.

Sector performance was positive in general for December, with the exception of Utilities (-4.5%), Industrials (-0.9%) and Health Care (-0.5%). Energy infrastructure operator, APA Group (APA, -8.6%) gave back all the gains it made in November, and was the largest detractor within Utilities. Its share price has been somewhat range-bound since 2015. Within Industrials, Qantas (QAN, -11.1%) was the worst performer. The national airliner saw its share price retreat amid the soaring oil price over the month. The commodity touched its two-year high as demand continued to firm alongside supply disruptions in Libya and the North Sea. Nevertheless, Qantas' stock performance has been strong at 56.1% over the past 12 months. Finally, the Health Care duo, Cochlear (COH, -5.3%) and CSL (CSL, -1.4%) both declined over the month and weighed on the sector. However, performance has been strong for both companies over the 12-month period, with returns of approximately 42%.

On the other side of the spectrum, Materials (+6.1%) was the best performing sector, as miners continue to benefit from rising commodity prices over the month, with iron ore and copper finishing December at higher levels. As a result, major miners including BHP Billiton (BHP, +8.3%), Rio Tinto (RIO, 6.8%), South 32 (S32, +7.1%) and Fortescue Group (FMG, +6.1%) all recorded solid returns. Following Materials in terms of index performance contribution was Energy (+6.5%), which benefited from the rising oil price over the month. Woodside Petroleum (WPL, +6.7%), Oil Search (OSH, +11%) and Santos (STO, +7.3%) all managed to record strong gains. Outside of Energy, there were a few notable standout performers including gaming operator Tabcorp (TAH, +15.1%), Tatts Group (TTS, +7.0%) within Consumer Discretionary (+3.7%); as well as Telstra (TLS, +5.8%) and TPG Telecom (TPM, +10.4%) within Telecoms (+5.5%). Tabcorp and Tatts Group made strong gains after the ACCC decided not to review their proposed merger. Tatts Group shareholders approved the proposed merger during the month, which is expected to deliver at least $130 million in earnings synergies. Meanwhile, the Telecoms duo rebounded and recovered some of the losses suffered over the past 12 months.

Global Equity markets delivered another month of solid gains in December, with the MSCI World ex Australia Total Return Index returning 3.2%. Positive sentiment continued as investor confidence was reaffirmed on the back of favourable earnings results from major corporations, positive economic data and the Bank of England's decision to raise interest rates for the first time in a decade. The oil price continued to advance towards the US$60 mark while non-energy commodities prices were more subdued.

US equities registered another strong month in record high territory. The market was broadly supported on account of prospective US tax reform after Senator John McCain backed the Senate Tax Bill that had undergone extensive debate during the month. The increasing likelihood of cuts to corporate tax rates spurred a rotation away from the technology sector towards financials. Strong early indications of consumer demand from Black Friday sales also boosted consumer stocks. The S&P500 delivered a 3.1% return whilst the Nasdaq was up 2.2%.

Major European equity markets weakened during the month, with the German DAX (-1.6%) and the French CAC (-2.4%) weighing on returns from the region. Falling bond yields and muted inflation indications led to a risk-off environment, while positive signals on the Eurozone economy such as unemployment falling to 8.8% the lowest level in nine years – together with generally strong private sector surveys failed to placate markets. The UK market also declined, with the FTSE Index declining by 2.2% as uncertainty on the political arena and the Bank of England hiking interest rates by 0.5% weighed on sentiment.

Asian markets delivered a mixed set of results, with Hong Kong, China and Japan yielding from some strong earnings results, despite weaker economic data from China. South Korea and Taiwan lost ground due to weak sentiment towards technology companies as investors globally took profits on the sector. Japan (+3.2%) and Hong Kong (+3.3%) were the standout performers for the region.

The Australian dollar finished the month 1% lower against the US dollar, -2.9% weaker against the British pound and down 3.3% against the euro. The local currency was weaker on lower than anticipated trade data and signs of weak consumption data.

Within the fixed interest sector, investor attention was primarily focused on US developments during the month. This included a 25bp hike by the 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%.

Australian bonds experienced a negative return during the month as yields rose in sympathy with global peers and due to supportive local economic data. Market pricing for an RBA hike was also brought forward to December 2018 from early 2019, while near-term expectations for the cash rate remained steady. Governor Lowe's statement was in keeping with prior months and noted strength in leading indicators like business conditions, as well as employment growth, which has stood in contrast to subdued inflation and retail activity. Top-tier economic releases during the

month included third quarter GDP data, which revealed modest 0.6% quarter-on-quarter growth. Employment growth was more encouraging with 61,600 jobs added, which was skewed to full-time positions. Retail sales also surprised to the upside with a 0.5% gain. In contrast, the NAB Business Conditions gauge retreated from its record high. Finally, in terms of market movements, the Australian yield curve rose and flattened as 3 year yields increased by 25bps to 2.14% and 10 year yields added 14bps to 2.65%. At the front-end, 90 day BBSW rose a more modest 5bps to 1.80%. In the FX space, the Australian dollar recovered 3.2% versus its US counterpart, helped in part by firmer iron ore prices.

Fund performance

The Fund outperformed its benchmark over the month of December. The Fund's performance for December was once again driven by the strong performance of growth assets, while exposure to fixed interest assets detracted from returns. Exposure to alternatives contributed to returns, as did the Fund's limited exposure to cash.

The key factors influencing our active management returns were our material exposure to Australian and global equity strategies. Within the Australian equity strategy, stock selection outcomes were the primary driver of active returns, particularly through overweight positions in Santos and Westfield. Contributions were also sourced from holding no exposure to Orica.

Our global equities portfolio delivered a positive return from stock selection by both our core and concentrated managers, however, a strengthening Australian dollar had a negative impact on returns from this asset class.

Our Alternatives strategy delivered a positive return for December, with contributions across the suite of strategies. The Alternatives strategy delivered a total return (before fees) of 0.66% vs a cash return of 0.14%, with contributions from the managed futures, market neutral, stock selection, asset allocation, and risk parity and Equity Income strategies, while our Australian fixed interest component detracted from returns.

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

Strategy and Outlook

Looking into 2018, there are several key issues which we believe should remain at the forefront of investor focus. The first is liquidity, which is no longer providing a tailwind to markets as central banks around the world tighten policy and start to shrink balance sheets. At this point the pace of tightening remains moderate and should allow the market to retain the prevailing valuation rating, however we remain mindful of the risk of over-tightening and keep a watchful eye on this space. We also maintain a close eye on bond yields, given the sensitivity which a large swathe of the Australian market has to changes here.

China remains crucial to equity market fundamentals and sentiment. The economic outlook remains stable at this point, with GDP growth expected to continue on its multi-year path of moderate deceleration. The Government remains focused on corporate profitability to help address the country's debt problem and relieve stress on the financial system.

The US economy has received significant impetus for further gains. While the market is not considered cheap based on valuations, many corporates are in strong positions supported by buoyant economic conditions, strong balance sheets and policy support through still low interest rates and forthcoming tax cuts.

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.

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