BT Investment Management

Fact sheet

Income & Fixed Interest Strategies

December 2017

BT Wholesale Monthly Income Plus Fund

ARSN: 137 707 996

About the Fund

The BT Wholesale Monthly Income Plus Fund (**Fund**) is designed for investors who want the potential for regular income and some long-term capital growth to protect against inflation, diversification across a range of asset classes and are prepared to accept some variability of returns. The Fund invests in a number of income generating strategies across a range of asset classes, including fixed interest, shares and cash. The Fund may also use derivatives.

Investment Return Objective

The Fund aims to provide a return (before fees, costs and taxes) that exceeds the RBA Cash Rate over rolling 3-year periods while allowing for some capital growth to reduce the impact of inflation.

Investment Strategy

The Fund's investment strategy seeks to provide a reliable and consistent income stream that is commensurate with the prevailing cash rate. This will be achieved primarily by exposure to liquid cash and fixed income investments that generally continue to produce income even in times of stress.

The Fund's strategy also seeks to reduce the impact of inflation through exposure to growth assets (namely Australian shares) which will provide investors with the potential for some capital growth.

The Fund invests mainly in fixed and floating credit, government bonds and cash securities as well as Australian shares. The Fund is diversified with the goal of achieving stability and consistency of income over the long term.

Investment Process

BTIM's investment process provides a defensive approach to asset allocation. The process is aimed at preserving capital and minimising the occurrence of adverse income outcomes.

The Fund has a particular focus on managing downside risk and providing a regular, consistent and stable income. It also aims to provide some capital growth in order to reduce the impact of inflation. However, any capital growth that the Fund accumulates over time is secondary to the primary considerations of seeking to provide income and limit downside risk, and specifically limiting capital losses.

Investment Guidelines

Asset class	Range
Cash	0 - 50%
Fixed Interest	20 - 100%
Shares	0 - 30%

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 & Fixed Interest Strategies who has more than 22 years industry experience.

Performance

(%)	Total Returns (post-fee)	Total Returns (pre-fee)	Benchmark Return
1 month	0.37	0.43	0.13
3 months	2.87	3.04	0.38
FYTD	3.80	4.14	0.76
6 months	3.80	4.14	0.76
1 year (pa)	6.50	7.20	1.51
3 years (pa)	4.18	4.86	1.80
5 years (pa)	5.11	5.80	2.14

Benchmark: RBA Cash Rate

Distribution (over the last 12 months)

Month	CPU	Month	CPU
31/01/2017	0.20	31/07/2017	0.21
28/02/2017	0.20	31/08/2017	0.21
31/03/2017	0.20	30/09/2017	0.21
30/04/2017	0.20	31/10/2017	0.21
31/05/2017	0.35	30/11/2017	0.21
30/06/2017	*1.3903	31/12/2017	0.21

* Distribution is large due to year end distribution.

Sector Allocation (as at 31 December 2017)

Corporate bonds	59.7%
Mortgage backed	0.2%
Asset backed	0.0%
Australian shares	25.5%
Cash & other	14.6%

Other Information

Fund size (as at 31 Dec 2017)	$442 million
Date of inception	July 2009
Minimum investment	$25,000
Buy-sell spread[1]	0.14% (0.07%/0.07%)
Distribution frequency	Monthly
APIR code	BTA0318AU

[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]	0.65% 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.

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 asset.
- **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.
- **Derivative risk –** The risk 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 Product Disclosure Statement (**PDS**) for a detailed explanation of each of these risks.

Market review

Australian bonds experienced a negative return during the month as yields rose in sympathy with global peers and 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 61.6K 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 25bp to 2.14% and 10 year yields added 14bp to 2.65%. At the front-end, 90 day BBSW rose a more modest 5bp 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.

Turning to the local credit market, the area posted a negative return for the month as underlying yields rose. However, credit outperformed its government counterpart as spread to swap contracted. Yields, particularly at the front-end were lifted in sympathy with global peers and encouraging Australian economic data. The former was driven in part by a 25bp hike by the Federal Reserve with Committee members also raising their 2018 inflation and GDP growth projections. The latter included another robust increase in employment by 61.6K and an upside surprise to retail sales (+0.5%). At the same, time third quarter Australian GDP growth was a reasonable 0.6% quarter-on-quarter, taking the year-on-year print to 2.8%. Other noteworthy developments during December included the passage of a long-awaited US tax reform proposal through both chambers of Congress and the ECB emphasising a need to maintain its current low policy rates.

Regarding activity, issuance of $3.1bn was significantly lighter than the previous month's $9.2bn, owing to the holiday season. It was however, the largest December in 8 years. General corporates accounted for the bulk of volumes at $1.8bn, led by Vodafone Group which issued $450m of 10 year paper (165bp over swap) and $700m of 5 year (split between fixed and floating at 105bp over swap). In the utilities area, Victorian gas distributor, Multinet Gas, issued a $265m 7 year fixed note at 125bp over swap. ETSA Utilities also tapped the market with a $100m 6 year issue at 104bp over swap. Meanwhile Financials accounted for $1.3bn of issuance with Macquarie raising $500m through a fixed note and $325m via a floating 5 year issue priced at 115bp over swap.

Finally, 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. Industrials (+0.7%/+9.2%) also achieved a good return over the twelve-month period.

Fund performance and activity

The Fund returned 0.43% (pre-fees) over the month, an outperformance of 0.30% versus the cash benchmark. On an absolute basis, the equity allocation was the largest contributor to returns and delivered a strong excess return versus its benchmark. Meanwhile, the credit component detracted on an absolute basis and relative to its benchmark. Weights were retained at the same level as the prior month with equities at 25%.

Outlook

The key economic release in January will be the 4th quarter inflation data. Inflation data has continued to disappoint recently and has provided little near term impetus for the Reserve Bank to tighten monetary policy. There are positive signs for the Australian economy however. The labour market over the past year has seen 380k jobs created, the bulk of which are in full time employment. The unemployment rate would be lower than its current 5.4% but for the pick up in the participation rate. That wage inflation remains subdued indicates that some slack does remain in the labour market and is also weighing on household consumption expenditure. Higher household debt levels are also weighing on consumption. Business conditions, despite the fall in the NAB business survey last month, are well above average levels and global economic conditions are supportive for the Australian economy. We expect no change from the Reserve Bank until at least mid 2018 - the inflation data will however be the key determinant for monetary policy expectations going forward.

Our macro credit view remains neutral. We acknowledge the recent progress on US tax reform, but note question marks remain over its potential impact and further fiscal policy changes remain absent. This in turn could impair a continued improvement for the US outlook. This is in combination with monetary normalisation with the Federal Reserve projected to raise rates another three times over the year. Elsewhere, pockets of European political risk and uncertainty over the impact of Chinese reforms also moderate our outlook. Accordingly while the near term market tone is positive, we remain cautious with many unknowns in 2018. Domestically, we see soft growth persisting and an improvement largely dependent on commodity price stability and housing. As such we continue to recommend a defensive approach with any overweights in operationally resilient sectors such as utilities and infrastructure that provide a higher yield to index returns.