

# BT Index Balanced Fund

Monthly report – 31 July 2021

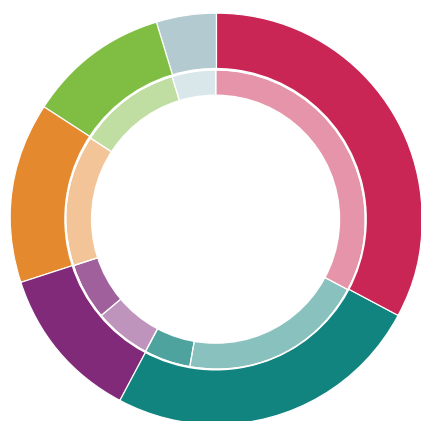
## Fund overview

Inception date	1 August 2016
APIR code	WFS0590AU
Fund size (AUD millions)	\$735.00
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 <sup>1</sup>	0.33
Buy/sell spread (%)	0.08 / 0.09

## Performance review<sup>2</sup>

Period ending 31 July 2021	1 month	3 months	1 year	2 years	3 years	Since inception
	%	%	%	% pa	% pa	% pa
Total return	1.89	5.64	20.82	8.34	9.22	8.65
Growth return	1.89	1.42	15.07	3.21	4.70	3.62
Distribution return	0.00	4.22	5.75	5.13	4.52	5.04

## Actual asset allocation %<sup>3</sup>



<b>Equity – Australian Listed – 32.91%</b>
● BT Australian Shares Index Fund – 32.91%
<b>Equity – International Listed – 25.10%</b>
● BT International Shares Index Fund (Unhedged) – 20.07%
● Blackrock Index Hedged International Equity Fund – 5.03%
<b>Property – International and Australian Listed – 12.08%</b>
● BT Property Securities Index Fund – 6.00%
● Blackrock iShares Global Listed Property Index Fund – 6.08%
<b>Fixed Income – Australian – 14.18%</b>
● BT Australian Fixed Interest Index Fund – 14.18%
<b>Fixed Income – International – 11.07%</b>
● BT International Fixed Interest Index Fund – 11.07%
<b>Cash – 4.66%</b>
● Advance Cash Multi-Blend Fund – 4.66%

## Market update

A global tax overhaul is closer after 130 countries, including China and India, endorsed setting a minimum rate for international corporations such as Facebook and Google. US Treasury Secretary Janet Yellen labelled the outcome “an historic day for economic diplomacy”. Implementation of rules to curtail tax avoidance by making multinationals pay an effective rate of “at least 15%” could come as soon as 2023 – but some hurdles remain.

In Tokyo, COVID-19 cases hit a six-month high as Japan braced to host the delayed ‘2020’ Summer Olympics. In the UK restrictions were completely removed on ‘Freedom Day’, with masks no longer required, as nearly 70% of the adult population have had both doses of the vaccine. Despite this, new cases in the UK were still at their highest in six months during July. Notably, the UK has become one of the first nations in the world to plan a ‘boost program’ which will involve providing a third round of COVID-19 vaccinations for vulnerable Britons. In the US, the Centre for Disease Control and Prevention rewrote its guidelines advising both vaccinated and unvaccinated people to wear masks in public indoor settings. Health officials in Missouri asked the state to set up an emergency hospital to handle a surge in cases linked to the Delta strain.

Locally, PM Morrison announced a four-phase plan out of COVID-19 during July, with each phase dependent on reaching certain vaccination targets. The Federal Government also announced it would waive the liquid assets test for a one-off COVID-19 Disaster Payment for individuals. Monies available under this scheme for the current NSW lockdown rose to between \$450 and \$750 per week, representing the same level of support as the first tranche of the original Job Keeper scheme. Additionally, from August, those who are receiving other welfare payments like Youth Allowance or the pension, who have lost more than 8 hours per week of work, will receive an additional \$200 a week. In positive news, the Federal Government announced that Australia would acquire 85 million additional Pfizer booster shots in 2022 and 2023. The end of July saw anti-lockdown protests break out in Sydney, Melbourne and Brisbane. In Sydney, protestors clashed with police – with many people charged for breaching public health orders.

### Australia

In Australia, inflation overshot the Reserve Bank’s inflation target band for the first time in a decade in the June quarter, but this was largely due to the unwinding of pandemic-related price reductions. Minutes from the RBA’s July meeting were released during the month, with the RBA announcing it will begin tapering bond purchases under its quantitative easing program from September. It also revealed that the RBA will keep the yield control curve pegged to the April 2024 bond. The cash rate was left unchanged. These July announcements should be read in the context of a near-term deterioration in the economic outlook as when the RBA’s meeting was held, the NSW lockdown was expected to last just two weeks. At the time of writing, we know now that lockdown will protract beyond two months.

The economy is expected to contract in the September quarter; current estimates range around the 0.7% mark. Prior to the current outbreak GDP was expected to grow by almost 1.0%. As the lockdown mandate extends beyond eight weeks, revised expectations for growth to return in the December quarter will likely be revised. Despite this, market consensus still expects the first cash rate hike to come in 2023, although there is some risk this time frame could be pushed out if current lockdowns in NSW continue to be extended. This is consistent with expectations that activity will rebound rapidly once restrictions lift, and that the economy was in good shape heading into this period. Looking forward: the RBA response will ultimately hinge upon how the ongoing NSW lockdown impacts jobs and inflation.

Jobs grew by 29.1k in June to take the unemployment rate down to 4.9%. This is the first time the unemployment rate has fallen below 5.0% since June 2011, making it the lowest rate in 10 years. Encouragingly, the fall occurred against a rise in the participation rate to a near record high. Last month’s growth was in full-time employment, which rose 51.6k. Part-time employment declined 22.5k. Consensus expect full employment to be reached within the next 12 months and for the unemployment rate to have a ‘3’ in front of it before the end of 2022.

The headline Consumer Price Index rose by 0.8% in the June quarter, a touch stronger than consensus expectations that centred on a rise of 0.7%. The annual rate lifted from 1.1% in Q1, to 3.8% in Q2 – the highest annual rate in almost 13 years. Unlike the headline rate, the underlying inflation rate remains under the RBA’s 2-3% inflation target band. It has been underneath the band consistently since early 2016. The headline rate is expected to drop sharply in the second half of this year and the underlying inflation rate to move gradually higher and into the RBA’s band next year.

Quarterly surveyed business conditions rose to a record high in the June quarter. The index increased to 32, up 12 index points from Q1. Business confidence eased slightly in the June quarter to 17 but remained well above the long-run average. However, the survey occurred in late May and predates the July restrictions faced in NSW, Victoria, and South Australia. Consumer sentiment held up in July, despite the lockdowns across NSW with the monthly consumer sentiment index rising 1.5% to 108.8. The survey was conducted over the week of July 5-9, during the lockdown in NSW, but before tighter restrictions were announced on July 9.

The residential property boom continues to gather pace and while it has been largely driven by owner-occupiers, lending to investors has rapidly accelerated. The value of new loans (excluding refinancing) increased by 4.9% in May, hitting a new record high of \$32.6 billion. The increase in May was driven by a 13.3% surge in investor lending – the third highest monthly growth rate on record.

## United States

The US economy grew much less than expected in Q2, barely accelerating from the previous period, whilst GDP rose at an annualised rate of 6.5%, just up from a revised outcome of 6.3% in Q1. QOQ GDP rose 1.6%, with the weakest components of the print being residential investments and inventories. This highlights the extent to which labour shortages and supply chain disruptions are slowing what is otherwise a solid economic expansion. Personal consumer spending was the strongest component of the GDP data – rising an annualised rate of 11.8% in Q2, after growth of 11.4% in Q1. Household stimulus cheques from March to April have helped underpin spending.

Unemployment rate rose to 5.9% in June, from 5.8% in May, but the rate continued to be understated by people misclassifying themselves as being “employed but absent from work”. Without this misclassification, unemployment would have been 6.1% in June.

During July the FOMC indicated it was moving closer to tapering bond purchases, with Chair Powell acknowledging they had taken a “first deep dive” into discussing scaling back bond buying. There was also an acknowledgement that the economy “has made progress” toward the central bank’s inflation and employment goals. However, they also reiterated tapering would not commence until “substantial further progress” was made.

Consumer confidence increased to 129.1 in July, from a revised 128.9 in June. This was above consensus expectations of 123.9. It is the sixth consecutive month of increases and takes the index to its highest level since February 2020. Confidence remains high despite the initial boost from reopening and vaccination progress slowing. Consumers continue to expect business conditions, jobs, and personal financial prospects to improve.

The Federal Housing Finance Agency house price index rose by 1.7% in May from 1.8% in April. This was above consensus expectations of 1.6%. House prices have risen by 18.0% over the year to May. The result takes the index to a record level. The National Association of Home Builders housing market index edged down to 80 in July, from 81 in June. Homebuilder sentiment nevertheless remains at historically high levels but has been steadily declining since late 2020.

The Richmond Fed manufacturing index rose to 27 in July, from a revised 26 in June. This was above consensus expectations of 20. The survey result showed optimism among manufacturers that business conditions would continue to improve. Employers reported difficulties with finding the right skilled labour, but also increased employment and wages over the period.

## Asia

In reforms published by Chinese regulators during the month, firms that teach school curriculums will be banned from making profits, raising capital, or going public. Educational tech shares fell sharply in response. There is growing concern amongst investors that authorities will tighten regulation more broadly, which has weighed on Chinese equities more generally.

QOQ China’s GDP grew 1.3%, up from a revised 0.4% expansion in Q1. This result was above consensus expectations for growth of 1.0%. China’s trade balance continued to widen in June to US\$51.5bn, the highest since January. Exports grew 32.2% over the year to June, above consensus expectations of 22.9%. Growth was supported by global demand for medical goods and work-from-home equipment. Imports grew 36.7% over the year to June, above consensus expectations of 29.3%. This was down from 51.1% in May. In other data, retail sales grew 12.1% and industrial production rose 8.3% over the year to June, both beating consensus expectations.

The People’s Bank of China cut the reserve requirement ratio (RRR) by 50 basis points to 12%, effective July 15th. This reduces the amount of cash banks must hold in reserve to boost lending. The move came as a surprise to analysts. However, China’s economic recovery is slowing and the RRR cut is one way for authorities to ensure the recovery is ongoingly sustained.

The PPI rose 8.8% over the year to June, down from the near 13-year high of 9.0% in May. Meanwhile, the CPI 1.1% over the year to June, down from 1.3% in May. Food prices fell by 1.7% and non-food prices rose by 1.7%. The Caixin services PMI fell to 50.3 in June, down from 55.1 in May. The Caixin composite output index also fell from 53.8 in May to 50.6 in June. Meanwhile, the Caixin manufacturing PMI dropped slightly to 51.3 in June, from 52.0 in May, after new export orders fell.

In Japan, July saw a third consecutive month of surging machine orders with a gain of 7.8% in May, despite tighter virus-related restrictions. Machine orders are a leading indicator of capital investment. The PPI rose 0.6% in June to be 5.0% over the year. The increase over the past 12 months partly reflects base effects but also higher commodity prices and the shortage of semiconductors.

## Europe

The European manufacturing PMI fell to 62.6 in July, from 63.4 in June. This was above consensus expectations of 62.5. While this is the lowest reading in four months, it indicates that the manufacturing sector activity remains in expansion. The sector is facing supply chain issues, which are translating into higher costs for firms. The services PMI also rose in July, to 60.4 from 5.3 in June. The sector is benefiting from easing European restriction. Hospitality, travel and tourism are particularly benefitting.

The ECB left its key policy settings unchanged following its July Monetary Policy meeting. This was widely expected by markets. The ECB revised forward guidance to a more dovish stance. It stated that current accommodative monetary policy settings will remain in place until it “sees inflation reaching two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon”. The guidance stated that this may lead to a period of transitory, above-target inflation.

Consumer confidence fell to -4.4 in July, from -3.3 in June as COVID-19 cases increased across Europe, prompting new restrictions. This was below consensus expectations of -2.6. June Business activity in the eurozone region expanded at its fastest rate for 15 years, driven by strong performances by the manufacturing and services sectors. The latest and final Markit composite PMI for June rose to 59.5, from the preliminary reading of 59.2 and the May outcome of 57.1. The unemployment rate fell to 7.9% in May, from an upwardly revised rate of 8.1% in April. Eurozone Industrial Production fell by 1.0% in May following a 0.8% rise in the prior month. This was below consensus expectations of a 0.3% fall. Growth was hampered by disruptions to global supply chains as economies begin to reopen.

In the UK, house prices declined 0.5% in July, but were still 10.5% higher over the year. This marks the first decline in four months, partly reflecting the tax break on purchases being phased out. British consumers were their most confident in July since before the pandemic began, despite the increase in COVID-19 cases. The GfK consumer confidence index rose to -7 in July, its highest level since February 2020. This is up from -9 in June. The UK’s unemployment rate unexpectedly rose 0.1 percentage point to 4.8% in the three months to May. Employment rose just 25k in this period against consensus expectations for 91k. UK CPI rose 0.5% in June, above consensus expectations of a 0.2% increase.

#### 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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