

BT Index Balanced Fund

Monthly report – 31 May 2021

Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$707.95
Investment objective	Seeks to deliver predominantly moderate growth and some income returns, which tracks the overall return of a diversified portfolio of underlying investments.
Recommended investment timeframe	5 years
Minimum initial investment	\$500,000
Distribution frequency	Quarterly
Management costs (%) pa ¹	0.33
Buy/sell spread (%)	0.08 / 0.09

Performance review²

Period ending 31 May 2021	1 month	3 months	1 year	2 years	3 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	1.28	6.78	17.74	8.73	8.80	8.02
Growth return	1.28	6.39	12.41	4.91	4.89	3.71
Distribution return	0.00	0.39	5.33	3.81	3.92	4.30

Actual asset allocation %³



■ Equity – Australian Listed – 32.96%
● BT Australian Shares Index Fund – 32.96%
■ Equity – International Listed – 24.89%
● BT International Shares Index Fund (Unhedged) – 19.94%
● Blackrock Index Hedged International Equity Fund – 4.95%
■ Property – International and Australian Listed – 12.06%
● BT Property Securities Index Fund – 6.03%
● Blackrock iShares Global Listed Property Index Fund – 6.04%
■ Fixed Income – Australian – 13.95%
● BT Australian Fixed Interest Index Fund – 13.95%
■ Fixed Income – International – 10.96%
● BT International Fixed Interest Index Fund – 10.96%
■ Cash – 5.18%
● Advance Cash Multi-Blend Fund – 5.18%

Market update

Over the course of May markets saw global inflation fears accelerate volatility. While the high vaccination rates across Europe and the US led to increased consumer sentiment, a rapidly deteriorating outbreak of COVID-19 throughout India sent shockwaves around the world. The US experienced a temporary cessation of operations of a key piece of infrastructure after a Russian based criminal group conducted a ransomware attack on the Colonial Oil pipeline. Meanwhile, President Biden released an ambitious \$6 trillion dollar budget. Domestically, May saw the release of the much anticipated federal budget, with all eyes on how exactly the Government plans on recovering from the COVID-19 pandemic.

Australia

During the month, the RBA increased their 2021 GDP forecast to 4.75% from 3.50%, with a predicted growth of 3.50% in 2022. The third budget from treasurer, Josh Frydenberg was delivered this month and demonstrated the resilience of the Australian economy. The economy experienced a mere 0.2% contraction last year, a better performance than all other developed economies. A significant theme in this year's budget is to continue preserving the economic recovery through further reducing the unemployment rate to below 5%.

The economic resilience has come at a cost – the totality of the government's COVID-19 support package is close to \$300 billion, with a cash balance deficit of \$161 billion estimated for 2020-21. Additionally, on May 30 following the release of the budget, the Victorian Government announced its \$250.7 million 'Circuit Breaker' package aiming to support small and medium sized businesses in the wake of Victoria's fourth lockdown.

Businesses with loss carry-back provisions were beneficiaries of this year's budget with expensing of assets being extended at a cost of \$20.7 billion. Other beneficiaries include aged care who are receiving \$17.7 billion in funding over the next four years, as well as low/middle income earners with up to 10 million people receiving another tax offset in their refunds until 2023. The biggest losers were working mums who did not see any provisions for superannuation payments whilst on parental leave, overseas travel as borders are not anticipated to be reopened until mid-2022 and artificial intelligence as researchers do not believe the allocated \$124 million over the next six years is adequate.

According to the Melbourne Institute, Consumer sentiment fell 4.8% between April and May, with the budget being released mid-way through the surveyed period. Although, the Roy Morgan survey indicated increased consumer confidence in the week ending May 23, lifting 2.3 up to 114.2. This is the highest level since September 2018 and indicates an improved economic outlook for Australia. Promisingly, unemployment expectations experienced a large decline of 15.3%. The May index reading of 100.2 is the lowest it has been in 10 years, quashing concerns surrounding the conclusion of JobKeeper.

May saw another month of strong returns for the Australian Share market, continuing the strong rally of CY 2021. The ASX300 Accumulation returned +2.31%, while the ASX Small Ordinaries Accumulation gained +0.27% over the month. The one year returns on these respective indices is +28.72% and +26.73%. The market was led by strong performance in the financials and consumer discretionary sectors, ending up (+4.95%) and (+2.94%) respectively. Information Technology and Utilities struggled over the month, ending the month down (-10.34%) and (-6.29%) respectively.

United States

Projections for US GDP have been revised by the International Monetary Fund (IMF) with annual growth expected to be 6.4% in 2021. Pleasingly, unemployment claims in the US are declining. For the week ending May 15, claims fell by 34,000 from the previous month to 444,000, the lowest since mid-March 2020, demonstrating key steps towards economic normalisation. President Biden has proposed his first full budget since being in office, which comprises of over US\$6 trillion in spending for the next financial year. This includes US\$1.8 trillion for an American Families plan and a further US\$2.3 trillion towards an American Jobs Plan. To counter the high-level spending, Biden also plans to increase taxes for high income earners and corporations, but this will be challenging which Republicans staunchly opposing these changes. Consumer confidence saw a small reduction from 117.5 to 117.2 in May. This dip may indicate a change in expectations for the months ahead, particularly around slowed economic growth and softening labour market.

As for the outlook of the US housing sector, the National Association of Home Builders (NAHB) index was 83 in May, consistent with expectations from April. Surprisingly, builder sentiment remains positive attributing to the rising costs and diminishing availability of resources. This is supported by the Empire State Manufacturing Index which fell to 24.3 in May from 26.3 in April. This index displayed the increase in prices paid for materials, surged to 85.3, a historic high for this measure. The same sentiment was displayed by the Philadelphia Fed Index, which had its highest index of prices received in 40 years, attributed again to the lack of supply, and increasing cost of materials.

On May 7, Colonial's pipeline network experienced a ransomware attack when it was infiltrated by Russian cyber-crime gang DarkSide. They placed locks on the pipeline's data demanding ransom in return for the release of their systems. Colonial's pipeline carries 45% of the East Coast's diesel, petrol, and jet fuel supply across an 8850km pipeline stretching between the Gulf Coast, eastern and southern US. In total, DarkSide stole 100 gigabytes of data and Colonial paid the criminals \$4.4 million worth of Bitcoin with the primary goal of avoiding any prolonged impacts.

Colonial continue to incur tens of millions of dollars in trying to completely restore their systems. The impact of this attack on the market was an increase in the price of fuel, with the price for a gallon of petrol reaching over US\$3, a first since 2014. Additionally, there was a shortage of fuel supply which can be attributed to panic buying rather than supply shortage.

The S&P ended the month up +0.70%, the NASDAQ finished down -1.44%, as did Dow Jones -2.21%. The respective 1 year returns on the three US markets are +40.32%, +45.95% and +38.79%

Asia

China's GDP projections by the IMF is predicting continued upward growth with expectations of 8.4% expansion in 2021. It has been an eventful month for steel in China with regulators across multiple regions warning steel manufacturers against engaging in illegal pricing activities. In Tangshan regulators threatened to revoke business licenses from anyone participating in these practices. In 2020, Tangshan produced 14% of raw steel in China and is the world's biggest steel producer. The warning followed a surge in steel prices, overtaking the rise of iron ore. Additionally, steel manufacturers in Shanghai received a similar message from the government, urging them to operate in a socially responsible manner to equilibrate steel prices.

In other news, the Chinese government is trying to mitigate the decreasing birth-rate by allowing couples to have a third child, after the initial reforms to the one child policy in 2016 which allowed couples to have two children, have not been effective in achieving sufficient natural population growth. Despite the plus 1 billion person population and emerging wealthy middle class, China is facing an increasing swelling older population.

It has been a catastrophic month for India in the wake of another COVID-19 outbreak. India has recorded 26 million COVID-19 cases since the start of the pandemic, the second largest number of cases globally. There are small signs of optimism with infection rates appearing to ease towards the end of the month. Cases fell below 200,000 on May 24 – the lowest they had been since April 14. However, the idea that cases are declining may create a false sense of security as rural states are difficult to monitor, lack appropriate testing and may not reflect the true drop in cases. The impact of the pandemic is likely to hinder India's economy - although it is still possible that they might experience double-digit GDP growth over 2021 if the spread is controlled and vaccines aggressively rolled out.

Japan has been cut from the OECD's upgraded forecast for global economic growth due to its slow vaccine rollout and increase in COVID-19 cases. The University of Oxford's global vaccine distribution record showed Japan's vaccination rate of 6.4% was considerably less than the world average of 10.6%.

Japan's third emergency declaration was implemented from the 25 April and was initially going to be lifted on the 11 May but due to new infection numbers it was subsequently extended to the 31 May. This extension is estimated to cost the Japanese economy US\$9.2 billion.

Asian Share markets strengthened from last month. Japan's Nikkei seeing improvements, ending +0.16% return over the month, sustaining 1 year returns of +34.00%. China's Shanghai Composite finished the month up +4.89% and the Hang Seng up +1.49%. The Korean KOSPI fell slightly from April, ending up +1.78%, bringing its one-year return to +57.86%.

Europe

In the Eurozone, PMIs indicated acceleration in the pace of expansion across countries. The services PMI hit 55.1 in May – the highest it has been in 35 months. The manufacturing PMI decreased slightly by 0.01 but remained strong. It was also noted that supply constraints caused prices to increase to a historical high which consequently resulted in reduced production activity. In Germany, the IFO business climate index increased from 96.8 in April to 99.2 in May, exceeding market predictions and the expectations index improved to 102.9 in May which together suggest German economic prospects are looking positive.

In the UK, the outlook is also optimistic with the UK being on track for an economic recovery in 2021. The easing of restrictions, fiscal support and successful vaccine distribution is equivalent to 10% of GDP and we could see GDP increase by more than 6% by the end of this year. Additionally, as the UK emerges from its third lockdown, the GfK Consumer Confidence Index improved to -9 in May from -15 in April – this was on par with pre-COVID levels in March 2020. Additionally, the month of May saw representatives from the BoE meet with a parliamentary committee where they confirmed it was unlikely the Bank would use negative interest rates.

In the UK housing market, there was a surge in prices as the Office for National Statistics this week showed house prices increased 10.2%, the largest annual increase since the lead up to the 2007 financial crisis. The total value of homes sold this year in the UK is predicted to reach approx. \$564 billion (USD), a 46% increase from 2020. This housing boom is likely the result of a combination of the stamp duty holiday, government mortgage guarantees and the influx of home buyers competing for bigger properties as they continue working from home.

The Euro STOXX up +2.14%. France's CAC 40 and Germany's DAX Index ended up +2.83% and +1.88% respectively. With the 1 year returns on these respective markets being +27.51%, +37.31% and +33.09%.

Footnotes

- 1 The Management Costs included in this fact sheet are inclusive of the Management Fee and any Performance Fees and includes the effect of GST (net of RITC). They do not include other indirect costs. Refer to the Product Disclosure Statement and online disclosures for further information.
- 2 Past performance is not a reliable indicator of future performance. Performance returns are calculated net of management fees and costs. Growth and distribution returns may not equal the total net return due to rounding.
- 3 Allocations may not equal 100% due to rounding.

For more information

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